Rockwood Holdings, Inc.
Form 10-Q
October 26, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Or

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

Commission file number 001-32609

Rockwood Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**52-2277366**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Overlook Center, Princeton, New Jersey 08540

(Address of principal executive offices) (Zip Code)

(609) 514-0300

(Registrant s telephone number, including area code)

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 x No o

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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of October 24, 2012, there were 77,652,708 outstanding shares of common stock, par value $0.01 per share, of the Registrant.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net sales	$ 862.8	$ 940.9	$ 2,677.9	$ 2,854.9
Cost of products sold	595.2	609.4	1,747.2	1,856.7
Gross profit	267.6	331.5	930.7	998.2
Selling, general and administrative expenses	156.3	176.0	500.9	538.1
Restructuring and other severance costs	6.0	4.5	23.9	9.5
Operating income	105.3	151.0	405.9	450.6
Other expenses, net:				
Interest expense, net (a)	(21.1)	(26.3)	(56.5)	(74.0)
Loss on early extinguishment/modification of debt	(0.1)	(0.1)	(12.5)	(16.6)
Foreign exchange gain (loss) on financing activities, net	0.4	(2.4)	(7.3)	1.8
Other, net	(0.2)		(0.1)	(0.1)
Other expenses, net	(21.0)	(28.8)	(76.4)	(88.9)
Income from continuing operations before taxes	84.3	122.2	329.5	361.7
Income tax provision (benefit)	23.3	34.4	(54.9)	101.0
Income from continuing operations	61.0	87.8	384.4	260.7
Income from discontinued operations, net of tax (b)				120.3
Net income	61.0	87.8	384.4	381.0
Net loss (income) attributable to noncontrolling interest	0.6	(11.9)	(22.1)	(32.6)
Net income attributable to Rockwood Holdings, Inc. shareholders	$ 61.6	$ 75.9	$ 362.3	$ 348.4
Amounts attributable to Rockwood Holdings, Inc. shareholders:				
Income from continuing operations	$ 61.6	$ 75.9	$ 362.3	$ 228.1
Income from discontinued operations				120.3
Net income	$ 61.6	$ 75.9	$ 362.3	$ 348.4
Basic earnings per share attributable to Rockwood Holdings, Inc. shareholders:				
Earnings from continuing operations	$ 0.79	$ 0.99	$ 4.67	$ 2.98
Earnings from discontinued operations				1.58

Basic earnings per share	$	0.79	$	0.99	$	4.67	$	4.56
Diluted earnings per share attributable to Rockwood Holdings, Inc. shareholders:								
Earnings from continuing operations	$	0.77	$	0.95	$	4.53	$	2.85
Earnings from discontinued operations								1.51
Diluted earnings per share	$	0.77	$	0.95	$	4.53	$	4.36
Dividends declared per share of common stock	$	0.35	$		$	0.70	$	
Weighted average number of basic shares outstanding		77,639		76,703		77,542		76,430
Weighted average number of diluted shares outstanding		79,963		80,030		79,914		79,907

(a) Interest expense includes:								
Interest expense on debt	$	(16.5)	$	(21.2)	$	(48.8)	$	(71.3)
Mark-to-market (losses) gains on interest rate swaps		(2.3)		(3.9)		(2.5)		1.0
Deferred financing costs		(2.3)		(1.2)		(5.2)		(3.7)
Total	$	(21.1)	$	(26.3)	$	(56.5)	$	(74.0)

(b) Primarily relates to the gain on sale of the plastic compounding business in January 2011.

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 61.0	$ 87.8	$ 384.4	$ 381.0
Other comprehensive income, net of tax:				
Pension related adjustments	(2.5)	3.1	(1.4)	
Foreign currency translation (a)	21.8	(84.3)	2.9	(30.1)
Intercompany foreign currency loans	11.4	(64.8)	(5.5)	0.4
Net investment hedges		1.5	(0.3)	(10.6)
Foreign exchange contracts	0.2	(1.4)	(0.1)	0.5
Other comprehensive income (loss)	30.9	(145.9)	(4.4)	(39.8)
Comprehensive income (loss)	91.9	(58.1)	380.0	341.2
Comprehensive (income) loss attributable to noncontrolling interest	(1.2)	0.9	(19.6)	(31.6)
Comprehensive income (loss) attributable to Rockwood Holdings, Inc shareholders	$ 90.7	$ (57.2)	$ 360.4	$ 309.6

(a) Excludes $10.1 million reclassified to net income in the nine months ended September 30, 2011 related to the sale of the plastic compounding business in January 2011.

