

PORTUGAL TELECOM SGPS SA
Form 20-F
April 16, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

OR

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

Commission file number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of Registrant as specified in its charter)

The Portuguese Republic

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

*
Not for trading but only in connection with the registration of American Depositary Shares.

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

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

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CERTAIN DEFINED TERMS

Unless the context otherwise requires, the terms "*Portugal*" and the "*Portuguese State*" refer to the Republic of Portugal, including the Madeira Islands and the Azores Islands; the term "*EU*" refers to the European Union; the term "*EC Commission*" refers to the Commission of the European Communities; the terms "*United States*" and "*U.S.*" refer to the United States of America; the term "*Portugal Telecom*" refers to Portugal Telecom, SGPS S.A.; the term "*Vivo*" refers to Vivo Participações S.A. and its consolidated subsidiaries; and unless indicated otherwise, the terms "*we*," "*our*" or "*us*" refer to Portugal Telecom and its consolidated subsidiaries.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU ("EU-IFRS"). EU-IFRS may differ from IFRS as issued by the International Accounting Standards Board ("IASB") if, at any point in time, new or amended reporting standards have not been endorsed by the EU. At December 31, 2009, 2008 and 2007, there were no unendorsed standards effective as of and for the years ended December 31, 2009, 2008 and 2007, respectively, that affected our consolidated financial statements, and there was no difference between EU-IFRS and IFRS as issued by the IASB as applied by Portugal Telecom. Accordingly, our financial statements as of and for the years ended December 31, 2009, 2008 and 2007 are prepared in accordance with IFRS as issued by the IASB. IFRS comprise the accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

We publish our financial statements in Euro, the single EU currency adopted by certain participating member countries of the European Union, including Portugal, as of January 1, 1999. Unless otherwise specified, references to "Euros," "EUR" or "€" are to the Euro. References herein to "U.S. dollars," "\$" or "US\$" are to United States dollars. References to "Real," "Reais" or "R\$" are to Brazilian Reais. The Federal Reserve Bank of New York's noon buying rate in the City of New York for Euros was €0.7425= US\$1.00 on April 9, 2010, and the noon buying rate on that date for Reais was R\$1.7709= US\$1.00. We are not representing that the Euro, US\$ or R\$ amounts shown herein could have been or could be converted at any particular rate or at all. See "*Item 3 Key Information Exchange Rates*" for further information regarding the rates of exchange between Euros and U.S. dollars and between Reais and U.S. dollars.

We provide mobile telecommunications services in Brazil through Vivo Participações S.A. ("Vivo"). We hold our participation in Vivo through our 50% interest in Brasilcel N.V., a joint venture with Telefónica, S.A. Our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 proportionally consolidate the financial results of Vivo.

FORWARD-LOOKING STATEMENTS

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

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"anticipates," "intends," "is confident," "plans," "estimates," "may," "might," "could," "would," the negatives of such terms or similar expressions.

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

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

material adverse changes in economic conditions in Portugal or Brazil;

exchange rate fluctuations in the Brazilian Real and the U.S. dollar;

risks and uncertainties related to national and supranational regulation;

increased competition resulting from further liberalization of the telecommunications sector in Portugal and Brazil;

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

the adverse determination of disputes under litigation.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

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

ITEM 3 KEY INFORMATION

Selected Consolidated Financial Data

The selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 and the selected consolidated statement of income and cash flow data for each of the years ended December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements included herein prepared in accordance with IFRS. The selected consolidated balance sheet data as of December 31, 2005 and 2006 and the selected consolidated statement of income and cash flow data for the years ended December 31, 2005 and 2006 have been derived from our consolidated financial statements prepared in accordance with IFRS included in our Annual Report for the year ended December 31, 2007.

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

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The following selected consolidated financial data as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 proportionally consolidate 50% of the balance sheet, income statement and cash flow data of Vivo. In addition, following the spin-off on November 7, 2007 of PT Multimédia Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("PT Multimédia"), currently ZON Multimédia S.A. ("ZON Multimédia" or "ZON"), the selected consolidated statement of income for PT Multimédia was presented under the caption "Discontinued Operations" for all periods through the completion of the spin-off, and the selected consolidated balance sheets as of December 31, 2007, 2008 and 2009 no longer include the assets and liabilities related to PT Multimédia, following the completion of its spin-off on November 7, 2007.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(EUR Millions)				
Statement of Income Data(1):					
Continuing operations					
Revenues:					
Services rendered	5,318.4	5,228.0	5,619.4	6,102.1	6,253.7
Sales	413.8	426.2	442.5	508.7	422.9
Other revenues	89.8	93.2	80.4	110.1	108.1
Total revenues	5,821.9	5,747.4	6,142.4	6,720.9	6,784.7
Costs, expenses losses and income:					
Wages and salaries	623.4	633.5	638.1	616.6	693.2
Direct costs	716.3	724.9	907.3	1,086.9	1,135.1
Costs of products sold	639.5	580.6	656.1	778.5	648.8
Marketing and publicity	164.7	138.3	147.2	176.3	165.8
Supplies and external services	1,074.6	1,130.6	1,179.2	1,229.9	1,294.1
Indirect taxes	165.2	175.9	201.8	233.6	243.6
Provisions and adjustments	159.5	198.7	122.3	118.8	101.8
Depreciation and amortization	1,058.7	1,130.7	1,123.1	1,268.3	1,437.9
Post retirement benefits	(21.6)	(72.1)	(65.1)	44.8	89.6
Curtailement costs, net	314.3	19.0	275.6	100.0	14.8
Losses (gains) on disposals of fixed assets, net	(1.7)	(5.1)	(2.8)	(19.5)	(0.4)
Other costs, net	22.2	115.4	45.1	30.0	49.7
Income before financial results and taxes	906.8	977.1	914.4	1,056.7	910.7
Minus: Financial costs (gains), net	50.5	118.4	(116.8)	129.5	(109.1)
Income before taxes	856.3	858.6	1,031.2	927.2	1,019.7
Minus: Income taxes	288.1	(21.4)	242.9	231.4	233.2
Net income from continuing operations	568.2	880.0	788.3	695.8	786.5
Discontinued operations					
Net income from discontinued operations	120.7	74.1	45.5		
Net income	689.0	954.1	833.8	695.8	786.5
Attributable to minority interests	35.0	87.4	92.8	119.7	102.6
Attributable to equity holders of the parent	654.0	866.8	740.9	576.1	683.9
Income before financial results and taxes per ordinary share, A share and ADS(2)	0.80	0.87	0.89	1.18	1.02
Earnings per share, A share and ADS:					
Basic(3)	0.57	0.78	0.71	0.64	0.78
Diluted(4)	0.53	0.73	0.67	0.62	0.76

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	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(EUR Millions)				
Earnings per share, A share and ADS from continuing operations, net of minority interests:					
Basic(3)	0.50	0.74	0.69	0.64	0.78
Diluted(4)	0.47	0.69	0.66	0.62	0.76
Cash dividends per ordinary share, A share and ADS(5)	0.475	0.475	0.575	0.575	0.575
Share capital	1,128.9	395.1	30.8	26.9	26.9

- (1) As explained in Note 4 to our consolidated financial statements, we retrospectively applied the interpretation IFRIC 13 *Customer Loyalty Programmes*, which was issued in September 2007 and is effective for years beginning on or after July 1, 2008. Consequently, our previously reported consolidated balance sheet data as of December 31, 2005, 2006, 2007 and 2008 and consolidated income statement data for the years ended December 31, 2005, 2006, 2007 and 2008 were restated in order to reflect the impact of the adoption of this interpretation.
- (2) Based on 1,128,856,500 ordinary and A shares issued as of December 31, 2005 and 2006, 1,025,800,000 ordinary and A shares issued as of December 31, 2007 and 896,512,500 ordinary and A shares issued as of December 31, 2008 and 2009.
- (3) The weighted average number of shares for purposes of calculating basic earnings per share is computed based on the average ordinary and A shares issued and the average number of shares held by Portugal Telecom.
- (4) The weighted average number of shares for purposes of calculating diluted earnings per share is computed based on the average ordinary and A shares issued and the average number of shares held by Portugal Telecom adjusted by the number of shares from the exchangeable bonds issued on August 28, 2007 and from the exchangeable bonds issued on December 6, 2001 to December 6, 2006, when those bonds were repaid, in each case assuming the conversion of the bonds into ordinary shares.
- (5) Cash dividends per ordinary share, A share and ADS for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 were €0.475, €0.475, €0.575, €0.575, and €0.575, respectively. Cash dividends per ordinary share, A share and ADS for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 were US\$0.60, US\$0.64, US\$0.90, US\$0.78 and US\$0.78, respectively.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(EUR Millions)				
Cash Flow Data:					
Cash flows from operating activities	1,392.3	1,821.7	1,859.2	1,828.9	1,927.6
Cash flows from investing activities	(1,910.7)	1,136.7	235.9	80.1	(671.3)
Cash flows from financing activities	590.2	(3,015.4)	(1,953.6)	(1,472.6)	(924.0)

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	As of December 31,				
	2005	2006	2007	2008	2009
	(EUR Millions)				
Balance Sheet Data(1):					
Current assets	6,153.7	3,998.7	3,816.3	3,317.0	3,699.1
Investments in group companies	425.6	499.1	538.1	613.2	597.2
Other investments	96.1	132.4	27.2	21.1	16.9
Tangible assets	4,062.0	3,942.0	3,585.4	4,637.8	4,862.2
Intangible assets	3,601.6	3,490.9	3,383.1	3,463.0	4,046.7
Post retirement benefits		134.1	134.1	1.6	67.6
Deferred tax assets	1,387.2	1,166.0	992.2	1,032.7	1,019.5
Other non-current assets	902.6	807.1	645.1	628.0	522.1
Total assets	16,628.8	14,170.2	13,121.5	13,714.4	14,831.2
Current liabilities	4,947.5	3,884.6	3,862.2	5,153.6	3,398.4
Medium and long term debt	5,168.6	4,467.5	4,960.7	4,441.2	6,551.5
Accrued post retirement liability	2,635.9	1,807.6	1,463.9	1,836.9	1,558.3
Deferred tax liabilities	334.9	90.4	84.9	462.2	482.2
Other non-current liabilities	959.8	811.3	666.2	624.3	456.0
Total liabilities	14,046.7	11,061.4	11,037.9	12,518.2	12,446.4
Equity excluding minority interests	1,828.4	2,258.0	1,340.1	232.0	1,317.5
Minority interests	753.7	850.8	743.6	964.2	1,067.3
Total equity	2,582.1	3,108.8	2,083.6	1,196.2	2,384.8
Total liabilities and shareholders' equity	16,628.8	14,170.2	13,121.5	13,714.4	14,831.2
Number of ordinary shares	1,128.9	1,128.9	1,025.8	896.5	896.5
Share capital(2)	1,128.9	395.1	30.8	26.9	26.9

(1)

As explained in Note 4 to our consolidated financial statements, we retrospectively applied the interpretation IFRIC 13 *Customer Loyalty Programmes*, which was issued in September 2007 and is effective for years beginning on or after July 1, 2008. Consequently, our previously reported consolidated balance sheet data as of December 31, 2005, 2006, 2007 and 2008 and consolidated income statement data for the years ended December 31, 2005, 2006, 2007 and 2008 were restated in order to reflect the impact of the adoption of this interpretation.

(2)

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

Exchange Rates**Euro**

The majority of our revenues, assets and expenses are denominated in Euros, although a significant portion of our assets and liabilities are denominated in Brazilian Reals. We have published our audited consolidated financial statements in Euros, and our shares trade in Euros on the regulated market Euronext Lisbon. Our financial results could be affected by exchange rate fluctuations in the Brazilian Real. See "Item 5 Operating and Financial Review and Prospects Exchange Rate Exposure to the Brazilian Real."

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Our future dividends, when paid in cash, will be denominated in Euros. As a result, exchange rate fluctuations have affected and will affect the U.S. dollar amounts received by holders of ADSs on conversion of such dividends by The Bank of New York, as the ADS depository. The Bank of New York converts dividends it receives in foreign currency into U.S. dollars upon receipt, by sale or such

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other manner as it has determined and distributes such U.S. dollars to holders of ADSs, net of The Bank of New York's expenses of conversion, any applicable taxes and other governmental charges. Exchange rate fluctuations may also affect the U.S. dollar price of the ADSs on the New York Stock Exchange.

The following tables shows, for the period and dates indicated, certain information regarding the U.S. dollar/Euro exchange rate. The information is based on the noon buying rate in the City of New York for cable transfers in Euro. On April 9, 2010, the Euro/U.S. dollar exchange rate was €0.7425 per US\$1.00.

Year ended December 31,	Average Rate(1) (EUR per US\$1.00)
2005	0.8064
2006	0.7898
2007	0.7248
2008	0.6805
2009	0.7166

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

Period	High	Low
	(EUR per US\$1.00)	
October 2009	0.6881	0.6654
November 2009	0.6822	0.6629
December 2009	0.7021	0.6623
January 2010	0.7210	0.6879
February 2010	0.7421	0.7166
March 2010	0.7494	0.7268
April 2010 (through April 9, 2010)	0.7485	0.7370

None of the 25 member countries of the European Union has imposed any exchange controls on the Euro.

