

**Portugal Telecom**  
**International Finance B.V.**  
Amsterdam, the Netherlands

**FINANCIAL REPORT 2013**

For identification purpose only.  
Goes together with auditors report  
dated .....24 APR 2014.....

## Portugal Telecom International Finance B.V.

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# Portugal Telecom International Finance B.V.

## Director's report

The Board of Managing Directors herewith submits the Financial Statements of Portugal Telecom International Finance B.V. for the financial year ended December 31, 2013

The Company is engaged in holding and financing activities for the companies of the group of its ultimate parent company, Portugal Telecom, SGPS, S.A., (PT SGPS) a company incorporated under the laws of Portugal.

During the period under review, the Company recorded a profit of EUR 21,442,132 (2012: EUR 6,705,439), which is set out in detail in the attached income statement.

### Conformity statement

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Managing Directors hereby confirm that to the best of their knowledge:

- The Portugal Telecom International Finance B.V. 2013 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Portugal Telecom International Finance B.V.
- The Portugal Telecom International Finance B.V. 2013 annual report gives a true and fair view of the position of Portugal Telecom International Finance B.V. at the balance sheet date and of the development and performance of the business during the financial year 2013, together with a description of the principal risks Portugal Telecom International Finance B.V. is being confronted with.

### Key activities

The principal activities of the company consist of the financing of PT SGPS group entities. In 2013, the Company entered into the following main transactions:

- On January 17, 2013, the Company repaid an amount of EUR 350,000,000 with respect to a revolving credit facility.
- In February 2013, the Company repaid an amount of EUR 22,330,245 with respect to the loan from CTM-Companhia de Telecomunicações de Macau S.a.r.l.
- On April 30 and August 7, 2013, as scheduled, the Company repaid notes issued under the Euro Medium Term Note Programme (EMTN Programme), totalling EUR 984,000,000.
- On May 10, 2013, the Company issued notes under the EMTN Programme, totalling EUR 1,000,000,000 at a fixed coupon of 4.625%, due May 8, 2020.
- On September 23, 2013, as scheduled, the Company repaid notes totalling EUR 2,270,000,000 issued in 2012.
- On September 23, 2013, the Company issued a note to a related party for an amount of EUR 2,438,000,000 at a fixed interest rate of 2,16%, which matures on September 23, 2015.
- As of December 31, 2013, the total amount of loans granted to PT SGPS group entities amounted to EUR 7,044,990,000 compared to EUR 6,905,490,000 as of December 31, 2012.

## Future developments

On October 2, 2013, PT SGPS has announced that it entered into a memorandum of understanding with Oi S.A. (Oi) and certain of their shareholders setting out, amongst other things, the basis for their proposed merger into a single entity and the preparatory steps for such proposed merger (Memorandum of Understanding). Pursuant to the merger, PT SGPS will be extinguished and Oi will survive but as a wholly owned subsidiary of Telemar Participações S.A. (Business Combination). On February 19, 2014, the definitive agreements governing the Business Combination, including the agreement governing the subscription by PT SGPS of shares to be issued by Oi were executed between the relevant parties.

As part of the Business Combination and as described in the Memorandum of Understanding, Oi is expected to undertake a capital increase to be subscribed in cash and in kind. The capital increase in kind will be subscribed through the contribution by PT SGPS of all the shares directly or indirectly held by it in companies that hold (i) all of its operating assets, excluding those directly or indirectly held in Oi or Contax Participações S.A., and (ii) the respective liabilities as of the date of the contribution (Capital Increase).

As a preparation for such subscription, PT SGPS is expected to sell all its shares in the Company to PT Portugal SGPS, S.A. (PTP), a wholly owned direct subsidiary of PT SGPS. After the Capital Increase, PTP will be a wholly owned subsidiary of Oi, owning all the assets and liabilities currently at PT SGPS (except for the stakes currently held by it in Oi or Contax Participações S.A.).

As stated in the Memorandum of Understanding, a condition precedent to the consummation of the Business Combination is obtaining necessary waivers and consents from the lenders of PT SGPS Group to execute the Business Combination and to prevent violations or breaches of contracts as a result of the Business Combination. As such:

### *1) Exchangeable Bonds and Notes issued under the EMTN Programme*

On February 7, 2014, PT SGPS and the Company have announced a solicitation to holders of (i) the Exchangeable Bonds issued by the Company (Exchangeable Bonds) and (ii) all the notes issued under the EMTN Programme by the Company (Company's EMTN) and by PT SGPS (PT SGPS' EMTN), to consider and approve certain proposals and other amendments to the trust deeds and terms and conditions of such notes and bonds (Consent Solicitation).

The Consent Solicitation period expired on February 26, 2014, and the holders of the Exchangeable Bonds and the Company's EMTN approved the proposals at meetings held on March 3, 2014. With respect to the PT SGPS' EMTN, no quorum was established for a meeting on March 3, 2014, and the Consent Solicitation period was extended and the meeting adjourned and rescheduled for March 18, 2014. At the March 18, 2014 meeting, the holders of these notes also approved the proposals.