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts;

shares in thousands)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,489.9	$ 321.5
Accounts receivable, net	521.2	454.1
Inventories	854.2	674.3
Deferred income taxes	13.7	10.2
Prepaid expenses and other current assets	67.2	75.1
Total current assets	2,946.2	1,535.2
Property, plant and equipment, net	1,674.3	1,618.5
Goodwill	843.2	849.6
Other intangible assets, net	452.7	509.7
Deferred financing costs, net	55.1	14.3
Deferred income taxes	153.2	19.3
Other assets	55.0	41.0
Total assets	$ 6,179.7	$ 4,587.6
LIABILITIES		
Current liabilities:		
Accounts payable	$ 205.3	$ 249.1
Income taxes payable	65.2	45.8
Accrued compensation	114.8	161.4
Accrued expenses and other current liabilities	145.7	129.6
Deferred income taxes	4.7	3.8
Long-term debt, current portion	327.7	250.5
Total current liabilities	863.4	840.2
Long-term debt	2,673.1	1,437.2
Pension and related liabilities	460.7	450.7
Deferred income taxes	96.8	86.5
Other liabilities	116.4	100.6
Total liabilities	4,210.4	2,915.2
Restricted stock units	22.7	14.0
EQUITY		
Rockwood Holdings, Inc. stockholders equity:		
Common stock ($0.01 par value, 400,000 shares authorized, 77,742 shares issued and 77,648 shares outstanding at September 30, 2012; 400,000 shares authorized, 77,030 shares issued and 76,936 shares outstanding at December 31, 2011)	0.8	0.8
Paid-in capital	1,231.2	1,222.2
Accumulated other comprehensive income	8.2	10.1
Retained earnings	435.0	128.5
Treasury stock, at cost	(1.4)	(1.4)
Total Rockwood Holdings, Inc. stockholders equity	1,673.8	1,360.2
Noncontrolling interest	272.8	298.2
Total equity	1,946.6	1,658.4
Total liabilities and equity	$ 6,179.7	$ 4,587.6

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 384.4	$ 381.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax (a)		(120.3)
Depreciation and amortization	196.4	200.2
Deferred financing costs amortization	5.2	3.7
Loss on early extinguishment/modification of debt	12.5	16.6
Foreign exchange loss (gain) on financing activities, net	7.3	(1.8)
Fair value adjustment of derivatives	2.5	(1.0)
Bad debt provision	0.2	
Stock-based compensation	8.7	9.8
Deferred income taxes	(125.0)	21.3
Restructuring and other	11.9	0.3
Excess tax benefits from stock-based payment arrangements	(1.4)	
Changes in assets and liabilities, net of the effect of foreign currency translation and acquisitions:		
Accounts receivable	(69.3)	(79.6)
Inventories	(112.5)	(71.4)
Prepaid expenses and other assets	(6.2)	3.5
Accounts payable	(19.8)	(18.8)
Income taxes payable	20.6	34.6
Accrued expenses and other liabilities	(23.9)	(11.4)
Net cash provided by operating activities of continuing operations	291.6	366.7
Net cash used in operating activities of discontinued operations	(2.7)	(1.8)
Net cash provided by operating activities	288.9	364.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (b)	(215.3)	(181.6)
Acquisitions	(69.2)	(0.8)
Proceeds on sale of assets	1.7	0.7
Net cash used in investing activities of continuing operations	(282.8)	(181.7)
Net cash provided by investing activities of discontinued operations, representing net sale proceeds in 2011		300.7
Net cash (used in) provided by investing activities	(282.8)	119.0
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock, net of fees	6.0	14.2
Excess tax benefits from stock-based payment arrangements	1.4	
Payments of long-term debt	(689.4)	(437.5)
Proceeds from long term debt	1,987.4	
Loan repayments to noncontrolling shareholders		(5.0)
Deferred financing costs	(47.5)	(5.3)
Fees related to early extinguishment/modification of debt	(9.2)	(13.4)
Dividend paid to shareholders	(54.3)	
Dividend distributions to noncontrolling shareholders	(45.3)	(9.8)
Net cash provided by (used in) financing activities	1,149.1	(456.8)
Effect of exchange rate changes on cash and cash equivalents	13.2	(9.9)

Net increase in cash and cash equivalents		1,168.4		17.2
Less net decrease in cash and cash equivalents from discontinued operations				(16.6)
Increase in cash and cash equivalents from continuing operations		1,168.4		33.8
Cash and cash equivalents of continuing operations, beginning of period		321.5		324.1
Cash and cash equivalents of continuing operations, end of period	$	1,489.9	$	357.9
Supplemental disclosures of cash flow information:				
Interest paid	$	54.7	$	73.1
Income taxes paid, net of refunds		49.5		45.1
Non-cash investing activities:				
Acquisition of capital equipment		13.2		21.9

(a) Primarily relates to the gain on sale of the plastic compounding business in January 2011.