Brazilian Real

Although the majority of our revenues, assets and expenses are denominated in Euros, most of the revenues, assets and expenses from our Brazilian investments are denominated in Brazilian Reais. Consequently, exchange rate fluctuations between the Euro and the Brazilian Real affect our revenues.

The Brazilian government may impose temporary restrictions on the conversion of Reais into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or reason to foresee a serious imbalance.

The following tables shows, for the periods and date indicated, certain information regarding the Real/U.S. dollar exchange rate. On April 9, 2010, the Real/U.S. dollar exchange rate was R\$1.771 per US\$1.00. The information is based on the noon buying rate in the City of New York for cable transfers

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in Brazilian Reais as certified for United States customs purposes by the Federal Reserve Bank of New York.

Year ended December 31,	Average Rate(1) (R\$ per US\$1.00)
2005	2.408
2006	2.164
2007	1.929
2008	1.831
2009	1.987

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

Period	High (R\$ per US\$1.00)	Low
October 2009	1.781	1.701
November 2009	1.753	1.700
December 2009	1.791	1.705
January 2010	1.876	1.720
February 2010	1.887	1.801
March 2010	1.821	1.762
April 2010 (through April 9, 2010)	1.778	1.759

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Risk Factors

General Risks Relating to Our Company

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

We have unfunded post retirement benefit obligations that may limit our future use and availability of capital and adversely affect our financial and operational results. As of December 31, 2009, our projected post retirement benefit obligations related to pensions and healthcare amounted to €3,045.5 million, while the market value of assets amounted to €2,369.5 million. In addition, we are responsible for salaries to suspended and pre-retired employees amounting to €791.4 million. Liabilities relating to salaries are not subject to any legal funding requirement, and therefore monthly salaries are paid directly by us to beneficiaries until the retirement age. As a result, net unfunded obligations amounted to €1,467.4 million as of December 31, 2009, compared to €1,809.9 million as of December 31, 2008. The decrease from December 31, 2008 to December 31, 2009 was primarily a result of: (1) payments of salaries to pre-retired and suspended employees of €175.9 million, (2) other payments and contributions of €108.3 million, (3) net actuarial gains of €178.6 million resulting from the difference between the actual and the expected return on assets and (4) net actuarial gains of €1.7 million related to the net effect of changes in actuarial assumptions, as detailed in Note 9 to our consolidated financial statements. These effects were partially offset by (i) post retirement benefit costs of €91.6 million, (ii) net actuarial losses of €15.5 million resulting from differences between actual data and actuarial assumptions relating to the benefit obligations, and (iii) curtailment costs of €14.9 million.

Any decrease in market value of our plan assets increases our unfunded obligations and could materially increase our unfunded position. In the current credit crisis, the market value of our plan assets, and hence the level of our unfunded obligations, is volatile and poses a significant risk. We could be required to increase our funding of our pension liabilities in order to comply with Portuguese insurance regulations, which could immediately affect our costs and financial performance. In addition, an increase in our gross unfunded obligations could have an impact on our overall profitability.

We may be negatively affected by the financial crisis in the global capital and credit markets

We believe that a prolonged global economic and financial crisis could lead to a long economic recession in Portugal, and this could have an impact on the demand for our products and services and therefore on our revenues and profitability.

We must also maintain liquidity to fund our working capital, service our outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail our investments, or we may not be able to pursue new business opportunities. The principal sources of our liquidity are cash generated from our operations and equity and debt financing. Cash generated from operations is driven by our revenues and net income, which could be adversely affected by the economic crisis.

The current financial crisis could increase our counterparty risk to the extent that we hold deposits in banks and enter into financial transactions, domestically and internationally, with banks and other institutions.

Also, we may be unable to access the equity or debt markets to obtain additional financing or to refinance existing indebtedness. We discuss our liquidity and sources of funding in "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources."

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

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

Beginning in 2008, events in the global and European financial markets have increased the uncertainty and volatility of the financial markets, leading to a significant increase in execution and price risk in financing activities. Risk premiums in general, and for us in particular, has risen considerably since before the crisis. Any further deterioration in financial market conditions could adversely affect our ability to obtain future financing to fund our operations and capital needs and adversely impact the pricing terms that we are able to obtain in any new bank financing or issuance of debt securities and could therefore negatively impact our liquidity. Changes in interest rates and exchange rates may also adversely affect the fair value of our assets and liabilities. If there is a negative impact on the fair values of our assets and liabilities, we could be required to record impairment charges.

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

Immediately after the announcement by Sonaecom on February 6, 2006 of the tender offer for Portugal Telecom, Standard & Poor's placed our credit rating on CreditWatch with negative implications, while Moody's placed our credit rating on review for possible downgrade, due to the possible increased leverage that might have resulted from the transaction. Following the presentation by our Board of Directors of an alternative shareholders' remuneration plan, increasing our indebtedness, Standard & Poor's and Moody's further downgraded our ratings to BBB+ and Baa1, respectively, on March 8, 2006. On August 3, 2006, Standard & Poor's and Moody's further downgraded our ratings to BBB- and Baa2, respectively, following the announcement of a step-up in the shareholder remuneration plan. After the failure of the Sonaecom tender offer, the rating agencies confirmed our credit ratings as BBB- (Standard & Poor's) and Baa2 (Moody's), both with stable outlook. On April 21, 2009, S&P announced its review of the credit rating attributed to Portugal Telecom, raising the long-term rating to BBB from BBB-, with stable outlook.

We have certain loans from the European Investment Bank ("EIB") totaling €236 million as of December 31, 2009 that contain a provision under which the EIB has the right to require us to provide a guarantee acceptable to the EIB in the event the long-term credit rating assigned to us by the rating agencies is reduced from BBB- by S&P, Baa2 by Moody's and BBB by Fitch. In that circumstance, and after notice from the EIB, we would have 60 days to present an acceptable guarantee. If we were to fail to provide the EIB the required guarantee, the EIB would have the right to accelerate the repayment of the loans. For further information on covenants please refer to "*Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness Covenants.*"

Our ratings downgrades could adversely affect our ability to obtain future financing to fund our operations and capital needs. Any further downgrade of our ratings could have even more significant effects on our ability to obtain financing and therefore on our liquidity. In addition, the pricing conditions applicable to our commercial paper programs could be revised in the event our credit rating is changed.

We may not be able to pay our announced dividends

On May 14, 2009, we announced that the Board of Directors had decided to submit for shareholder approval at the next general shareholders' meeting (1) the payment of a cash dividend of €0.575 per ordinary share for the year ended December 31, 2009, subject to market conditions, in general, and our financial condition, in particular, at that time and (2) the same level of dividends per ordinary share (€0.575) for the years ending December 31, 2010 and 2011, subject to market conditions, our financial condition and other potential factors considered relevant by the Board at that time.

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The payment of these dividends will depend on our ability to continue to generate cash flow in our domestic businesses and to streamline our operations to reduce our costs. In addition, payment of dividends will depend on the stability of the Real/Euro exchange rate. The Real has fluctuated significantly in relation to the Euro in recent years.

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

The Portuguese State holds all of our A shares, which afford it special approval rights

All of our 500 A shares are held by the Portuguese State. Under our articles of association, the holders of our A shares, voting as a class, may veto a number of actions of our shareholders, including the following:

election of the chairman of the Audit Committee and the statutory auditor (See "*Item 10 Additional Information Corporate Governance New Corporate Governance Model*"), as well as the members of the board of the General Meeting of Shareholders;

authorization for a dividend exceeding 40% of our distributable net income per year;

capital increases and other amendments to our articles of association, as well as the limitation or suppression of pre-emptive rights;

issuance of bonds and other securities;

authorization of a shareholder that performs an activity competing with us to hold more than 10% of our ordinary shares;

approval of the general goals and fundamental principles of our policies; and

definition of our investment policies, including any requirements for the authorization of acquisitions and transfers of shareholdings.

Additionally, the election of one-third of the Directors, including the Chairman of the Board of Directors, must be approved by the Portuguese State, as the holder of all the A shares.

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

Risks Relating to Our Wireline and Domestic Mobile Businesses

Intense competition has significantly affected, and is expected to continue to significantly affect, our revenues and our results of operations

Competition from mobile telephony and from other wireline operators has reduced our wireline revenues and could continue to adversely affect our revenues. During 2009, approximately 26.5% of our consolidated revenues were derived from services provided by our wireline business in Portugal, as compared to 26.9% in 2008. As a result of the trend toward the use of mobile services instead of fixed telephone services, combined with the increase in competition from other wireline operators, we have experienced, and may continue to experience, erosion of market share of both access lines and of outgoing domestic and international traffic. The number of active mobile telephone cards in Portugal has overtaken the number of wireline main lines. Some of our wireline customers are using mobile services as an alternative to wireline telephone services. Mobile operators can bypass our international

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wireline network by interconnecting directly with wireline and mobile networks either in our domestic network or abroad. Competition is also forcing down the prices of our wireline telephone services for long distance and international calls. Lowering our international call prices has caused a decline in our revenues from international wireline telephone services. The decrease in wireline traffic and lower tariffs resulting from competition has significantly affected our overall revenues, and we expect these factors to continue to negatively affect our revenues. See "*Item 4 Information on the Company Competition Competition Facing our Wireline Business.*"

Increased competition in the Portuguese mobile markets may result in decreased tariffs and loss of market share. We operate in the highly competitive Portuguese mobile telecommunications market. We believe that our existing mobile competitors, Vodafone and Optimus will continue to market their services aggressively. In mid-2005, Optimus introduced a low-cost brand "Rede 4" in response to our new brand "Uzo." Vodafone also launched a product called Directo in mid-2005 targeting the same market as Uzo and Rede 4.

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

We expect competition from VoIP-based operators also to place increasing price pressure on voice tariffs and lead to reductions in mobile voice traffic. Competition from companies providing wireless local-area network, or "WLAN," services, which can deliver wireless data services more cheaply than UMTS in concentrated areas, may also affect the market and pricing for third-generation services. See "*Item 4 Information on the Company Competition Competition Facing TMN.*"

The broadband market in Portugal is highly competitive and may become more competitive in the future. Our competitors have been improving their commercial offers in broadband Internet, with most of them offering triple-play bundled packages (voice telephony, broadband Internet and pay-TV subscription). We believe that with competition in Internet broadband access intensifying, and with the development of existing technologies such as broadband wireless access, mobile broadband through UMTS, and high speed broadband supported by the deployment of a fiber optic network, we may face additional pricing pressure on our services, which could result in the loss of revenues.

An adverse regulatory environment may negatively affect our profitability

Reduced interconnection rates have negatively affected our revenues for our mobile and wireline businesses and will continue to do so in 2010. In February 2005, ANACOM declared all mobile operators to have significant market power in call termination in the mobile networks market. ANACOM has accordingly imposed price controls on interconnection rates for the termination of calls on mobile networks. In 2005, interconnection rates (both fixed-to-mobile and mobile-to-mobile) were reduced by an average of 23.5% compared with 2004 rates. In 2006, these rates were further reduced by an average of 18.5% compared to the 2005 rates. These reductions have had a significant impact on interconnection revenues of our domestic mobile subsidiary, TMN Telecomunicações Móveis Nacionais, S.A. ("TMN") and consequently its earnings. Both fixed-to-mobile and mobile-to-mobile interconnection rates reached €0.11 per minute in October 2006. In July 2008, ANACOM issued a new decision proposing additional reductions in interconnection rates for the termination of calls on mobile networks but allowing lesser reductions for the third mobile operator, Optimus. The decision went into effect on August 23, 2008, and these rates reached €0.065 by April 1, 2009 for TMN and Vodafone. Optimus reached that level by October 1, 2009.

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In January 2010, ANACOM issued a new draft decision regarding fees for the termination of calls on mobile networks, proposing to reduce them to €0.035 by April 1, 2011. A final decision is expected in April 2010, which most likely will have a negative effect on our cash flows.

In June 2008, the European Commission started a public consultation process for its draft recommendation on voice calls termination rates (both in mobile and fixed networks), which are intended to harmonize regulation and drive down termination rates even further across all EU countries starting in 2012. This recommendation was published in May 2009 and is expected to have a negative effect on our future revenues.

Since 2004, ANACOM has been in the process of determining who has significant market power in call origination in the mobile networks market. In August, 2008, ANACOM published a "reasoning" about mobile rates for originating calls, trying to drive mobile operators into reducing these prices, by the end of September 2008, to a level equal or close to the level of mobile termination rates. ANACOM stated that it would either proceed with the market analysis or ask for the intervention of the Portuguese national competition authority ("Autoridade da Concorrência"), in case mobile operators fail to comply with ANACOM's intentions. In the second half of 2008, the three mobile operators reduced their rates for originating calls but not to the extent desired by ANACOM. In February 2010, ANACOM chose to take the matter to the Autoridade da Concorrência. Although we cannot predict the outcome of this process, ANACOM's actions could negatively impact our revenues and results of operations.

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

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

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

The European Commission's review of roaming charges may lead to a reduction in domestic mobile revenues. In 2008, we received approximately 5.4% of our domestic mobile revenues from incoming and outgoing roaming charges, down from 6.2% in 2007. The European Commission has determined that roaming prices in Europe should be reduced and has published new regulations that have been effective since June 30, 2007. These regulations set maximum roaming charges that may be charged in the wholesale market and the retail market. In the wholesale market, a maximum roaming charge of €0.30 per minute applied until August 30, 2008, a maximum roaming charge of €0.28 per minute applied from August 30, 2008 until August 30, 2009, and a maximum roaming charge of €0.26 per minute applied thereafter.