On March 19, 2014, (A) PT SGPS, the Company, PT Comunicações S.A. (PTC), PTP, Oi and the trustee under the EMTN Programme entered into a supplemental trust deed relating to the Company's EMTN and PT SGPS' EMTN pursuant to which the principal trust deed governing such notes was amended and restated and, (B) the Company, PT SGPS, PTC, Oi and the trustee under the principal trust deed governing the Exchangeable Bonds entered into a supplemental trust deed pursuant to which the principal trust deed governing the Exchangeable Notes was amended and restated. The amendments included the following:

- except for the PT SGPS' EMTN, the release and discharge of PT SGPS and PTC, as keep well providers, from all of their respective obligations under the applicable keep well agreements;
- in the case of the PT SGPS' EMTN, the substitution, in place of PT SGPS, of PTP as issuer and principal obligor;
- the addition of an unconditional and irrevocable guarantee from Oi;

### Future developments (continued)

- the waiver of any and all of the events of default and potential events of default (as such terms are defined in the trust deeds of such notes and bonds) that may be triggered by the Capital Increase and/or the Business Combination or any transaction executed as part of, or pursuant to, the Capital Increase and/or the Business Combination;
- in the case of the Exchangeable Bonds only, the amendment of the exchange right in order to provide that any holder exercising its exchange right will receive (a) from (and including) the date of the completion of the proposed Capital Increase up to (but excluding) the date of the completion of the proposed Business Combination, a cash amount with reference to the ordinary shares of Portugal Telecom, and (b) from (and including) the date of completion of such proposed Business Combination, a cash amount with reference to the ordinary shares of Telemar Participações S.A. (each calculated in accordance with the modified terms and conditions of such Exchangeable Bonds) in place of receiving ordinary shares of Portugal Telecom; and
- make certain other modifications to the terms and conditions as set forth in the relevant amendment deeds and related agreements.

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

### 2) Credit Facilities

PT SGPS, PTC, the Company, PTP and Oi entered into agreements or are expected to enter into agreements soon with respect to the existing credit facilities under which the Company is a borrower, in order to:

- A. replace PT SGPS and PTC with PTP as borrower;
- B. modify certain definitions, covenants and events of default to provide that such provisions apply to PTP;
- C. add an unconditional and Irrevocable guarantee from Oi;
- D. waive any and all of the defaults and events of default that may be triggered by the Capital Increase and/or the Business Combination or any transaction executed as part of, or pursuant to, the Capital Increase and/or the Business Combination; and
- E. modify certain covenants and the definitions related thereto to conform such provisions to the corresponding terms of certain existing credit facilities under which Oi is a borrower and to provide that such calculations are made based on the financial statements of Telemar Participações S.A..

In addition, it is expected that PT SGPS will be replaced with the Company as borrower under certain loan agreements with a maximum amount of EUR 170,000,000, which will also include the provisions B. to E. described above.

Under all these agreements related to existing credit facilities of PT SGPS Group, the substitution of the borrower, the modifications to definitions, covenants and events of default and the guarantee of Oi will become effective upon the completion of the Capital Increase, while the waiver is effective upon signature of such agreements.

Except for the loan agreements with a maximum amount of EUR 170,000,000 mentioned above, the amendments made or to be made to debt Instruments in connection with the Business Combination, as described above, are not expected to produce any change to the balance sheet or income statement of the Company in 2014.

The average number of employees during the year was nil (2012: nil). The Company does not expect to employ any personnel during the coming year.

### **Composition of the Board of Managing Directors**

The Company has taken notice of recently adopted legislation effective as of January 1, 2013, as a consequence of which a "large" company, when nominating or appointing members of the Board of Managing Directors, should take into account as much as possible a balanced composition of the Board in terms of gender, to the effect that at least 30 percent of the positions are held by women and at least 30 percent by men. Because there were no qualified female candidates available in 2013, two males were appointed for vacant positions in the Board of Managing Directors and as a result the current composition of the Board of Managing Directors deviates from the above-mentioned percentages. With regards to future appointments, the Board of Managing Directors will take gender diversity objectives into account as much as possible.

### **Post balance sheet events**

No major post balance sheet events affecting the financial statements have occurred to date.

### **Financial risk management**

There are no concentrations of foreign currency risk at the balance sheet date. The Company uses derivative instruments to hedge foreign currency exposures when deemed necessary.

The Company incurs interest rate risk on interest bearing receivables (in particular those included in financial assets, securities and cash) and on interest bearing non-current and current liabilities (including borrowings).

With respect to floating-interest rate loans and receivables, the Company incurs risks regarding future cash flows. In addition, the Company incurs risks on fixed interest loans obtained, notes issued and receivables with respect to the fair value due to changes in market interest rates. No financial derivatives for interest rate risk have been contracted with regard to the receivables or debt instruments.

The Company incurs credit risks on loans granted to participants and associates, as well as to the shareholder. These counterparties do not have a history of non-performance incidents.