In the retail market, maximum roaming charges of €0.24 per minute (for received calls) and €0.49 per minute (for outgoing calls) applied in the first year, maximum roaming charges of €0.22 per minute (for received calls) and €0.46 (for outgoing calls) applied in the second year, and maximum roaming charges of €0.19 per minute (for received calls) and €0.43 per minute (for outgoing calls) will apply thereafter.

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In May 2008, the European Commission launched a new consultation on roaming, proposing to carry over Regulation (EC) No. 717/2007, on roaming on mobile communications networks within the community (the "Roaming Regulation"), beyond 2010 and to extend it to data and Short Messaging Services ("SMS"), or text messaging. On July 1, 2009, Regulation (EC) No. 544/2009, amending the Roaming Regulation (the "New Roaming Regulation") went into effect, limiting the roaming charges. The European Commission expects the New Roaming Regulation to reduce roaming charges by up to 60%. The European Commission also requested clarification from operators with respect to price differences between data services while roaming compared to prices in the domestic market.

According to the New Roaming Regulation, voice roaming rates in the retail market will be subject to the following glide path (prices excluding VAT): from July 1, 2009, maximum rates of €0.43 per minute for outgoing and of €0.19 per minute for incoming roaming calls; from July 1, 2010, maximum rates of €0.39 per minute for outgoing and a maximum of €0.15 per minute for incoming roaming calls; from 1 July 2011, maximum rates of €0.35 per minute for outgoing and a maximum of €0.11 per minute for incoming roaming calls. In the wholesale market, maximum rates will be of €0.26, €0.22 and €0.18 as of, respectively, July 1, 2009, July 1, 2010 and July 1, 2011. Regarding SMS services, caps of €0.11 in the retail and of €0.04 in the wholesale came into force on July 1, 2009. For data services, maximum wholesale rates of €1.00, €0.80 and €0.50 were defined to be applied from, respectively, July 1, 2009, July 1, 2010 and July 1, 2011.

We believe these regulations will have an adverse effect on the revenues of our domestic mobile business and on our company as a whole.

Burdensome regulation in an open market may put us at a disadvantage to our competitors and could adversely affect our business. The Portuguese electronic communications sector is fully open to competition. However, many regulatory restrictions and obligations are still imposed on us. In the previous round of market analysis, carried out in 2004-2006, the Portugal Telecom group was found by ANACOM to have significant market power in all but one of the 16 markets analyzed and consequently is subject to regulatory restrictions and obligations. Not all of these obligations and restrictions have been imposed on other telecommunications operators and service providers. Pursuant to the new European Relevant Markets recommendation that significantly reduced the number of markets subject to ex-ante regulation, ANACOM recently finished its market analysis to determine the regulatory obligations that should be imposed on operators with significant market power in the provision of wholesale (physical) network infrastructure access and wholesale broadband access. In the case of wholesale broadband access, ANACOM alleviated regulatory obligations in 184 areas considered to be competitive, which represented 61% of broadband accesses. The substantial resources we must commit to fulfill these obligations could adversely affect our ability to compete. See "*Item 4 Information on the Company Regulation Portugal.*"

The Portuguese government could terminate or fail to renew our wireline concession, our licenses and our authorization for data and mobile services. We provide a significant number of services under a concession granted to us by the Portuguese government and under licenses and authorizations granted to us by ANACOM. See "*Item 4 Information on the Company Regulation Portugal.*" The concession runs until 2025, but the Portuguese government can revoke the concession after 2010 if it considers the revocation to be in the public interest. It can also terminate our concession at any time if we fail to comply with our obligations under the concession. Even if the concession remains in force, its terms and conditions could be materially affected by the outcome of a public consultation process by the Portuguese government relating to the provision of universal service, which has not yet begun but is expected to begin during 2010. A tender for the designation of the Universal Service Provider(s) is expected during 2010. The Portuguese government can also terminate our licenses under certain circumstances. Through TMN, we hold a renewable, non-exclusive license to provide GSM digital mobile telephone services throughout Portugal, valid until March 16, 2022, and a renewable, non-exclusive license to provide UMTS mobile telephone services throughout Portugal, valid until 2016.

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If the Portuguese government took such actions, we would not be able to conduct the activities authorized by the concession or the relevant licenses. This loss would eliminate an important source of our revenues.

Regulatory investigations and litigation may lead to fines or other penalties

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

PT Comunicações for alleged anti-competitive practices in the broadband Internet market. This complaint was formerly against Telepac, which merged with a PT affiliate that later merged into PT Comunicações. On September 2, 2009, PT and PT Comunicações were notified by the Autoridade da Concorrência of its decision imposing a fine of €45 million for PT's alleged abuse of its dominant position in the broadband internet market. On September 29, 2009, we appealed this decision before the Commercial Court of Lisbon. We have not recorded a provision for this contingency;

PT Comunicações for alleged anti-competitive practices in the public wireline telephone market and for granting discriminatory discounts on leased lines. On September 1, 2008, PT Comunicações was notified by Autoridade da Concorrência of its decision imposing a fine of €2.1 million for PT Comunicações' alleged abuse of its dominant position in the lease line segment. On September 29, 2008, we appealed this decision before the Commercial Court of Lisbon; and,

PT Comunicações for alleged abuse of dominant position relating to the alleged refusal to provide access to its ducts. On August 1, 2007, Autoridade da Concorrência imposed a fine of €38 million for this alleged anti-competitive practice, and the Company has appealed this fine before the Commercial Court in Lisbon. On March 2, 2010, PT Comunicações was cleared by the Commercial Court of Lisbon from the fine imposed in 2007. On March 12, 2010, the Autoridade da Concorrência appealed the decision of the Commercial Court to a higher court (Tribunal da Relação). The appeal suspended the decision of Autoridade da Concorrência pending a decision by the higher court. We have not recorded a provision for this contingency.

See "Item 4 Information on the Company Regulation Portugal Regulatory Institutions" and "Item 8 Financial Information Legal Proceedings."

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

Risks Related to Our Brazilian Mobile Business

We are exposed to exchange rate and interest rate fluctuations

We are exposed to exchange rate fluctuation risks, mainly due to the significant level of our investments in Brazil. These investments are not hedged against exchange rate fluctuations. We are required to make adjustments to our equity on our balance sheet in response to fluctuations in the value of foreign currencies in which we have made investments. For example, as of December 31, 2009, cumulative foreign currency translation adjustments related to investments in Brazil were positive €

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953 million. Devaluation of the Brazilian Real in the future could result in negative adjustments to our balance sheet, which could limit our ability to generate distributable reserves.

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

The Brazilian Central Bank's Monetary Policy Committee (Comitê de Política Monetária do Banco Central COPOM) establishes the basic interest rate target for the Brazilian financial system by referring to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. As of December 31, 2005, 2006, 2007, 2008 and 2009, the basic interest rate was 18.0%, 13.3%, 11.3%, 13.8% and 8.8% respectively. Increases in interest rates may have a material adverse effect on Vivo by increasing its interest expense on floating rate debt and increasing its financing costs.

Macroeconomic factors in Brazil could reduce expected returns on our Brazilian investments and potentially lead to impairment charges

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

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

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

Fluctuations in the Real and increases in interest rates. The Brazilian currency has historically experienced frequent fluctuations relative to the Euro and other currencies. In 2005, 2007 and 2009, the Real appreciated against the Euro by 23.5%, 7.5% and 22.6%, respectively, and in 2006 and 2008 depreciated against the Euro by 1.8% and 24.1%, respectively. Any substantial negative reaction to the policies of the Brazilian government could have a negative impact, including devaluation. The devaluation of the Real could negatively affect the stability of the Brazilian economy and accordingly could negatively affect the profitability and results of our operations and our ability to distribute reserves. It would also increase costs associated with financing our operations in Brazil. In addition, a devaluation of the Real relative to the U.S. dollar may increase the costs of imported products and equipment. Our operations in Brazil rely on imported equipment and, as a result of such devaluation, such equipment would be more expensive to purchase.

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During 2004 and 2005, the Brazilian Central Bank tightened its monetary policy to contain inflationary pressures resulting from high international prices for oil and other commodities, and increased the SELIC basic interest rate by 125 basis points to 17.75% at the end of 2004 and to 18.05% at the end of 2005. Since then, the Brazilian Central Bank has eased its monetary policy, decreasing the SELIC basic interest rate to 11.25% as of December 31, 2007. In response to the global economic and financial crisis, the Brazilian government increased the SELIC basic interest rate to 13.75% as of December 31, 2008. In 2009 Brazilian Central Bank reduced the SELIC once more to 8.75%. An increase in interest rates could negatively affect our profitability and results of operations and would increase the costs associated with financing our operations in Brazil, especially because all of Vivo's debt, after giving effect to hedging transactions, is linked to the CDI rate. In addition, an increase in interest rates would raise our interest costs since most of the interest on Vivo's debt is floating.

Inflation in Brazil. Brazil has historically experienced high rates of inflation. Inflation, as well as governmental measures put in place to combat inflation, have had a material adverse effect on the Brazilian economy. Since the implementation of the Real Plan in 1994, the rate of inflation has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have in the past contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. The Consumer Prices Index ("Índice de Preços ao Consumidor" or "IPCA"), published by Instituto Brasileiro de Geografia e Estatística, rose 4.3% in 2009. The inflation rate was 5.9% in 2008, 4.5% in 2007, 3.1% in 2006 and 5.7% in 2005.

Since 2006, Vivo's telephone rates have been indexed to the Telecommunications Service Index IST ("Índice de Serviços de Telecomunicações"), which is a basket of national indexes that reflect the Brazilian telecommunications sector's operating costs. However, Brazilian monetary policy continues to use the IPCA as an inflation targeting system. The inflation target for 2010 is 4.5%. If inflation increases beyond this official 2010 target, basic interest rates may rise, causing direct effects on Vivo's cost of debt and indirect effects on the demand for telecommunications goods and services.

We could be required to record impairment charges relating to goodwill for our investment in Vivo

Under IFRS, we are required to test our goodwill for impairment at least annually. If the carrying value of our investment exceeds the related recoverable amount, we are required to write down our goodwill. The recoverable amount is the higher of the estimated selling price of the asset less the related selling costs and value in use. See "Item 5 Operating and Financial Review and Prospects Overview Critical Accounting Policies and International Financial Reporting Standards." An increase in interest rates or other macroeconomic events (or an adverse event affecting the operations of Vivo) could decrease the estimated future cash flows from our investment in Vivo. An event that causes us to reduce our estimates of the future cash flows of Vivo could require us to record an impairment of this goodwill, and, depending on the size of the impairment, this could have a material adverse effect on our balance sheet, our ability to distribute reserves and our results.

Our strategy of enhancing our mobile operations in Brazil through our joint venture with Telefonica Moviles may not be successful, and we do not have free access to cash flows from Vivo

The successful implementation of our strategy for our mobile operations in Brazil depends on the development of our mobile services joint venture company with Telefónica. On December 27, 2002, we and Telefónica transferred our direct and indirect interests in Brazilian mobile operators to the mobile services joint venture company, Brasilcel, operating under the brand name Vivo, with headquarters in the Netherlands.

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

In addition, because Vivo is a joint venture, we do not have free access to cash flows from Vivo. Our joint venture agreement contains provisions relating to important decisions, including the declaration and/or payment of dividends or other distributions by Brasilcel, the corporate entity that holds the joint venture's interests in Vivo. A proposal by the managing board of Brasilcel for the payment of dividends or other distributions requires the approval of Brasilcel's Supervisory Board and Brasilcel's shareholders. Because of the composition of Brasilcel's Supervisory Board and the 50% interest of each party in the joint venture, it will effectively be necessary for Telefónica and us to agree to transfer funds from Vivo and its subsidiaries to us if we wish to do so. See "*Item 4 Information on the Company Our Businesses Strategic Alliances Alliance with Telefónica.*"

Vivo faces substantial competition in each of its markets that may reduce its market share and harm our financial performance

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

These factors have already contributed in the past to a negative effect on Vivo's market share and results of operations and could have a material adverse effect on Vivo's business and results of operations in the future. As a result of competitive pressures, for example, Vivo's market share was 29.75% as of December 31, 2009, according to ANATEL, the Brazilian telecommunications regulator, lower than the share Vivo enjoyed in the past.

Vivo's competitors may be able to offer lower prices than it does and develop and deploy new or improved wireless technologies, services and products more rapidly. Vivo's response to competition may require it to lower rates or extend higher subsidies to its customers for the acquisition of handsets, thereby adversely affecting its margins.

In addition, market participants in other areas of Brazil may also seek to operate in Vivo's area, most likely through acquisitions. Recently, there has been consolidation in the Brazilian telecommunications market and we believe this trend may continue. In 2008, for example, the Brazilian government published Decree No. 6654/2008 relating to the revision of the fixed-line general concession plan (the "Plano Geral de Outorgas" or "PGO"), allowing fixed-line concessionaires to operate in more than one region of the country. This change allowed Telemar Norte Leste S.A. ("Telemar", or "Oi") to buy Brasil Telecom.

Consolidation may result in increased competitive pressures within our market. Vivo may be unable to respond adequately to pricing pressures resulting from consolidation, which would adversely affect its business, financial condition and results of operations. Vivo could be negatively affected by

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anti-trust limitations imposed by ANATEL and the Administrative Council for Economic Defense, or CADE. Vivo cannot continue to expand our growth through acquisitions given the antitrust objections of ANATEL, together with the fact that it already renders SMP service all over Brazil. However, consolidation of the other players will increase the competitive pressure on Vivo due to an increase in their economies of scale and a reduction in their operating costs.

While Vivo's subsidiary Telemig was initially the only cellular operator in the State of Minas Gerais, the emergence of other wireless telecommunications operators in that area has created an intensely competitive environment for Telemig in Minas Gerais. Currently, in addition to Telemig there are four other wireless service providers operating within that same authorization area in Minas Gerais: TIM (primarily owned by Telecom Italia), Oi (a subsidiary of Tele Norte Leste Participações S.A. (Telemar)), Claro (controlled by América Móvil) and CTBC Celular (controlled by CTBC, a fixed-line operator).

In December 2009, ANATEL published Public Consultation No. 50/2009, containing a proposal for the regulation of mobile virtual network operator (MVNO). The emergence of MVNO in Brazil would further increase competition among mobile providers. In addition, in December 2009, ANATEL also published Public Consultation No. 51/2009, containing a proposal for the auction of new SMP licenses for the 1900-2100 MHz radio frequency band (denominated the "H" band), for extension bands and for available frequencies at "A," "D," "E," "M" and TDD bands. Any new entrants into the market could adversely affect Vivo's market share, reducing its revenues.

Vivo's results of operations have been negatively affected in the past by a decrease in its customer growth and could also be affected if its rate of customer turnover increases

Vivo's rate of acquisition of new customers has recently been negatively affected by market penetration and increased competition. For example, Vivo's net additions of customers amounted to a loss of 752 thousand customers in 2006, compared to a gain of 3,262 thousand customers in 2005. This negative change was mainly due to a decrease in the rate of addition of new prepaid customers with a loss of 517 thousand in 2006, compared to the addition of 2,704 thousand new prepaid customers in 2005. In 2009, Vivo had net additions of 6,799 thousand customers, lower than net additions of 7,561 thousand customers in 2008, but higher than the net additions of 4,896 thousand customers in 2007. The change in the rate of new additions of customers has negatively affected Vivo's results of operations and could continue to do so in the future. In addition, if Vivo's rate of customer turnover were to increase significantly, its results of operations and competitive position could be adversely affected. Several factors in addition to competitive pressures could influence Vivo's rate of acquisition of new customers and rate of customer turnover, including limited network coverage, lack of sufficient reliability of Vivo's services and economic conditions in Brazil.

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

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

Brazil's telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of

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

Brazilian tax reforms may affect Vivo's prices

The Brazilian government has proposed tax reforms that are being considered by the Brazilian Congress. If Vivo experiences a higher tax burden as a result of the tax reform, it may have to pass the cost of that tax increase to its customers. This increase may have a material negative impact on the dividends paid by Vivo's subsidiary to it and on its revenues and operating results.

In 2009, Brazilian government used the IOF ("Imposto sobre Operações Financeiras") to tax foreign investments, more specifically fixed income and stocks investments other than initial public offerings. The adoption of this tax was aimed at reducing speculation in the Brazilian markets and reducing the appreciation of the real. Other institutional changes may be used to control the appreciation of the Real, and these measures may discourage foreign investments due to higher transaction costs.

Interconnection fees and regulated adjustments to those fees may not result in sufficiently remunerative revenues for terminating calls on the mobile networks of Vivo's subsidiaries and may negatively affect our revenues and results of operations

Under the SMP regime, interconnection fees for the termination of calls on mobile networks are determined through free negotiation between Vivo and other telecommunications operators. If the parties do not reach an agreement, the matter is determined through arbitration, which is conducted by ANATEL. Interconnection agreements must be approved by ANATEL and may be rejected if they are contrary to the principles of free competition and applicable regulations relating to traffic capacity, use of the interconnection infrastructure by requesting parties and other matters.

In July 2008, ANATEL approved a provisional agreement among the fixed line operators Telefónica, Telemar, Brasil Telecom, CTBC Telecom, Sercomtel and the mobile operators to determine the interconnection fees for local calls (known as "VC1" calls) and long distance calls (known as "VC2" and "VC3" calls). The provisional agreement also provides for a 1.89409% annual adjustment to interconnection fees in the Region I (Telemar's region) and a 2.06308% in Regions II (Brasil Telecom's region) and III (Telefónica's region).

In March 2009, ANATEL approved a provisional agreement among the fixed line long distance operator Embratel and the mobile operators for interconnection fees for VC2 and VC3 calls, for the period from 2007 to 2008, that provides for an annual adjustment of approximately 1.89% in Region I (Telemar's Region) or approximately 2.06% in Region II (Brasil Telecom's Region) and Region III (Telefónica's Region) as of July 2008.

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In September 2009, even though it had a provisional agreement between the fixed line operators Telefônica, Telemar, Brasil Telecom and Sercomtel and the mobile operators, without CTBC Celular, ANATEL decided not to approve the readjustment for local (VC1) and long-distance (VC2 and VC3) fixed-to-mobile calls. However, in February 2010, the readjustment for VC1, VC2 and VC3, relative to the period from 2008 to 2009 was approved by ANATEL, and the provisional agreement for the readjustment of the VU-M (meaning the amount payable to a SMP operator, per time unit, for the use of its network, *i.e.*, the interconnection rate) rates (68.5% of the approved readjustment of approximately 0.97% for the VC1) could be applied.

The annual adjustments under these agreements may not be sufficient to cover Vivo's costs and preserve its margins from interconnections with Vivo's network. In particular, because a significant number of mobile subscribers use prepaid mobile services and generally receive more calls than they make, Vivo derives an important part of its revenues from the interconnection fees paid to them by the wireline operators for traffic originating on wireline networks and terminating on its mobile networks.

In addition, ANATEL may further modify the regulatory regime governing interconnection fees. Under Resolutions 438/2006, 480/2007, 483/2007 and 503/2008, beginning in 2010, ANATEL will determine the reference cost of using mobile networks (RVU-M) for SMP providers who have significant market power, which will be used in arbitration cases by ANATEL to determine the value of interconnection fees. If this model results in lower annual adjustments to interconnection fees than under the provisional agreements reached from 2005 to 2009 described above, Vivo's revenues and results of operations will be adversely affected.

ANATEL has also published resolutions proposing new regulations regarding interconnection charges that could adversely affect Vivo's revenues and results of operations. These proposals include (1) a resolution that one SMP operator in its authorization area is to receive only one interconnection charge for calls originated and terminated on its network (a proposal whose implementation has already been demanded by ANATEL), (2) a resolution for new negotiation rules for interconnection charges in arbitration cases under which ANATEL would have a role in determining the charges and (3) a resolution for the unification of interconnection charges in any given region of the general authorization plan (*Plano Geral de Autorizações*) for the SMP regime among SMP providers of the same economic group that have significant market power, according to criteria still to be defined. In this regard, when ANATEL organized the auction in December 2007 for new licenses in the 1900-2100 MHz radio frequency bands (3G licenses), denominated Bands F, G, I and J, it specified that any license awarded to a holder of an existing SMP license in the same region would be unified with that existing license within 18 months from the publication of the terms of authorization awarding the new license (the publication of the terms occurred on April 30, 2008). Because Vivo was awarded Band J licenses in regions where Vivo already possessed SMP licenses, the unification provision is likely to apply to Vivo. In addition, the invitation document for the December 2007 auction modified the rule for renewal of radio frequency licenses and includes in operating profits (which is one of the criteria considered in the renewal process) not only the profits received from customers through mobile service plans but also the profits received from payments from other operators for the use of the SMP network.

Resolution 516/2008, published by ANATEL in November 2008, relates to the General Plan to update the Brazilian telecommunications regulations ("Plano Geral de Atualização da Regulamentação das Telecomunicações no Brasil" or "PGR"). In this general plan, ANATEL targets several areas of vital importance for the mobile telecommunications business, such as the elaboration of proposals for service quality improvements (which may cause increases in operational costs), for the regulation of virtual mobile operations (MVNO) (which may increase competitive pressures, particularly now that ANATEL began a public consultation in December 2009 relating to regulation of MVNO operators), for the regulation of the significant market power ("Poder de Mercado Significativo PMS") (the VU-M price unification among SMP providers of the same economic group having significant market

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power is foreseen and could reduce Vivo's revenues) and for the regulation of multimedia communications services ("Serviço de Comunicação Multimédia SCM") (which may increase competitive pressures).

These new proposed regulations could have an adverse effect on Vivo's results of operations because (1) interconnection charges could drop, thereby reducing Vivo's revenues, (2) ANATEL may allow favorable prices for economic groups without significant market power and (3) the VU-M prices that Vivo charges in some regions in which it operates are higher than those in some other regions, and consolidation of those VU-M prices, competitive pressures and other factors could reduce Vivo's average prices and its revenues.

Vivo also faces risks associated with litigation

Vivo is party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to Vivo. In addition, Vivo's senior management may be required to devote substantial time to these lawsuits, which could otherwise be devoted to the business. See "Item 8 Financial Information Legal Proceedings Vivo Legal Proceedings."

Risks Relating to Our International Investments

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

In accordance with our strategy, we continue to proactively manage our international businesses in selected markets and regions where we have a clear competitive advantage. This strategy may be pursued either by investing alone or by developing partnerships and by acquiring existing companies or by investing in new projects.

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

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

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

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

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

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Risks Relating to Our ADSs and Ordinary Shares

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

Holders of our ADSs may instruct the depository to vote the ordinary shares underlying the ADSs. For the depository to follow the voting instructions, it must receive them on or before the date specified in our voting materials. The depository must try, as far as practical, subject to Portuguese law and our articles of association, to vote the ordinary shares as instructed. In most cases, if the ADS holder does not give instructions to the depository, it may vote the ordinary shares in favor of proposals supported by our Board of Directors, or, when practicable and permitted, give a discretionary proxy to a person designated by us. We cannot be certain that ADS holders will receive voting materials in time to ensure that they can instruct the depository to vote the underlying ordinary shares. Also, the depository is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that ADS holders may not be able to exercise their right to vote and there may be nothing they can do if their ordinary shares or other deposited securities are not voted as requested.

If you are a U.S. tax resident, you will not be eligible for the reduced rates of Portuguese withholding tax on dividends under the U.S.-Portugal income tax treaty unless you fill out a form required by the Portuguese tax authorities and get it certified by the U.S. Internal Revenue Service

Under Portuguese law, dividends paid by Portuguese companies are subject to withholding tax at a 20% rate. However, under the U.S.-Portugal income tax treaty, the withholding tax rate on dividends distributed to U.S. tax residents may be reduced, as a general rule, to 15%. In order to apply the reduced treaty rate, confirmation that each shareholder is eligible for the benefits of the treaty is required. A specific form (Form 21-RFI of the Directorate-General of Taxes (*Direcção Geral de Impostos DGCI*) of the Portuguese Ministry of Finance), duly certified by the U.S. Internal Revenue Service, must be received by Banco Espírito Santo, the custodian for the depository, if you are a holder of ADSs, or your financial intermediary, if you are a holder of Portugal Telecom ordinary shares, prior to the date the dividends are made available to shareholders.

If this form is not available as of the relevant date, Portuguese withholding tax will be levied at the 20% rate. If you are able to submit the form to the custodian for the depository, if you are a holder of ADSs, or to your financial intermediary, if you are a holder of ordinary shares no later than the 20th day of the month following the payment of the dividend, we believe that the custodian or the financial intermediary, as the case may be, should release the 5% excess Portuguese withholding tax to you. However, we cannot guarantee that the custodian or the financial intermediary will do so.

In addition, the 5% excess Portuguese withholding tax may be subsequently reimbursed by the Portuguese tax authorities pursuant to specific claims of individual shareholders on Form 22-RFI of the Directorate-General of Taxes of the Portuguese Ministry of Finance, duly certified by the U.S. Internal Revenue Service and presented to the Portuguese tax authorities within two years following the date the dividends are made available. See "*Item 10 Additional Information Taxation Dividends.*"

You should know that receiving certification of a Form 21-RFI or Form 22-RFI from the U.S. Internal Revenue Service can be a lengthy process. In addition, although Portuguese law states that the excess withholding tax should be reimbursed within one year from the date the claim was submitted, we cannot guarantee if or when you will receive any reimbursement of the 5% excess Portuguese withholding tax even if you fill out Form 22-RFI and are eligible to receive reimbursement as described above. Please contact your tax advisor if you wish to fill out Form 21-RFI or Form 22-RFI to claim eligibility for the benefits of the treaty.