More than 99% of the amount lent to PT SGPS S.A. and its subsidiaries under these loans were borrowed by Portuguese companies. In Portugal, the economic situation in 2013 was mainly characterised by the implementation of the economic and financial adjustment programme. Portugal is being perceived as a country committed to the ongoing adjustment programme. Along with the supportive stance of the ECB, this is translating into a very visible decline in Government bond yields which led the debt markets to re-open for non-financial corporations as well as for banks. Nevertheless, the financial constraints imposed on the Portuguese economy as a result of the sovereign debt crisis and the need to deleverage remained in 2013. The continuing deleveraging in the private financial and non-financial sectors, coupled with a strong restrictive fiscal policy and the cooling of activity in the Eurozone, contributed to a contraction in real GDP of 3.2%, with significant declines in consumption and investment and with rising unemployment levels, reaching close to 16% of the active population. Household spending fell 5.6%, reflecting the sharp drop in disposable income. Private consumption was still penalised by relatively high inflation, pressured by higher indirect taxes. Exports maintained a positive performance in 2013, notwithstanding a deceleration trend, with a 3.3% growth in real terms.

Except for the convertible bonds issued by PT SGPS S.A. and subscribed by the Company, the Company has the possibility (but not the intention), of not rolling over loans until the expected maturity date.

**Audit committee**

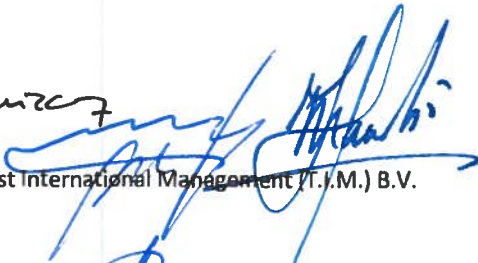
No audit committee was appointed for the Company. The Company uses the audit committee of the shareholder Portugal Telecom SGPS SA.

**The Board of Managing Directors.**

April 24, 2014



C. Moreira da Cruz



Trust International Management (T.I.M.) B.V.



B. da Costa Saldanha



W. Langeveld



C. van den Broek

Amsterdam,

## Portugal Telecom International Finance B.V.

Balance sheet as at December 31, 2013  
(in EUR, before appropriation of results)

	Notes	December 31, 2013	December 31, 2012
<b>ASSETS</b>			
<b>Non-current assets</b>	5		
Commercial paper and loans to PT SGPS group companies		6,273,990,000	3,678,690,000
Convertible bonds		--	750,000,000
Prepaid issuance costs		19,304,099	19,384,010
		<u>6,293,294,099</u>	<u>4,448,074,010</u>
<b>Current assets</b>			
Receivables	6/7	788,962,340	2,497,698,834
Cash and cash equivalents	8	1,413,632,438	1,776,115,618
		<u>2,202,594,778</u>	<u>4,273,814,452</u>
<b>TOTAL ASSETS</b>		<u>8,495,888,877</u>	<u>8,721,888,462</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' Equity</b>	9		
Issued and paid-up capital		21,000	21,000
Share premium		252,090,368	252,090,368
Result for the year		21,442,132	6,705,439
		<u>273,553,500</u>	<u>258,816,807</u>
<b>Non-current Liabilities</b>	10		
EMTN / exchangeable bonds		4,350,000,000	4,100,000,000
Revolving credit facilities / loan		472,314,820	488,270,394
Loans from group companies		2,438,000,000	--
		<u>7,260,314,820</u>	<u>4,588,270,394</u>
<b>Current Liabilities</b>	11		
EMTN / Exchangeable bonds		750,000,000	984,000,000
Other notes		--	2,270,000,000
Revolving credit facilities / loans		27,331,155	396,380,476
Interest received in advance		42,826,062	67,227,503
Interest EMTN / exchangeable bonds / credit facilities		141,273,326	153,115,304
Corporate income tax		415,675	4,066,813
Other debts and accruals		174,339	11,165
		<u>962,020,557</u>	<u>3,874,801,261</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>8,495,888,877</u>	<u>8,721,888,462</u>

## Portugal Telecom International Finance B.V.

Income statement for the financial year ended December 31, 2013

(in EUR)

	<u>Notes</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Interest Income on commercial papers / loans		335,258,512	304,208,876
Other Interest Income		46,952,312	61,639,763
Financial Expenses		(352,417,998)	(333,251,664)
Withholding tax on interest on deposits		5,649,607	(6,399,868)
Exchange differences		200,285	227,292
Amortization of prepaid issuance costs		(5,079,911)	(6,791,880)
<b>Financial Income and Expenses</b>		<b><u>30,562,807</u></b>	<b><u>19,632,519</u></b>
General and administrative expenses	12	<u>5,989,266</u>	<u>7,675,641</u>
<b>Operating expenses</b>		<b><u>5,989,266</u></b>	<b><u>7,675,641</u></b>
<b>OPERATING RESULT</b>		<b><u>24,573,541</u></b>	<b><u>11,956,878</u></b>
<b>RESULT BEFORE TAXATION</b>		<b><u>24,573,541</u></b>	<b><u>11,956,878</u></b>
Income tax expense	14	(3,131,409)	(5,251,439)
<b>NET RESULT AFTER TAXATION</b>		<b><u><u>21,442,132</u></u></b>	<b><u><u>6,705,439</u></u></b>

# Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(In EUR)

## 1 GENERAL

### *Activities*

Portugal Telecom international Finance B.V. (the Company), having its statutory seat in Amsterdam and registered office at Naritaweg 165, 1043 BW, Amsterdam, the Netherlands, is engaged in holding and financing activities for the companies of the group of its ultimate parent company Portugal Telecom, SGPS, S.A. (PT SGPS, Lisboa, Portugal), a company incorporated under the laws of Portugal.