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ITEM 4 INFORMATION ON THE COMPANY

Overview

Our legal and commercial name is Portugal Telecom, SGPS, S.A. We are a limited liability holding company, organized as a *Sociedade Gestora de Participações Sociais* under the laws of the Portuguese Republic. The company was originally incorporated as Portugal Telecom, S.A., a *sociedade anónima* in June 1994. Our principal offices are located at Avenida Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal. Our telephone number is +351 21 500 1701, and our facsimile number is +351 21 500 0800. Our agent for service of process in the United States is Puglisi & Associates at 850 Library Avenue, Suite 204, Newark, Delaware 19711. Our home page is located at www.telecom.pt. The information on our website is not part of this report. The website address is included as an indicative textual reference only.

We provide telecommunications services mainly in Portugal, Brazil and certain countries in sub-Saharan Africa, including:

wireline services, which include fixed line telephone services for residential and nonresidential customers, leased lines, unbundled local loop access and wholesale line rental, interconnection, Internet access (dial-up and broadband ADSL), data and business solutions, portal and e-commerce services through our subsidiaries, in particular PT Comunicações, S.A. ("PT Comunicações");

mobile telecommunications services, such as voice, data and Internet-related services in Portugal through our subsidiary TMN Telecomunicações Móveis Nacionais, S.A. ("TMN"), in Brazil through our 50%-owned joint venture Vivo, in Angola through our 25% investment in UNITEL and in Namibia through our subsidiary MTC;

Internet Protocol Television ("IPTV") and direct-to-home ("DTH") satellite pay-TV services, through PT Comunicações; and

sales of telecommunications equipment.

In Portugal, we are the leading provider of all of these services, except for IPTV and DTH services, according to data provided by ANACOM, the Portuguese telecommunications regulator. The provision of wireline services in Portugal continues to account for a large proportion of our revenues (26.9% during 2009) as compared to revenues derived from any other line of business. In Brazil, we have a leading position in the mobile market, according to data provided by ANATEL, the Brazilian telecommunications regulator. To strengthen our position in the Brazilian mobile telecommunications market, we entered into a strategic alliance with Telefónica Móviles S.A. ("Telefónica Móviles") (the Spanish mobile telecommunications company that has merged with and into Telefónica S.A. ("Telefónica"), the Spanish telecommunications company), pursuant to which we created, on December 27, 2002, a mobile telecommunications services company in Brazil, Brasilcel, which was rebranded Vivo on April 8, 2003.

Strategy

We remain committed to discipline in our strategy, cost, operations and financial performance, and we aim to focus our resources on our core businesses and core regions, namely Portugal, Brazil and sub-Saharan Africa. We have established 5 ambitious objectives for the 2009-2011 three-year period:

grow our customer base to 100 million customers;

increase our exposure to international businesses up to two-thirds of our revenues;

seek and reinforce leadership in all domestic market segments;

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achieve performance in the top quartile of European companies in shareholder return and operating and financial results; and

become a reference company in sustainability efforts.

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

Some of our specific strategies to achieve these goals in our domestic market include the following:

Wireline

expansion and diversification of triple-play services through the expansion of IPTV services and satellite pay TV;

obtain economies of scale in the television business through further investments in these platforms and with the launch of fiber-to-the-home ("FTTH") commercial offers;

continue to innovate in new products and services to fully exploit the competitive advantage of our FTTH technology strategy;

continue to improve the attractiveness of our broadband services by offering exclusive content and value-added services rather than focusing only on price and speed;

in our data and corporate unit, increase our emphasis on value-added, integrated information technology (IT) and solutions to business;

focus on fixed-mobile convergent services, taking advantage of brand recognition of SAPO and TMN; and

continue to implement cost control measures in the fixed network.

Domestic Mobile

consolidate leadership in the mobile market, including by building on recent gains in the corporate and youth segments;

continue to develop and bring to market innovative data and video services for third-generation mobile phones, as well as continue to deploy mobile broadband services; and

continue to seek operational efficiency.

Business Units

Our market is characterized by increasing competition and rapid technological change. Our business unit subsidiaries are held directly and indirectly by Portugal Telecom in its role as holding company. We have integrated certain functions across the company, in particular information systems (PT Sistemas de Informação), research and development capabilities (PT Inovação), back office activities (PT Pro), central

purchasing capabilities (PT Compras) and call center operations (PT Contact). The diagram below presents our different businesses as of the date of filing of this Annual Report on Form 20-F.

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-
- (1) Providing wireline services in Portugal, including our fixed telephone service, Internet access services, wholesale services, data and business solutions services, portal and e-commerce solutions, and IPTV and DTH services.
 - (2) Various companies providing services to Portugal Telecom group companies, including PT Sistemas de Informação (information systems), PT Inovação (research and development), PT Pro (shared services), PT Compras (central purchasing) and PT Contact (call centers).
 - (3) Various international investments, including global telecommunications operators in the Cape Verde Islands, São Tomé and Príncipe Islands and Macau, mobile operators in Namibia and Angola, and other investments.

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

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The following table sets forth the operating revenues of each of our major business lines, on a standalone basis, for the years ended December 31, 2007, 2008 and 2009:

	Year Ended December 31,		
	2007	2008	2009
	(EUR millions)		
Wireline Business:			
Retail	1,023.2	953.5	971.0
Wholesale	486.9	488.5	495.4
Data and corporate	265.6	286.5	300.7
Directories	98.0	90.2	80.1
Sales	40.5	51.0	43.2
Other	48.1	61.8	57.3
Total	1,962.4	1,931.4	1,947.8
Domestic Mobile Business:			
Services	1,389.1	1,424.9	1,360.0
Sales	141.8	159.4	144.1
Other	8.1	9.3	13.7
Total	1,539.0	1,593.6	1,517.8
Brazilian Mobile Business:			
Services	2,155.1	2,670.6	2,833.1
Sales	258.1	293.3	234.7
Other	47.7	70.4	70.3
Total	2,460.8	3,034.3	3,138.1
Other Businesses	668.1	794.7	913.3
Eliminations in consolidation	(488.0)	(633.1)	(732.3)
Total consolidated operating revenues	6,142.4	6,720.9	6,784.7

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

Recent Developments

Acquisition of GPTI, S.A.

On February 7, 2010, we announced an agreement to acquire a 100% stake in GPTI, S.A. ("GPTI"), an IS/IT services provider in Brazil, for shares of our wholly owned subsidiary Dedic S.A. and assumption of debt of GPTI in the amount of approximately R\$80 million. Immediately following the acquisition of GPTI, the current shareholders of GPTI are expected to hold approximately 12.5% of Dedic, which operates a contract call center business in Brazil. Depending on the operating and financial performance of GPTI in 2010 and 2011, the percentage of Dedic to be held by the current shareholders of GPTI may range from 5% to 20%, instead of the expected 12.5%. The acquisition has been approved by our Board of Directors and is subject to approval by the Brazilian authorities.

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Our Businesses

Wireline Business

Our wireline business consists of two operating companies, PT Comunicações and PT Prime, which provide the following services on our wireline network:

retail, including fixed line telephone services, pay TV (IPTV and DTH satellite TV) services and Internet access services to residential customers, small office home office customers, and corporate clients;

wholesale, including leased lines, interconnection services, unbundled access to our local loops, broadband ADSL services, wholesale line rental, access to ducts, transmission of television and radio signals and international carrier services;

data and corporate, including data, Internet, video and voice communications, services to major clients, fixed mobile convergence solutions, and selected information technology services, network managing and outsourcing; and

other wireline services, including our directories business and sales of telecommunications equipment.

PT Comunicações holds and operates our fixed line network, providing fixed line telephone services, wholesale services, directories and sales of telecommunications equipment. PT Comunicações provides fixed line telephone services pursuant to a concession granted to us by the Portuguese government and transferred to PT Comunicações pursuant to Decree Law 219/2000. On December 11, 2002, PT Comunicações entered into a definitive agreement to acquire full ownership of the basic telecommunications network from the Portuguese government. Since then, PT Comunicações has owned the basic telecommunications network.

PT Comunicações is the leading internet company in Portugal, according to ANACOM, operating as an Internet Service Provider ("ISP"), using our fixed line network and the brands SAPO and Telepac, as well as in portal and related activities through *sapo.pt*, Portugal's leading Internet portal. PT Comunicações also serves the largest economic groups and government related entities in Portugal and offers them solutions for fixed and mobile telecommunications, Internet, technology and information systems, and outsourcing.

PT Prime offers corporate customers in Portugal data and corporate services through a "one-stop-shop" for a variety of flexible, efficient and innovative solutions using information technology, telecommunications, Internet and outsourcing.

Fixed Line Network

We had approximately 4.6 million telephone and asymmetric digital subscriber line ("ADSL") access lines in service at December 31, 2009, excluding external supplementary lines, direct extensions and active multiple numbers. We break our fixed line network down into traditional main lines ("PSTN"), ISDN lines and ADSL lines. We count ISDN lines, which transmit voice and data at higher rates than analog lines, as equivalent to either two or up to 30 (depending on whether they are basic or primary ISDN lines) traditional main lines. We offer high-speed Internet access through ADSL lines. As of December 31, 2009, we had 940 thousand ADSL lines, of which 887 thousand were attributable to our ADSL retail business, and 2,117 thousand PSTN/ISDN lines. We launched IPTV services in the

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third quarter of 2007 and launched DTH services in the second quarter of 2008. We had 580 thousand TV lines by the end of 2009. The following table shows the number of our main lines by category.

	As of December 31,				
	2005	2006	2007	2008	2009
Fixed line main lines in service (thousands)					
Traditional main lines	3,011	2,603	2,301	2,168	2,117
ISDN main line equivalents	758	727	699	657	605
ADSL	637	749	714	780	940
TV			21	312	581
Unbundled local loop (ULL)	72	196	291	306	281
Wholesale line rental (WLR)		142	140	76	63
Total	4,478	4,417	4,166	4,298	4,587
PSTN/ISDN fixed line main lines per 100 inhabitants	40.5	39.9	40.0	37.9	Nd
Public pay phones (thousands)	57.8	65.7	61.7	39.9	33.2

In September 1999, the number of active mobile cards (the mobile equivalent of main lines) overtook the number of fixed line main lines in Portugal, and traffic that once was transmitted in whole or in part on our fixed line network is being carried on our mobile network or on the network of other mobile operators. We are addressing this trend by encouraging increased use of our fixed line network for other data services.

All of our local switches in Portugal have been digital since 1999. Digital technology is used on all long distance and trunk connections. This level of digitalization of our fixed line network permits us to market and provide network-based value-added services, such as call waiting, call forwarding and voice mail, resulting in increased line usage. By the end of December 2009, PT Comunicações was providing approximately 1,094 thousand voice mail boxes.

We have offered ISDN services commercially since 1994. We offer a basic-rate service, which provides two communications channels. We also offer a premium-rate service, which provides up to 30 communications channels. At the end of December 2009, we had 193,166 subscribers to the basic-rate ISDN service and 6,733 subscribers to the premium-rate ISDN service. By the end of 2009, ISDN lines represented 22.2% of our total equivalent fixed line main lines, compared to 23.2% the year before. The conversion of traditional main lines to ISDN lines results in increased quality of service, and our ISDN subscribers tend to produce higher levels of usage per line than traditional main line subscribers.

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We launched ADSL service in Lisbon and Oporto in 2002 and now cover virtually all of Portugal. We offer ADSL lines both to retail customers, such as residential customers and small and medium-sized businesses, and to wholesale customers. In 2008 and 2009, we continued to deploy ADSL as one of our principal strategies, increasing geographic coverage to almost all of Portugal and increasing transmission speeds, namely through the launch of ADSL2+ services. We also introduced new pricing plans targeted to specific customer needs. The following chart shows the evolution of our ADSL retail and wholesale customer base for the periods indicated.

**ADSL Customers
(Thousands)**

We had 0.03 billing complaints per 1,000 bills and 13.9 reported faults per 100 main lines in the year ended December 31, 2009. The percentage of faults repaired in less than 12 working hours was 66.3% in 2009, compared with 69.0% in 2008. We offer residential customers detailed billing on request without extra charge.

Traffic

Total traffic on the network has been decreasing since 2002, primarily because consumers have increasingly used mobile services instead of fixed line services and because of the migration of dial-up Internet users to ADSL. The chart below sets forth the rate of growth or decrease of traffic on our fixed line network in terms of the percentage change in minutes.

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The following table shows the breakdown of total traffic originated on our fixed line network between retail and wholesale traffic for the periods indicated.

Total Traffic										
Year Ended December 31,										
	2005		2006		2007		2008		2009	
	Millions of minutes	%	Millions of minutes	%	Millions of minutes	%	Millions of minutes	%	Millions of minutes	%
Retail	6,400	43.2	5,575	41.5	5,321	42.2	4,990	42.0	4,413	42.0
Wholesale	8,418	56.8	7,867	58.5	7,284	57.8	6,898	58.0	6,513	58.0
Total	14,818	100.0	13,442	100.0	12,599	100.0	11,888	100.0	11,225	100.0

We offer other ISPs access to our network under one of two regulated access regimes that may be chosen by the ISP: (1) the Reference Offer for Internet Access, which allows ISPs either to pay us a call origination charge and a fee for invoicing customers on their behalf or to pay a per minute charge or a flat rate and (2) the Reference Interconnection Offer, based on per minute call origination charges. The applicable access regime depends on the manner in which the ISPs' infrastructures are connected to our network and billing arrangements. For additional information, see " *Regulation-Portugal Interconnection Internet Access.*" Traffic under these access regimes is included in the line "Wholesale" in the table above.