The Company was incorporated on November 26, 1998.

### (a) Audit committee

No audit committee was appointed for the Company. The Company uses the audit committee of the shareholder PT SGPS.

### (b) Group structure

The Company is a member of the PT SGPS group. The ultimate parent company of this group is PT SGPS. The Company's financial statements are included in the consolidated financial statements of PT SGPS.

### (c) Related party transactions

The Company has subscribed Convertible bonds issued by PT SGPS. The Company has also subscribed Commercial Papers made available by financial institutions. The Commercial Papers have been issued by related parties for the financing of their activities. The conditions for the Commercial Papers are at arms' length.

### (d) Use of estimates

In applying the accounting policies and guidelines for preparing the financial statements, management makes a range of estimates and judgments that might be essential for the amounts disclosed in the financial statements. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the Financial Statement items in question. Actual amounts may differ from these estimates.

### (e) Cash flow statement

No cash flow statement has been presented in these financial statements, because the financial statements of this company are included in the consolidated financial statements of PT SGPS which will be filed, in accordance with art. 360.104 of the Dutch guidelines for Annual Reporting, with CMVM the Portuguese Securities Market Commission.

# Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

## 2 ACCOUNTING POLICIES FOR THE BALANCE SHEET

The accompanying Financial Statements have been prepared in accordance with the statutory provisions of Title 9, Book 2, of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting as issued by the Dutch Accounting Standards Board, taking into account the exemptions offered by the Dutch Accounting Standards Board.

Assets and liabilities are stated at amortised cost, unless indicated otherwise.

### (a) Comparison with previous year

The accounting policies have been consistently applied to all the years presented.

### (b) Foreign currencies

The financial statements are presented in Euros, which is the functional and presentation currency.

Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transaction in foreign currency during the financial year are recognised in the financial statements at the exchange rates prevailing at transaction date. The exchange differences resulting from the translation as of balance sheet date, taking into account possible hedge transactions, are recorded in the profit and loss account.

### (c) Issuance costs

Issuance costs of Euro Medium Term Notes and Exchangeable Bonds are capitalized and amortized on a straight-line basis, based on the term of the related Euro Medium Term Notes and Exchangeable Bond.

### (d) Financial fixed assets

#### *EMTN Programme*

The notes issued under the EMTN Programme and exchangeable bonds are valued at nominal value and the amortized issuance costs have been accounted for as prepaid issuance costs and are presented under note 5 Financial Fixed Assets.

#### *Issuance Costs*

Issuance costs of Euro Medium Term Notes and Exchangeable Bonds are capitalized and amortized on a straight-line basis, based on the term of the related Euro Medium Term Notes and Exchangeable Bond.

# Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

## *Derivatives*

Derivatives contracts entered into by the Company are used as hedging mechanism under exposure to market risks. These instruments have been accounted for in the financial statements using the application of 'the Cost price hedge Accounting' as required by RJ 290. As a result lower fair value for derivatives will not be recognized unless the hedging instrument is (partly) ineffective. In applying cost price hedge accounting, initial recognition and the accounting policies for the hedging instrument are as follows:

- if the hedged item is recognized at cost in the balance sheet, the derivative instrument is also stated at cost
- as long as the hedged item is not yet recognized in the balance sheet, the hedging instrument is not remeasured.
- if the derivative instruments (hedged items) are qualified as monetary item and denominated in a foreign currency, the valuation of these instruments has been done using spot rate as at balance sheet date.
- the ineffective portion of the hedge is recognized directly in the statement of income and expenses.
- the Company applies cost price accounting for the currency risk on interest payments on loans denominated in currencies not being the functional currency.

At the inception of the transactions, the Company documents the relationship between hedging instruments and hedged items. The Company also tests its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

## **(e) Impairment**

At each balance sheet date, the Company tests whether there are any indications of assets being subject to impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised immediately in the income statement.

If it is established that a previously recognised impairment loss no longer applies or has declined, the increased carrying amount of the assets in question is not set any higher than the carrying amount that would have been determined had no asset impairment been recognised. A reversal of an impairment loss is recognised immediately in the income statement.

## **(f) Receivables**

Upon initial recognition, the receivables are included at nominal value, less any provision for doubtful accounts. These provisions are determined by individual assessment of the receivables.

## **(g) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, bank balances and deposits held at call with maturities of less than 12 months. Bank overdrafts, if any, are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents are stated at face value.

# Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

## (h) Non-current liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using the effective interest method.

## 3 ACCOUNTING POLICIES FOR THE INCOME STATEMENT

### (a) General

Profits or transactions are recognized in the year they are realized. Losses are recognized when foreseen.