We are required to provide carrier selection to our customers for all kinds of traffic. See " *Regulation-Portugal Number Portability and Carrier Selection.*" Carrier selection has been an additional factor that has contributed to the reduction in traffic on our network. In addition, in January 2006, ANACOM published regulations permitting carrier pre-selection of non-geographic services, except for toll-free numbers.

Except for customer pre-selection and Internet traffic, we account for traffic originating on our network in our fixed line telephone services unit, and we allocate the revenue billed to customers to that unit. Traffic originating on other networks but terminating on our network, and the related revenue, is allocated to our wholesale unit.

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Marketing

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

We use market research programs to evaluate customer satisfaction and service quality and to help develop new products. We focus our marketing on different segments of the residential and business market. We have an advanced billing and customer information system and a marketing information database that combines usage and other relevant data.

To provide support and marketing services to our residential and business customers, we have developed a network of regional organizations and retail service centers. In addition, we have separate call centers dedicated to increasing services to our residential and business customers. The call centers are interconnected and cover the whole country. This system allows our customer service representatives to access the history of customers' telephone use and commercial dealings with us.

We have developed a distribution network through our retail service centers and agents such as supermarkets and other retail outlets. Our customer support system allows us to develop and implement strategies to sell new and expanded services to our customers. We often use telemarketing to both the residential and small and medium-sized enterprise market segments to develop closer relationships with our customers.

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

In 2008, we launched a renewed marketing campaign aimed at strengthening PT's Pay-TV offer's image as the best and most sophisticated pay-TV offer in the Portuguese market and highlighting its multiple-play positioning as a 5-play offer, including pay-TV, fixed broadband, voice, video-on-demand and mobile broadband. The Christmas campaign had a strong focus on the video-on-demand offer, and we believe this contributed to maintaining high brand awareness levels. Our video-on-demand offer has been successful, as over 50% of our TV customer base already uses this feature and users average 2.5 rentals per month.

In 2009, we announced that Meo, our pay-TV service, had surpassed 500 thousand customers, representing approximately 64% of our ADSL customers and 19% of our traffic generating lines. Meo is an integrated offer of voice, internet and pay-TV services and is a key component of our strategy strengthening and differentiating our offer to residential customers. Meo is a multiplatform service, based on IPTV/ADSL2+, FTTH (fiber to the home) and DTH (satellite), that is intended to provide the same TV experience, regardless of the customer interface (TV, PC and mobile phone).

We have continued to launch innovative features to encourage subscriptions to Meo, including: (1) real video on demand, with DVD-like functionalities and a catalog of more than 2,000 movies, (2) catch-up TV, (3) an electronic programming guide accessible through the Internet and the mobile phone, (4) TV channel recording, which can be remotely programmed through the Internet or through the mobile phone, (5) gaming, karaoke and several interactive content and service areas, (6) access to personal photo folders and (7) customized offers for kids.

Retail

Fixed Line Telephone Services. We provide public fixed line telephone services in Portugal to retail customers, primarily through our subsidiary PT Comunicações. This business area provided €

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971.0 million and €953.5 million during 2009 and 2008, respectively. We distinguish between two principal sources of revenue in the provision of fixed telephone services:

Fixed charges, including network access charges based on a monthly line rental and an initial installation fee, as well as, in most cases, a monthly fee from pricing packages; and

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

We divide traffic into domestic and international traffic. Domestic traffic consists of domestic telephone services provided directly to subscribers that originate or terminate calls on our fixed line network. International traffic consists of international telephone services provided directly to users that originate calls on our fixed line network.

Since 2000, public switched fixed line telephone services in Portugal have been fully open to competition. As a result of this competition, as well as the trend toward use of mobile services instead of fixed line services, we have experienced, and expect to continue to experience, erosion of market share of both access lines and of outgoing domestic and international traffic. See " *Competition Competition Facing Our Wireline Business.*"

Fixed Charges. Our fixed charges to domestic fixed line telephone subscribers include a one-time installation charge and a monthly line rental fee. These fixed charges provided €396.0 million and €444.0 million to our wireline operating revenues during 2009 and 2008, respectively.

In 2005, we created two different tariffs one for the residential market and another for the business market. The installation charge remained the same for both markets, €71.83. The standard line rental fee was €12.66 for the residential market and €12.98 for the business market. The fee for basic ISDN lines was €26.46 per month for both markets. In 2007, we amended the tariff schedule for our residential market and the standard line rental fee schedule for our business market. In March 2007, fixed line on-network calls within our residential market became free from 9 p.m. to 9 a.m. on weekdays. In September 2007, the line fee for the business market was set at €14.40. In September 2008, fixed line on-network calls on weekend nights also became free in the residential market. In June 2009, the standard line fee for the business line increased to €14.75, and the basic ISDN lines rent increased to €29.60.

The chart below illustrates changes in our prices and fees from 2005 through 2009. All prices are in Euros and exclude VAT.

Fixed Fees for Fixed Line Telephone Services(1)

	As of December 31,				
	2005	2006	2007	2008	2009
Installation fee	71.83	71.83	71.83	71.83	71.83
Line rental per month					
Residential	12.66	12.66	12.66	12.66	12.66
Business	12.98	13.35	14.40	14.40	14.75

(1)

Amounts rounded to nearest hundredth.

Traffic. Traffic contributed €258.0 million and €305.3 million to our wireline operating revenues during 2009 and 2008, respectively. Measured in minutes, total fixed line traffic decreased by 5.6% in 2009 compared with 2008. The decrease (which is similar to the 5.8% decrease in the prior year) was primarily due to the continuing effects of the trend toward use of mobile services instead of fixed line

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services and the migration of Internet users to ADSL, as well as the strong competition from other fixed and cable operators.

Since 2006, we have had two domestic tariffs: local and national. Between the end of 2001 and the end of 2006, weighted average prices for domestic fixed line telephone services decreased by 0.83% per year in nominal terms. Compared with 2008, domestic prices decreased an estimated 3.3% per year over the course of 2009, in nominal, annualized terms. See " *Regulation-Portugal Pricing of Wireline Services.*"

The chart below illustrates changes in our prices from 2005 through 2009. The call prices from 2005 through 2009 are for a three-minute call at peak rates in 2009 constant prices. All prices are in Euros and exclude VAT.

Principal Prices for Domestic Fixed Line Telephone Services(1)

	As of December 31,				
	2005	2006	2007	2008	2009
Local call prices					
Residential	0.12	0.12	0.12	0.12	0.12
Business	0.13	0.13	0.13	0.13	0.13
Regional call prices					
Residential	0.12	0.12	0.12	0.12	0.12
Business	0.13	0.13	0.13	0.13	0.13
National call prices					
Residential	0.19	0.19	0.19	0.19	0.19
Business	0.19	0.19	0.19	0.19	0.19

(1)

Amounts rounded to nearest hundredth.

Our pricing structure has come more into line with pricing structures in the rest of the EU over the last ten years. The following table compares our estimates of average domestic services prices per minute, excluding VAT, for a three-minute call at peak rates in the EU with average prices in Portugal in effect at December 31, 2009.

Principal Prices for Domestic Fixed Line Telephone Services: EU and Portugal

	As of December 31, 2009		
	EU Average(1)	EU Average(2)	Portugal
Local call prices:			
Residential	0.12	0.13	0.12
Business	0.11	0.12	0.13
National call prices:			
Residential	0.18	0.20	0.19
Business	0.16	0.18	0.19

(1)

The average including all 27 member states of the EU, as of June 2009.

(2)

The average including only the previous 15 member states of the EU, as of June 2009.

To increase our price competitiveness, we promote innovative differentiated pricing plans for market segments, including various plans specially designed for business customers and residential customers. We also offer a prepaid card and pricing plans suited for Internet users, as well as plans aimed at the development of education and the information society.

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International. Revenues from international fixed line telephone services come primarily from charges to our individual and business subscribers in Portugal for outgoing calls. Revenues from international fixed line telephone services have generally decreased in recent years as a result of decreases in volume and prices for outgoing international calls.

Historically, the amount of incoming traffic was significantly greater than the amount of outgoing traffic. As a result of this imbalance, we received higher amounts from other international telecommunications operators than we pay out to these operators. In the past several years, however, the difference between the incoming and outgoing traffic has diminished due to competitors that transport increased incoming traffic from foreign operators and an increase in outgoing traffic primarily due to the increase of immigrants in Portugal. As a result, the income and outcome payments relating to this traffic from foreign operators has almost become equal. We periodically renegotiate the applicable rates with these operators. In recent years, the billing rates among operators have been declining steadily, both for incoming and outgoing traffic. We estimate that, on an aggregate basis in Euros, settlement rates for international traffic at the end of 2009 decreased by a weighted average of approximately 15.6% for incoming traffic and 8.5% for outgoing traffic compared to the end of 2008.

Since the opening of the Portuguese market to competition in 2000, international telecommunications operators have been able to provide services directly in Portugal. They can lease lines from us or obtain international lines from other operators and then interconnect with our fixed line network. The revenues we receive from these services are interconnection fees and thus fall into the wholesale business category of our wireline business.

We set retail traffic charges for international fixed line telephone services by groups of countries. Within each group, we charge different prices according to the time of day and the day of the week that the customer makes the call. Between the end of 2005 and the end of 2009, international traffic has remained broadly the same in real terms.

ADSL Services and ISPs. According to ANACOM, we are the leader in providing Internet access in Portugal. As of December 31, 2009, we had approximately 887 thousand ADSL retail customers, which represented an overall increase of 22% over the previous year. From 2007 to 2008, ADSL retail customers increased 11.5%.

In 2009, revenues from ADSL services increased 2.0% to €169.9 million as the effect of the 152 thousand net additions in 2009 more than offset the general decrease in prices due to intense competition. We also offer dial-up paid and free Internet access services, with dial-up revenues amounting to €3.1 million in 2009 and €2.0 million in 2008.

Application Service Provider ("ASP"). We also provide ASP services in Portugal, which include remote applications services, web hosting and web design services to small and medium-sized enterprises. We had approximately 7,000 customers for our ASP business as of December 31, 2009.

ISP Traffic Revenues. PT.com offers Internet access through the lines of our fixed line network. PT.com retains all of the revenues from Internet traffic and pays PT Comunicações for use of the fixed line network.

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IPTV Services. In April 2008, we announced the launch of our nationwide DTH satellite TV offer, which complements our existing IPTV offer launched in 2007. Our television strategy is based on a multiplatform concept that aims to provide the same content, independent of the customer interface. Meo is PT's TV brand across the various platforms, namely at home (through IPTV and satellite), through mobile handsets (through Meo Mobile) or through personal computers (through the horizontal Sapo content platform). Meo provides access to a comprehensive content offering, with more than 110 TV channels and over 1500 video-on-demand titles. We offer tiered packages of channels, as well as on-demand availability that can be subscribed for directly through the TV set in real time. Meo also provides access to advanced features such as digital recording and pause live-TV. The set-top boxes in the Meo service are all HD compliant, using MPEG4. We were the first operator in Portugal to introduce HDTV and have the most extensive video-on-demand offer in the market.

In 2008, we continued to endeavor to differentiate our service through the development of partnerships with key content producers and suppliers. On June 1, 2008, PT included Disney Channel in its basic pay-TV offer. On June 7, 2008, in an exclusive partnership with the local free-to-air TVI, we broadcasted the first free-to-air program in high-definition ("HD") to all Meo customers, making available the Euro 2008 football championship in this format. Meo also broadcasted the Olympic Games in HD, in partnership with Eurosport. On September 15, 2008, Meo started to broadcast the channels of five leading European football clubs (Barcelona, Chelsea, Inter, Manchester United and Real Madrid), reinforcing and further differentiating its sports programming offer. In addition, we entered into a partnership with a leading Portuguese football club, Sport Lisboa e Benfica, to create and broadcast for an exclusive period the club channel, Benfica TV. Experimental broadcasting of this channel started on October 2, 2008, with the exclusive live display of the UEFA cup game Benfica-Napoli. Meo also enhanced its catch-up TV service by including content from SIC (free-to-air) in addition to RTP (free-to-air). In addition, Meo launched a "quintuple-play" offer, including pay-TV, fixed broadband, voice, video-on-demand and mobile broadband. On November, 28, 2008, Meo launched JimJam, a new children's channel fully dubbed into Portuguese and with a special programming line-up for the Christmas season. On December 6, 2008, Meo, in partnership with NBC Universal Global Networks, launched Sci-Fi, the first exclusive science fiction channel in Portugal. Furthermore, as part of Meo's ongoing innovation strategy in pay-TV, since November 2008 we have included content from Sapo, our internet portal, in the Meo platform, such as news and geographically-specific information on traffic, weather and pharmacies, available onscreen to all Meo customers.

In 2009, Meo further reinforced its position in the Portuguese market by launching several features to differentiate its offer, including (1) real video-on-demand (VoD) with DVD-like features and a catalog of more than 2,000 movies, including high definition ("HD"), (2) catch-up TV, (3) an electronic programming guide accessible remotely through the Internet and the mobile phone, (4) TV channel recording, which can be remotely programmed through the Internet or through the mobile phone, (5) gaming, karaoke and several interactive content and service areas, (6) access to personal photo folders and (7) customized offers for kids. In addition, we launched Meo@PC, allowing customers to have online access to Meo's pay-TV service through their personal computers, strengthening the mobility and convergence attributes of Meo.