### (b) Exchange rate differences

Exchange rate differences arising upon the settlement or conversion of monetary items are recognised in the income statement in the period that they arise.

### (c) General and administrative expenses

Costs are taken into account under the historical cost convention and allocated to the year concerned.

### (d) Amortization

Amortization expenses are taken on issuance costs and compensated on the interest receipts.

### (e) Financial income and expenses

Interest paid and received is recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned.

### (f) Taxation

Income tax is calculated on the profit/loss before tax in the income statement, taking into account any losses carried forward from previous financial years (where not included in deferred income tax assets) and tax-exempt items, and plus non-deductible expenses. Changes in deferred income tax assets and liabilities due to changes in the applicable tax rates are also taken into account.

# Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

## 4 Financial instruments and risk management

### *Currency risk*

The Company mainly operates in the European Union. The currency risk for the Company largely concerns positions and future transactions in US dollars. Management has determined, based on a risk assessment, that these currency risks need to be hedged. Currency swap contract are used for this purpose.

### *Interest rate and cash flow risk*

The Company incurs interest rate risk on interest-bearing receivables (in particular those included in financial assets, securities and cash) and on interest-bearing non-current and current liabilities (including borrowings).

Where floating-interest loans and receivables are concerned, the Company incurs risk regarding future cash flows. In addition, the Company incurs risks on fixed-interest loans and receivables with respect to the fair value due to changes in the market rate of interest. No financial derivatives for interest rate risk are contracted with regard to the receivables.

### *Credit risks*

The Company has issued loans to PT SGPS, its shareholder, and PT SGPS group companies. These counterparties do not have a history of non-performance.

### *Foreign currencies*

The financial statements are presented in Euros, which is the functional and presentation currency.

Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transactions in foreign currency during the financial year are recognised in the financial statements at the exchange rates prevailing at transaction date. The exchange differences resulting from the translation as of balance sheet date, taking into account possible hedge transactions, are recorded in the profit and loss account.

## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### NON-CURRENT ASSETS

#### 5 FINANCIAL FIXED ASSETS

Movements in financial fixed assets can be broken down as follows:

	Commercial paper and loans to PT SGPS group companies	Convertible bonds	Prepaid issuance costs	Total
<b>Opening balance</b>	3,678,690,000	750,000,000	19,384,010	4,448,074,010
<b>Movements 2013</b>				
Additions	805,000,000	--	5,000,000	810,000,000
Repayments	(642,000,000)	--	--	(642,000,000)
Reclassification to short term (-) / long term (+)	2,432,300,000	(750,000,000)	--	1,682,300,000
Amortization	--	--	(5,079,911)	(5,079,911)
<b>Closing balance</b>	<u>6,273,990,000</u>	<u>--</u>	<u>19,304,099</u>	<u>6,293,294,099</u>

The Company's commercial paper and loans to PT SGPS group companies can be specified as follows:

Name	2013	2012
Commercial Papers issued by PT SGPS	1,209,000,000	--
Commercial Papers issued by PT Portugal, SGPS, S.A. (PTP)	1,737,950,000	1,039,300,000
Commercial Papers issued by PT Comunicações S.A. (PTC)	3,086,750,000	2,631,600,000
Commercial papers issued by MEO, Serviços de Comunicações e Multimédia, S.A. (MEO)*	230,000,000	--
Loan to Timor Telecom S.A.	10,290,000	7,790,000
	<u>6,273,990,000</u>	<u>3,678,690,000</u>

The fair value of commercial paper and loan to PT SGPS group companies as of December 31, 2013, equals the carrying amount as the Company has the possibility (but not the intention) in each quarter of not rolling over the commercial papers until the expected maturity date.

\* Formerly known as Telecomunicações Móveis Nacionais S.A. (TMN)

## Portugal Telecom International Finance B.V.

**Notes to the balance sheet and income statement as at December 31, 2013**

(in EUR)

### *Commercial Papers issued by PT SGPS*

Commercial papers issued by PT SGPS can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	--	150,000,000
Issued in financial year	482,000,000	--
Reclassification to short term (-) / long term (+)	727,000,000	--
Repayment in financial year	--	(150,000,000)
<b>Closing balance</b>	<b>1,209,000,000</b>	<b>--</b>

### *Commercial Papers issued by PTP*

Commercial papers issued by PTP can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	1,039,300,000	1,819,000,000
Issued in financial year	--	(524,700,000)
Reclassification to short term (-) / long term (+)	698,650,000	--
Repayment in financial year	--	(255,000,000)
<b>Closing balance</b>	<b>1,737,950,000</b>	<b>1,039,300,000</b>

### *Commercial Papers issued by PTC*

The commercial papers issued by PTC can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	2,631,600,000	1,667,250,000
Issued in financial year	--	1,494,150,000
Reclassification to short term (-) / long term (+)	1,027,150,000	(529,800,000)
Repayment in financial year	(572,000,000)	--
<b>Closing balance</b>	<b>3,086,750,000</b>	<b>2,631,600,000</b>

### *Commercial papers issued by MEO*

The commercial papers issued by MEO can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	--	49,900,000
Issued in financial year	320,000,000	--
Reclassification to short term (-) / long term (+)	(20,000,000)	(49,900,000)
Repayment in financial year	(70,000,000)	--
<b>Closing balance</b>	<b>230,000,000</b>	<b>--</b>

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## Portugal Telecom International Finance B.V.

**Notes to the balance sheet and income statement as at December 31, 2013**

(in EUR)

*Loan to Timor Telecom S.A.*

The loan to Timor Telecom S.A. can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	7,790,000	8,000,000
Issued in financial year	4,000,000	3,790,000
Reclassification to short term (-) / long term (+)	(1,000,000)	(4,000,000)
Repayment in financial year	(500,000)	--
<b>Closing balance</b>	10,290,000	7,790,000

*Convertible bonds*

The Company's convertible bonds can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	750,000,000	750,000,000
Reclassification to short term	(750,000,000)	--
<b>Closing balance</b>	--	750,000,000

*Prepaid issuance costs*

The Company's prepaid issuance costs can be specified as follows:

	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	19,384,010	18,450,890
Additions	5,000,000	7,725,000
Amortization	(5,079,911)	(6,791,880)
<b>Closing balance</b>	19,304,099	19,384,010

Cost of issuance of each note is deferred and recognized in net income until the maturity of each note on a straight line basis.

As agreed in the Advance Pricing Agreement with the Dutch Tax Authorities, the Company will be compensated by Portugal Telecom SGPS, S.A. and/or other group companies for the annual portion of issuance costs that is amortized in connection with the bonds it issued and for any interest expenses relating to the financing of these expenditures.

## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### CURRENT ASSETS

#### 6 COMMERCIAL PAPER AND LOANS TO PT SGPS GROUP COMPANIES

	2013	2012
Commercial Papers issued by PTC	--	1,047,150,000
Commercial Papers issued by PTP	--	1,425,650,000
Commercial papers issued by MEO	20,000,000	--
Loan to Timor Telecom S.A.	1,000,000	4,000,000
Convertible Bonds	750,000,000	--
	771,000,000	2,476,800,000

All commercial paper and loans to PT SGPS Group companies stated under the current assets fall due in less than one year. The Convertible Bonds have been reclassified from the financial fixed assets.

On December 23, 2008, PT SGPS issued 4.125% convertible bonds in the amount of EUR 750,000,000 due on August 28, 2014. These convertible bonds aim to support the exchangeable bonds issued by the Company in 2007, replicating their main terms and conditions. The fair value of these exchangeable bonds issued by the Company, determined on market information, amounted to EUR 766,230,000 on December 31, 2012 and to EUR 763,860,000 on December 31, 2013.

#### 7 RECEIVABLES

As at December 31, 2013, this item can be detailed as follows:

	2013	2012
Interest loan receivable	105,400	281,264
Interest receivable from deposits	5,566,315	13,051,169
Accrued upfront fees	5,964,736	7,549,191
Other accruals and deferred income	91,078	17,210
Corporate income tax	1,219,396	--
Withholding taxes	5,015,415	--
<b>Total receivables</b>	<b>17,962,340</b>	<b>20,898,834</b>

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

The corporate income tax receivable relates to the refund of year 2013.

The withholding tax receivable relates to 15% reduction of paid withholding taxes that the Company is entitled to. Of this amount EUR 1,140,125 relates to the year 2010, EUR 59,567 to 2011, EUR 2,537,896 to 2012 and EUR 1,145,366 to 2013.

## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### 8 CASH AND CASH EQUIVALENTS

<u>Description</u>	<u>2013</u>	<u>2012</u>
Current account balances	2,366,760	2,810,232
Fixed deposits	<u>1,411,265,678</u>	<u>1,773,305,386</u>
	<u>1,413,632,438</u>	<u>1,776,115,618</u>

The fixed deposits expire within one year after balance sheet date. No other restrictions on usage exist. In order to dilute the credit risk related to fixed deposits, the Company's policy is to invest its cash for short term periods, entering in agreements with reputable financial institutions and diversifying counterparties. The total of the current account balances is at the Company's free disposal.

### 9 SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to EUR 100,000 and consists of 200 ordinary shares with a nominal value of EUR 500 each.

As at December 31, 2013, 42 shares were issued and fully paid-up. The movements in the year under review can be summarised as follows:

	<u>Issued and paid-up capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Result for the year</u>	<u>Total</u>
<b>Opening balance 2012</b>	21,000	252,090,368	--	20,838,588	272,949,956
Result for the year	--	--	--	6,705,439	6,705,439
Profit appropriation	--	--	20,838,588	(20,838,588)	--
Dividend distribution	--	--	(20,838,588)	--	(20,838,588)
<b>Opening balance 2013</b>	<u>21,000</u>	<u>252,090,368</u>	<u>--</u>	<u>6,705,439</u>	<u>258,816,807</u>
Result for the year	--	--	--	21,442,132	21,442,132
Profit appropriation	--	--	6,705,439	(6,705,439)	--
Dividend distribution	--	--	(6,705,439)	--	(6,705,439)
<b>Closing balance 2013</b>	<u>21,000</u>	<u>252,090,368</u>	<u>--</u>	<u>21,442,132</u>	<u>273,553,500</u>

## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### 10 NON-CURRENT LIABILITIES

	Remaining term less than 1 year	Remaining term between 1 and 5 years	Remaining term more than 5 years	Total non- current liabilities 2013
EMTN / exchangeable bonds	750,000,000	2,100,000,000	2,250,000,000	4,350,000,000
Revolving credit facilities / loan	27,331,155	446,655,777	25,659,043	472,314,820
Loans from group companies	–	2,438,000,000	–	2,438,000,000
<b>Total</b>	<b>777,331,155</b>	<b>4,984,655,777</b>	<b>2,275,659,043</b>	<b>7,260,314,820</b>

Repayment obligation within 12 months as at balance sheet date are included in current liabilities.