Meo provides access to a comprehensive content offering, with more than 120 TV channels. Meo's VoD offer, which includes movies from five Hollywood studios, is a key differentiating feature of the service, as more than 50% of Meo's IPTV customers have already used VoD on a paid basis, consuming on average 2.5 movies per month. In the fourth quarter of 2009, as part of a Christmas campaign, we launched a gift voucher offer with a cover pricing of €20 to use in VoD at a €15 price. We have been continuously strengthening our Meo offer with new features and content, namely through the development of partnerships with key content producers and suppliers. On January 1, 2010, we launched the FOX Life channel, available through IPTV and satellite. On December 18, 2009, we launched an exclusive new channel dedicated to teenagers, SIC K, in a partnership with free-to-air

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channel SIC. Additionally, in December 2009, we reinforced our VoD offer with exclusive Portuguese musical theater content.

DTT Services. In October 2008, we were notified of the final decision of ANACOM endorsing the Draft Final Decision of the Portuguese Committee of Evaluation to allocate to us the frequency usage rights for Digital Terrestrial Television ("DTT") associated with the system for combining more than one information stream into a single stream for transmission ("Multiplex" or "Mux"), namely Mux A (transport of free-to-air signal) and Muxes B to F (pay-TV service). In June 2009, the ERC notified us of its final decision of granting a license to act as a TV distribution operator.

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

Due to changes in the process of implementation of Muxes B to F and due to the evolution of Pay TV market, PT asked ANACOM to revoke frequency usage rights associated with MUXes B to F and asked ERC to revoke the license to act as a TV distribution operator.

ANACOM issued its draft decision on January 29, 2010, pursuant to which ANACOM intends to revoke the action granting PT Comunicações the right to use the frequencies associated with Muxes B to F, retroactive to January 29, 2010. This draft decision was submitted to a public consultation and still pending a final decision. As to the request submitted to ERC, this authority has issued a draft decision, under which it considers that reasons of public interest prevent revoking the license granted to PT Comunicações to operate as a TV distribution operator using the frequencies allocated by ANACOM for that purpose. This draft decision was also submitted to a public consultation. The final decision, issued on March 17, 2010, maintained ERC's draft position. The decision process of the ERC is independent from that of ANACOM, and the ultimate effect of these decisions on PT Comunicações can be determined only after these processes are complete.

As of December 31, 2009, we had 581 thousand TV customers.

Wholesale

Our wireline wholesale services business, which is provided primarily through PT Comunicações, consists of:

domestic and international interconnection telephone services (including capacity-based domestic interconnection) that we provide to other telecommunications service providers in Portugal;

provision of carrier pre-selection and number portability;

leasing of domestic and international lines to other telecommunications service providers and Portuguese cable television operators;

provision of ADSL (including "naked" DSL) on a wholesale basis to other ISPs;

provision of unbundled access (including shared access) to metallic loops and sub-loops to provide broadband and voice services to other telecommunications operators in Portugal;

provision of wholesale line rental to other telecommunications service providers in Portugal;

provision of co-location services and access to ducts, poles, and associated facilities to other telecommunications operators in Portugal;

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

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

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

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

Wholesale services provided €495.4 million and €488.5 million to our wireline operating revenues in 2009 and 2008, respectively.

Traffic. Interconnection traffic comprised about 44.2% of our wholesale business in terms of revenues in 2009. The service providers who purchase interconnection services include fixed and mobile network operators, voice and data communications service providers, ISPs, value-added service providers and service providers whose international calls are terminated on or carried by our network. Providing interconnection services means allowing third parties to connect their networks to our network, and vice versa. We have interconnection rates namely for call termination, call origination, transits and international interconnection. In 2009, interconnection rates per minute for call termination included local rates equal to €0.0054, single tandem rates equal to €0.0075 and double tandem rates equal to €0.0120, each based on a three-minute call made during peak hours.

Wholesale traffic is generated by the interconnection portion of our wholesale business and decreased by 5.6% in 2009 compared to 2008 and 5.3% in 2008 compared with 2007. This decrease was primarily due to a decrease in interconnection traffic and in national transit traffic, which was partially offset by an increase in international transit traffic.

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

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

Prices. Domestic interconnection revenue per minute for calls terminated on our network declined by 7% in nominal terms in 2009 compared to 2008 and by 12.1% in 2008 compared with 2007, due to the increased use of capacity-based interconnection and ANACOM decision to lower interconnection rates during 2008. International interconnection revenue per minute for wholesale operators' outgoing traffic decreased 5% in nominal terms in 2009 compared with 2008, and by 3.3% in 2008 compared with 2007. In accordance with EU and Portuguese regulations, our national interconnection prices are cost-oriented (with costs audited by ANACOM) plus a margin.

Data and Corporate Services

We provide data and corporate services within our wireline business to top corporate and business customers that need complex telecommunications solutions and integration with IT services. These services include:

network services, namely fixed voice services, fixed and mobile convergence services, broadband data, Ethernet services, digital leased lines and VSAT services, business high band Internet accesses and applications, and global services for multinational customers;

IT services, namely data center services (housing and hosting), storage, application servers, private virtual servers and systems administration, desktop management services, security

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managed services based on a Security Operations Center, business continuity services and disaster recovery, IT infrastructure outsourcing and IT and security consultancy; and

business solutions and applications, namely unified communications, IP Centrex and voice servers, digital signage Corporate TV, business videocommunications and telepresence solutions, business process outsourcing (BPO), vertical solutions for special business market segments (health care, the public sector), special bundling services for small and medium-size enterprises, using the "Office Box" brand name, and outsourcing.

We are the leading supplier of the full range of these services in Portugal. Data and corporate operating revenues contributed €300.7 million and €286.5 million to our wireline operating revenues in 2009 and 2008, respectively.

Services. We have developed a full range of telecommunications services for businesses, and we integrate these services (together with other services we offer, such as fixed line services and domestic mobile services) to provide our customers with service packages. By combining our communications capabilities with our software-based integrated systems and applications, we offer integrated voice, data and image solutions, virtual private networks, convergence solutions, consultancy and outsourcing. We believe we are the primary service provider in Portugal capable of offering customers a full range of integrated and customized services. Despite increasing competition, overall demand for data and corporate services has been increasing. As a result of competition, we have reduced our prices for leased lines and data services.

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

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

We also provide reporting services targeted to special customers to control service level agreements and the overall performance of the network. In addition, we provide outsourced corporate network services for our customers. For example, we operate and manage the SIBS network, as well as the corporate networks of our strategic partners Caixa Geral de Depósitos, Banco Espírito Santo and CATT.

Networks. We provide services over the largest IP/MPLS backbone in Portugal, with PT Prime leasing the necessary fixed line capacity from PT Comunicações. We have points of presence in all major cities throughout Portugal, and we link our network to our customers' premises through switches and access points that we own. This broadband data transmission network provides high capacity, flexibility and security and can progressively incorporate current voice and data infrastructures at lower

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costs than alternative networks. We also provide high speed Internet access through ADSL and Ethernet. PT Prime supplies full IP and broadband connectivity for the entire Portugal Telecom group.

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

Systems Integration. We offer an integrated range of telecommunications and information technology services to the business market. Our goal is to service all of our customers' telecommunications needs and to leverage the traditional offering of products and services from Portugal Telecom.

We have a strong and competitive position in the development of information technology solutions where communications are an integral part of the services provided. To reinforce our position as a leader in this area, we are pursuing a partnership strategy with the primary information technology suppliers in the market, particularly software and hardware providers. To support these new services and to respond to the increasing demand of e-business integrators, we developed Data Centers in Lisbon and Oporto. During 2008 we opened two more Data Centers in Funchal and Ponta Delgada, in the Madeira and Azores islands, respectively. These facilities allow us to provide services, such as co-location, sophisticated web hosting, ISP services, data storage, disaster recovery and ASP services.

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

Marketing and Customer Care. We focus significant resources on marketing and customer care. Account managers are given clear incentives to meet and exceed sales targets. We seek to compete in Portugal on the basis of the quality of our services as well as our position as the leading supplier of integrated telecommunications and IT services. We price our various service offerings on the basis of volume, the duration of service agreements and the scope of the services offered to each customer.

We offer our corporate customers services available from other companies in the Portugal Telecom group. Our subsidiary PT.com, for example, provides significant support for product development and the marketing of Internet and ADSL access.

Other Wireline Services

Other wireline services include primarily our directories business and sales of telecommunications equipment.

Directories. Operating revenues from our directories business amounted to €80.1 million and €90.2 million in 2009 and 2008, respectively. We subcontract to Páginas Amarelas (an affiliated company 25% owned by us) for the publication and distribution of telephone directories throughout Portugal in return for an annual payment of approximately 72% of its gross revenues from the sale of advertising space.

Sales of Telecommunications Equipment. Revenues from sales of telecommunications equipment amounted to €43.2 million and €51.0 million in 2009 and 2008, respectively, including the sale of handsets, modems and other telecommunications equipment.

Capital Expenditures. See "Item 5 Operating And Financial Review And Prospects Capital Expenditures."

Table of Contents**Domestic Mobile Business**

We conduct our mobile business in Portugal through our wholly-owned subsidiary TMN. TMN is the leading provider of mobile voice, data and Internet services in Portugal in terms of the number of active mobile telephone cards connected to its network, as well as by revenues, margins and profits.

Operating revenues from TMN amounted to €1,517.8 million in 2009 compared to €1,593.6 million in 2008. At December 31, 2009, there were approximately 149.9 active mobile telephone cards per 100 Portuguese inhabitants according to ANACOM. The table below provides statistical information relating to TMN.

	As of December 31,				
	2005	2006	2007	2008	2009
<i>TMN-Portugal</i>					
Number of subscribers (thousands)(1)	5,312	5,696	6,253	6,933	7,252
Subscriber growth per annum (%)	5	7	10	11	5
Number of subscribers per 100 inhabitants (including competitors' subscribers)(2)	108.7	115.7	126.9	140.4	149.9
Estimated market share by number of subscribers (%) (3)	46.4	46.7	46.5	46.6	45.5
Number of employees	1,184	1,140	1,144	1,082	1,004

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

(2) Source: ANACOM.

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

Services

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

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

At the end of 2009, TMN's UMTS population coverage was approximately 92%, and its geographic coverage was about 64%, or 4,165 municipalities out of a total of 4,252 in Portugal, including every municipality with over five thousand inhabitants.

In April 2006, TMN launched HSDPA (High Speed Downlink Packet Access), the first step in the evolution of mobile broadband UMTS services. This technology will evolve in the coming years, positioning mobile operators as competitors in the high speed Internet services market. In the first half of 2006, TMN also launched a mobile TV service and a mobile ticketing service for cinemas.

TMN paid spectrum fees in 2009 and 2008 of €24 million and €27 million, respectively, for the use of its 900 MHZ and 1800 MHZ GSM network and its UMTS network. These spectrum fees are recorded as an operating expense under "indirect taxes" in our financial statements.

We expect the development of third generation services to require certain additional investments by TMN. TMN made direct investments of €53.3 million and €155.1 million in 2009 and 2008,

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respectively in building out its third-generation network and services. In 2009, the investments made by TMN in connection with UMTS represented approximately 31.5% of its total capital expenditures in 2009, excluding investments in the Portuguese information society associated with the UMTS license.

During 2009, TMN introduced the following new services in Portugal:

"Internetnotelemóvel," an internet access service and an innovative portal, developed exclusively for TMN, enabling internet access on mobile phones in any place and at any time with prices starting at €5 per month;

"Musicbox," an unlimited music download service for both mobile handsets and PCs with prices starting at €1.99 per week;

"Meo mobile," a mobile TV service, made available under the Meo brand, available throughout the country with access to 38 channels, including live content, with prices starting at €0.91 per day;

"App Store," a mobile application store with hundreds of applications, both free and paid, and with a wide range of areas of interest, including sports, news and travel;

"Pond," an online aggregator of media and social networking applications with three main areas: user generated content like photos and videos; social networking, namely Facebook; and blogging, through Twitter, Sapo Blogs and Blogger; and

MMS Face Fun, an exclusive and innovative service that allows customers to transform their pictures by merging them with other pictures.

During 2009, in order to support our innovative service offering and distinguish it from the market, TMN launched the following new products in Portugal:

Bluebelt, the first smartphone using TMN's brand, a high-end handset with 3.5G technology for mobile broadband with speeds of up to 7.2 Mbps, e-mail in real time, a camera with 3.2 Mpx and auto focus, flash and zoom, a video camera, an MP3 player, Windows Live Messenger, the Meo Mobile application and direct access to content;

HTC Magic, the first smartphone in Portugal operating on the open source Android platform, allowing a unique experience in mobile broadband and interactive services and content;

various phones using Microsoft's Windows Phone operating system, based on the Windows Mobile 6.5 platform, which allows a new and integrated management of applications, tasks, mails and messages and GPS navigation; and

the AINO model, launched in association with SonyEricsson, which allows remote access to PlayStation 3 and can be acquired alone or in a package including a PlayStation 3 and a game.