#### *EMTN / exchangeable bonds*

The Company's EMTN / exchangeable bonds are specified as follows:

	2013	2012
<b>Opening balance</b>	4,100,000,000	4,336,000,000
Issued in financial year	1,000,000,000	750,000,000
Buy-back	–	(2,000,000)
Reclassification to short term	(750,000,000)	(984,000,000)
<b>Closing balance</b>	<b>4,350,000,000</b>	<b>4,100,000,000</b>

The Company entered into a Global Medium Term Note Programme signed on December 17, 1998, which was changed and renamed Euro Medium Term Note Programme on April 23, 2010 (EMTN). The notes issued by the Company under the EMTN are listed on the London Stock Exchange. Under the applicable EMTN agreements, PT SGPS and PTC ensure that the company is adequately capitalized to fulfil its payments obligations.

The fair value of the notes issued by the Company under the EMTN Program, determined on market information, amounted to EUR 4,188,190,924 on December 31, 2012 and amounts to EUR 4,536,192,500 on December 31, 2013.

The following table provides detailed information about the bonds issued under the EMTN and the exchangeable bonds outstanding as at December 31, 2013, which were issued by the company:

Description	Notional (EUR)	Issue Date	Maturity Date	Coupon
Eurobond	500,000,000	24-Mar-05	24-Mar-17	4.375%
Eurobond	500,000,000	16-Jun-05	16-Jun-25	4.500%
Fixed rate notes	250,000,000	30-Jul-09	6-Nov-17	5.242%
Eurobond	750,000,000	2-Nov-09	4-Nov-19	5.000%
Eurobond	600,000,000	8-Feb-11	8-Feb-16	5.625%
Eurobond	750,000,000	17-Oct-12	17-Apr-18	5.875%
Eurobond	1,000,000,000	10-May-13	8-May-20	4.625%
	<b>4,350,000,000</b>			

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## Portugal Telecom International Finance B.V.

**Notes to the balance sheet and income statement as at December 31, 2013**

(in EUR)

The Company's revolving credit facilities / loan are specified as follows:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Term loan due in 2015	10,000,000	30,000,000
Term loan due in 2016	400,000,000	400,000,000
Export credit facility due in 2023	62,314,820	58,270,394
	<u>472,314,820</u>	<u>488,270,394</u>

### *Loans from group companies*

The Company's loans from group companies comprise the following:

	<u>2013</u>	<u>2012</u>
Note CVTEL B.V.	2,438,000,000	-

On September 23, 2013 the Company issued a note for an amount of EUR 2,438,000,000 at a fixed interest rate of 2,16%, which matures on September 23, 2015. The fair value of the note, based on discounted cash flows, amounts to EUR 2,465,053,894.

## 11 CURRENT LIABILITIES

On August 28, 2007, the Company issued exchangeable bonds in the amount of EUR 750,000,000, at a fixed coupon of 4,125%, due August 28, 2014. Unless previously redeemed or purchased and cancelled, bondholder have the right to exchange each EUR 50,000 principal amount of the Bonds for a new and/or existing Ordinary Shares of Portugal Telecom SGPS, S.A. at the then applicable Exchange Price at any time on or after January 3, 2009 and up to close of business on August 18, 2014. As of December 31, 2013, the Exchange Price was EUR 8.91.

The fair value of the exchangeable bonds issued by the Company, determined on market information, amounted to EUR 766,230,000 on December 31, 2012 and amounts to EUR 763,860,000 on December 31, 2013.

The corporate income tax payable relates to interest on the corporate income tax for the year 2005.

The remaining term of the current liabilities is less than one year

The other notes are specified as follows:

<u>Name</u>	<u>2013</u>	<u>2012</u>
Short term notes payable	-	2,270,000,000

The Company's revolving credit facilities / loans are specified as follows:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Revolving credit facility	-	350,000,000
Loan from CTM-Companhia de Telecomunicações de Macau S.a.r.l.	-	22,330,245
Swap agreement with Portugal Telecom SGPS, S.A.	-	983,368
Export credit facility	7,331,155	3,066,863
Credit Facility KFW	20,000,000	20,000,000
	<u>27,331,155</u>	<u>396,380,476</u>

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## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### 12 GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Bank expenses	8,349	8,251
Legal expenses	197,132	331,693
Audit expenses	55,572	24,500
Tax advisory expenses	43,040	69,705
Professional services	107,704	120,845
Management expenses	102,700	99,450
Fees chamber of Commerce	352	142
Stock listing fees	8,039	11,539
Non-refundable VAT cost	10,952	106,574
Bank fees related to credit facilities	5,261,187	6,706,555
Advanced interest payments fees	194,239	196,387
	5,989,266	7,675,641

### 13 SPECIFICATION OF AUDIT FEES

#### *Specification of Audit fees 2013*

Audit of the financial statements  
Other audit engagements

<b>Deloitte Accountants B.V.</b>
14,250
41,322
55,572

#### *Specification of Audit fees 2012*

Audit of the financial statements  
Other audit engagements

<b>Deloitte Accountants B.V.</b>
12,000
12,500
24,500

No tax advisory or other non-audit services have been rendered by Deloitte Accountants B.V. or member firms /affiliates in 2012 or 2013.

## Portugal Telecom International Finance B.V.

### Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

#### 14 TAXATION

	<u>2013</u>	<u>2012</u>
Corporate Income Tax 2008	--	(912,823)
Corporate Income Tax 2010	--	(25,378)
Corporate Income Tax 2011	--	37,568
Corporate Income Tax 2012	--	(4,350,806)
Corporate Income Tax 2013	(3,131,409)	--
	<u>(3,131,409)</u>	<u>(5,251,439)</u>

The company is subject to Dutch taxation and tax calculations are made in accordance with the Advance Pricing Agreement entered into with the Dutch tax authorities.

The 2013 taxable income after credit of foreign (withholding) tax is EUR 17,233,552. As a result, the estimated corporate income tax charge is EUR 3,131,409.

The effective corporate income tax rate is 12.7% (2012: 43,9%). The lower effective tax rate is caused by the credit of foreign (withholding) tax.

#### 15 OTHER NOTES

##### *Commitments and contingencies not included in the balance sheet*

There are no commitments and contingencies to be disclosed that were not included in the balance sheet.

##### *Number of employees and employees costs*

Neither during the year under review nor in the previous year did the Company have any employees. Hence, it did not pay any wages and related social security.

## Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2013

(in EUR)

### 16 DIRECTORS

During the year under review, the Company had five Managing Directors, who received no remuneration during the current or the previous financial year. The Company has no Board of Supervisory Directors.

As per July 26, 2013, TMF Management B.V., Mr. P.J.G. de Reus and Ms. I. de Lucia resigned as Managing Directors and Mr. C.C. van den Broek, Mr. G.N. Meijssen and Trust International Management (T.I.M.) B.V. have been appointed as Managing Directors.

As per December 31, 2013, Mr. G.N. Meijssen resigned as Managing Director and Mr. W.J. Langeveld has been appointed as Managing Director.

#### The Board of Managing Directors

April 24, 2014



C. Moreira da Cruz



Trust International Management (T.I.M.) B.V.



B. da Costa Saldanha



W. Langeveld



C. van den Broek

Amsterdam,

## Portugal Telecom International Finance B.V.

### Other Information

#### Statutory provision regarding appropriation of result

In accordance with Article 14 of the Articles of Association, profit shall be at the disposal of the Annual General meeting of Shareholders. Profit distribution can only be made to the extent that Shareholder's Equity exceeds the issued and paid-up share capital and legal reserves. Dutch law stipulates that distributions may only be made to the extent the Company's equity is in excess of the reserves it is required to maintain by law and its Articles of Association. Moreover, no distributions may be made if the Management Board is of the opinion that, by such distribution, the Company will not be able to fulfill its financial obligations in the foreseeable future.

#### Proposed appropriation of result

The management proposes to distribute the result for the year to the shareholder, subject to approval of the General Meeting. This proposal has not yet been reflected in the financial statements.

#### Post balance sheet events

No major post balance sheet events affecting the financial statements have occurred to date.

#### Independent Auditor's report

Reference is made to the independent auditors' report hereinafter.

## Independent auditor's report

To: the shareholder of Portugal Telecom International Finance B.V.

### Report on the annual accounts

We have audited the accompanying annual accounts 2013 of Portugal Telecom International Finance B.V., Amsterdam, which comprise the balance sheet as per December 31, 2013, the income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts and for the preparation of the Director's report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion with respect to the annual accounts**

In our opinion, the annual accounts give a true and fair view of the financial position of Portugal Telecom International Finance B.V. as per December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## **Report on other legal and regulatory requirements**

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Director's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Director's report, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 24, 2014

Deloitte Accountants B.V.



J. Penon

## Independent auditor's report

To: the shareholder of Portugal Telecom International Finance B.V.

### Report on the annual accounts

We have audited the accompanying annual accounts 2013 of Portugal Telecom International Finance B.V., Amsterdam, which comprise the balance sheet as per December 31, 2013, the income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts and for the preparation of the Director's report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion with respect to the annual accounts**

In our opinion, the annual accounts give a true and fair view of the financial position of Portugal Telecom International Finance B.V. as per December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## **Report on other legal and regulatory requirements**

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Director's report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Director's report, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 24, 2014

Deloitte Accountants B.V.

Signed on the original J. Penon