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

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TMN also offers a variety of services for access to e-mail or Internet through Wi-Fi, GPRS and UMTS. GPRS is a mobile data service standard for GSM handsets. The launch of HSDPA in April 2006, which allows speeds of up to 1.8 Mbps, significantly improved mobile Internet access. In October 2006, TMN made available speeds of up to 3.6 Mbps. Currently, TMN offers speeds up to 7.2 Mbps. In

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January 2009, TMN launched a worldwide pilot testing speeds of up to 21 Mbps using HSPA+. TMN also provides internet access through more than 1,500 hot spots.

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

Data service usage has grown considerably as customers have become increasingly familiar with TMN data services, service offerings have been expanded and access speed has increased through the introduction of UMTS. We are working to further increase data speeds to improve performance and the attractiveness of the TMN package of products, which we expect will result in a higher contribution of data services (beyond P2P messaging) to overall revenues in the future.

In 2005, TMN introduced a low-cost brand "Uzo" that targets low-cost subscribers and uses TMN's GSM network. Uzo offers a very simple service to its customers with no obligatory recharges and one tariff for voice calls and SMSs to all networks of 16 cents per minute and 8 cents per message, respectively. However, if the customer recharges its card with €15 or more, he or she is allowed to speak and to send messages to all networks for 12 cents per minute and 6 cents per message, respectively, for a period of 30 days. Uzo focuses primarily on selling SIM cards and low-cost mobile phones to its customers. Uzo's products and services are offered through the Internet, Uzo's call centers (which are separate from TMN's call centers) and independent news stands and shops located throughout Portugal.

Subscribers and Traffic

TMN is the market leader in mobile services in Portugal, according to ANACOM. At December 31, 2009, TMN had approximately 7,252 million subscribers, representing an increase of 4.6% from December 31, 2008. At December 31, 2009, TMN's subscribers represented 45.5% of the total mobile subscribers in Portugal. During 2009, TMN's share of new mobile subscribers (net additions) was 32.7% according to ANACOM.

In addition to the increase in the number of subscribers, mobile usage grew during 2009. TMN's voice traffic in terms of minutes grew by 8.9% to 9.848 billion minutes in 2009, compared to 9.047 billion minutes in 2008. Average monthly usage per subscriber increased by 1.8% to 117.2 minutes in 2009, compared to 115.1 minutes in 2008, primarily because a greater proportion of subscriber growth was in the lower segment of the market.

In terms of traffic from data transmission services, SMS increased by 5.3% during 2009, and there were an average of 93 SMS messages per month per user in 2009, 1.5% less than the average of 94 SMS messages per month per user in 2008. Traffic from WAP services supported by GPRS and UMTS networks decreased by 11.1% in 2009.

Prices and Revenue Breakdown

We believe that mobile services in Portugal are priced lower than the European average and are among the lowest in Europe. Mobile telephone charges are not regulated. Traffic charges, sales of handsets and connection and subscription fees represented approximately 89.6%, 9.5% and 0.9%, respectively, of TMN's revenues in 2009 and approximately 89.6%, 10.0% and 0.4%, respectively, of TMN's revenues in 2008. Monthly subscription fees range from €15.27 (Flat S) to €102.40 (Pack t xl), including VAT.

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Fixed-to-mobile and mobile-to-mobile interconnection charges are regulated by ANACOM and have a significant impact on TMN's business. In 2005, ANACOM declared all mobile operators to have significant market power in call termination in mobile networks market. ANACOM has accordingly imposed price controls on interconnection rates for the termination of calls on mobile networks. In 2005, interconnection rates (both fixed-to-mobile and mobile-to-mobile) were reduced by an average of 23.5% compared with 2004 rates. In 2006, these rates were reduced by an average of 18.5% compared to the 2005 rates, and in 2007, these rates were further reduced by an average of 6.2% compared to the 2006 rates. In 2008, these rates were reduced by an average of 10.9% compared to the 2007 rates by ANACOM. In 2009, rates were reduced in comparison with the corresponding months of the previous year by a weighted average of 32%. These reductions have had, and are expected to continue to have, a significant impact on TMN's interconnection revenues and consequently its earnings. In July 2008, ANACOM issued a decision proposing additional reductions in interconnection rates for the termination of calls on mobile networks but allowing lesser reductions for the third mobile operator, Optimus. The decision came into effect on August 23, 2008, and these rates reached €0.65 on April 1, 2009, for TMN and Vodafone. Optimus reached that level on October 1, 2009.

Products and Marketing

TMN offers a variety of innovative products. It was the first operator in the world to offer pre-paid services, and its prepaid and discount products are popular. We estimate that at the end of 2009, approximately 69.2% of its subscribers were using TMN's prepaid products. TMN has been expanding its subscriber base through increased advertising and the use of its own distribution network. In recent years, TMN has focused on encouraging the use of mobile services by young people through SMS incentive packages.

TMN markets its services through more than 2,581 points of sale, including TMN's sales force, Portugal Telecom retail shops, TMN shops, supermarket chains and independent dealers.

Network and Capital Investment

In recent years, TMN has made significant investments in its second and third generation networks. As a result of its investments, TMN has a technologically advanced high capacity network that provides extensive coverage across Portugal. As of the end of 2009, TMN's digital network had 4,634 GSM base stations, including 152 base stations added during 2009, and 3,518 UMTS B nodes, including 311 B nodes added during 2009. As of December 31, 2009, these GSM base stations covered more than 98% of continental Portugal and 99% of the Portuguese population, and the UMTS B nodes covered approximately 64% of continental Portugal and 92% of the Portuguese population.

Roaming. Roaming agreements between operators allow their subscribers to make and receive voice calls automatically, send and receive data, or access other services when traveling outside the geographical coverage area of the home network, by using a visited network. As of the end of 2009, TMN had entered into GSM roaming agreements with a total of 454 operators (in 218 countries), 281 GPRS roaming agreements (in 165 countries) and 148 3G roaming agreements (in 85 countries).

Equipment Sales

TMN sells mobile phones and related equipment in Portugal. Equipment sales contributed €144.1 million, €159.4 million, and €141.8 million to TMN's operating revenues in 2009, 2008 and 2007, respectively.

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TMN's Commitment to the Portuguese Information Society

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

Brazilian Mobile Business

We provide mobile telecommunications services in Brazil through Vivo Participações S.A., the leading mobile company in Brazil with a total of 51,744 thousand customers at December 31, 2009. We hold 50% of Brasilcel, which is a joint venture with Telefónica. The joint venture operates in every Brazilian state and in the Federal District of Brasília. Vivo had an estimated market share of approximately 29.8% in Brazil at December 31, 2009, according to ANATEL. We believe that the joint venture facilitates our ability to serve our Brazilian subscribers on a seamless basis throughout Brazil.

Formation of Vivo

In January 2001, we entered into a strategic agreement with Telefónica Móviles (the former mobile subsidiary of Telefónica, which has since merged with and into Telefónica) to combine all of our mobile assets in Brazil to the extent permitted under Brazilian law. On December 27, 2002, after receiving regulatory approval, Portugal Telecom, through its subsidiary PT Móveis, and Telefónica, through its then subsidiary Telefónica Móviles, transferred all of their direct and indirect interests in Brazilian mobile services companies to the joint venture company, named Brasilcel N.V. These interests consisted of:

Telesp Celular Participações S.A. ("TCP"), which controlled Telesp Celular (the band A operator in the state of São Paulo) and Global Telecom (the band B operator in the states of Parana and Santa Catarina) and was contributed by Portugal Telecom (which had a controlling position) and Telefónica Móviles;

Tele Sudeste Celular Participações S.A. ("Tele Sudeste"), which controlled Telerj Celular, S.A. (the band A operator in the state of Rio de Janeiro), or Telerj, and Telest Celular, S.A. (the band A operator in the state of Espírito Santo), or Telest, and was contributed by Telefónica Móviles;

Tele Leste Celular Participações S.A. ("Tele Leste"), which controlled Telebahia Celular, S.A. ("Telebahia") (the band A operator in the state of Bahia) and Telergipe Celular, S.A. (the band A operator in the state of Sergipe) and was contributed by Telefónica Móviles; and

Celular CRT Participações S.A., ("Celular CRT Participações"), which controlled Celular CRT, S.A., ("Celular CRT") (the band A operator in the state of Rio Grande do Sul), and was contributed by Telefónica Móviles (which had a controlling position) and by Portugal Telecom.

The arrangements by which we and Telefónica own and manage the joint venture and related issues are described below in "*Strategic Alliances Alliance with Telefónica.*" Certain regulatory

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restrictions applicable to Vivo and its subsidiaries which result from their relationship with Telefónica, including the inability of Vivo and its subsidiaries to provide wireline long distance services in Brazil, are described below in " *Regulation Brazil SMP Regulation.*"

Our consolidated financial statements as of and for the year ended December 31, 2003 and thereafter proportionally consolidate the results of Vivo.

Acquisition of TCO

In 2003, TCP acquired 61.1% of the voting capital stock of TCO (a band A operator in the midwestern and northern regions of Brazil) from Fixcel, a Brazilian company. In 2003, TCP acquired additional common shares of TCO in a tender offer, after which it held 86.6% of the voting capital stock and 28.9% of the total capital stock of TCO, including treasury shares held by TCO. In 2004, TCP completed a tender offer for additional shares of TCO, increasing its economic interest in TCO to 50.6%. Concurrently with this transaction, Avista, a holding company owned by Vivo, was created for the purpose of acquiring additional interests in Vivo's operating companies. In 2004, Avista completed a tender offer for additional shares of Tele Sudeste, Tele Leste and Celular CRT Participações, increasing Vivo's interest in Tele Sudeste to 91.0% in Tele Leste to 50.7% and in Celular CRT Participações to 67.4%.

Corporate Restructuring

In 2006, the shareholders of the Vivo companies approved a corporate reorganization. The corporate reorganization consisted of a merger of shares under Brazilian law (*incorporação de ações*) of TCO with TCP and the merger of companies under Brazilian law (*incorporação de empresas*) of Tele Leste, Tele Sudeste and Celular CRT Participações with TCP. In connection with these mergers, TCP was renamed "Vivo Participações S.A." On March 31, 2006, common shares and preferred shares of Vivo began trading on the São Paulo Stock Exchange under the ticker symbols "VIVO3" and "VIVO4," respectively, and ADSs of Vivo began trading on the New York Stock Exchange under the ticker symbol "VIV." In October 2006, Vivo completed a further restructuring with the merger into Global Telecom (the company that provided mobile services in the states of Paraná and Santa Catarina and that was fully owned by TCP) of all other companies of Vivo that provided mobile services in the other states mentioned above. In connection with this transaction, Global Telecom was renamed "Vivo S.A."

Acquisition of Telemig

On April 4, 2008, pursuant to a stock purchase agreement and after ANATEL authorization, Vivo acquired from Telepart Participações SA ("Telpart") a 22.7% stake of Telemig Celular Participações SA ("Telemig Celular Participações"), which provides mobile services in the Brazilian state of Minas Gerais through Telemig Celular, for R\$1,239 million (€450 million). The total shares acquired included 53.9% of the ordinary shares, which granted shareholder control to Vivo, 4.3% of preferred shares and certain subscription rights. On April 8, 2008, Vivo launched two voluntary tender offers to purchase up to one-third of the outstanding preferred shares of Telemig Celular Participações and Telemig Celular. These offers were concluded on May 15, 2008, and as a result, Vivo acquired additional stakes of 20.0% and 3.8% of Telemig Celular Participações and Telemig Celular, respectively, for a total of R\$522 million (€204 million). The acquisition of Telemig Celular Participações and Telemig Celular was completed after the mandatory tender offers concluded on August 15, 2008, following which Vivo acquired additional stakes of 16.0% and 3.5% of Telemig Celular Participações and Telemig Celular, respectively, for a total amount of R\$912 million (€ 379 million). As a result of these transactions, Vivo paid a total of €517 million (Portugal Telecom's 50% share).

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Corporate Restructuring

On March 23, 2009, the boards of directors of Vivo, Telemig Participações, and Telemig Celular approved the submission to the shareholders of all three companies a proposal for a corporate restructuring involving the merger of the shares of Telemig Celular into Telemig Participações and of Telemig Participações into Vivo, such that Telemig Celular would become a wholly owned subsidiary of Telemig Participações and Telemig Participações would become a wholly-owned subsidiary of Vivo. The purpose of the corporate restructuring was to simplify the former organizational structure that comprised three publicly-held companies, two of them with ADRs traded outside of Brazil.

All the shares of Telemig Celular were merged, in their entirety, into Telemig Participações, and the holders of the merged shares of Telemig Celular received in exchange for their shares, new shares issued by Telemig Participações of the same class. On the same date, the shares of Telemig Participações were merged, in their entirety, into Vivo, and the holders of the merged shares of Telemig Participações received in exchange for their shares, new shares issued by Vivo of the same class. The non-controlling shareholders of Telemig Celular and Telemig Participações became shareholders of Vivo.

On May 29, 2009, the boards of directors of Vivo, Telemig Participações and Telemig Celular unanimously approved the corporate restructuring. On July 27, 2009, the shareholders of Vivo, Telemig Participações and Telemig Celular also approved the corporate restructuring.

As a result of the corporate restructuring, Vivo became a significantly larger company and now owns 100% of the capital stock of Telemig Participações, which in turn owns 100% of the capital stock of Telemig Celular.