(b) Net of government grants of $8.9 million and $9.8 million for the nine months ended September 30, 2012 and 2011, respectively.

See accompanying notes to condensed consolidated financial statements.

ROCKWOOD HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF changes in stockholders equity

(Dollars in millions)

(Unaudited)

		Rockwood Holdings, Inc. Stockholders Equity							
	Total	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interest
Balance, January 1, 2012	$ 1,658.4	76,93							

Euro million

	30 September 2011	31 December 2010
Pensions obligations	124.5	129.9
Healthcare obligations	309.9	342.5
PBO of pension and healthcare obligations	**434.4**	**472.4**
Market value of funds (1)	(380.6)	(448.1)
Unfunded pensions and healthcare obligations	**53.8**	**24.2**
Salaries to suspended and pre-retired employees	824.1	924.3
Gross unfunded obligations from Portuguese businesses	**877.9**	**948.6**
After-tax unfunded obligations from Portuguese businesses	658.4	711.4
Gross unfunded obligations at Oi	51.0	0.0
Unrecognised prior years service gains	17.2	18.3
Accrued post retirement benefits	**946.0**	**966.9**

(1) The reduction in the market value of funds resulted mainly from: (i) payments of supplements of Euro 7.0 million; (ii) the negative performance of assets under management amounting to Euro 49.7 million (equivalent to negative 11.4% in 9M11), and (iii) the refund of healthcare expenses paid previously by PT amounting to Euro 10.9 million.

Total gross unfunded obligations from Portuguese businesses decreased by Euro 71 million to Euro 878 million as at 30 September2011, primarily as a result of salary payments to suspended and pre-retired employees made during the period amounting to Euro 128 million, which were partially offset by total post retirement benefits and curtailment costs (Euro 29 million) and net actuarial losses (Euro 33 million) recognised in the period. Unfunded obligations from Oi decreased from Euro 52 million as at 31 March 2011 to Euro 51 million as at 30 September 2011, reflecting primarily the impact of the depreciation of the Brazilian Real against the Euro (Euro 4 million), partially offset by post retirement benefits costs amounting to Euro 3 million.

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Change in gross unfunded obligations **Euro million**

	9M11	9M10
Gross unfunded obligations (initial balance)	948.6	1,467.4
Changes in the consolidation perimeter	52.5	0.0
Post retirement benefits costs (PRB) (1)	26.1	54.9
Curtailment cost	6.3	10.9
Net reimbursements (contributions) to pension funds (2)	(4.9)	31.5
Salary payments to pre-retired, suspended employees and other	(128.2)	(116.2)
Net actuarial (gains) losses (3)	33.0	72.6
Foreign currency translation adjustments	(4.5)	0.0
Gross unfunded obligations (final balance)	928.9	1,521.1

(1) In 9M11, this caption excludes the service cost payments related to active employees transferred to the Portuguese State amounting to Euro 16 million. **(2)** In 9M11, this caption includes healthcare expenses net of reimbursements amounting to Euro 2.0 million, and termination payments amounting to Euro 2.6 million. Additionally, contributions amounting to Euro 16 million related to the service cost of the employees transferred to the Portuguese state were paid. **(3)** In 9M11, net actuarial losses includes: (i) a gain of Euro 36 million related to changes in discount rates from 4.75% to 5.00% in pension supplements and from 4.75% to 5.50% in healthcare liabilities, and (ii) a loss of Euro 69 million related to the difference between actual return on assets in the period (-11.4%) and expected return of assets (6% annualised).

Post retirement benefits costs decreased to Euro 41 million in 9M11 from Euro 53 million in 9M10, reflecting primarily the impact of the transfer of regulatory unfunded pension obligations to the Portuguese State, completed in December 2010. This effect was partially offset by the impact of the proportional consolidation of Oi as from 1 April 2011 (Euro 3 million).

Equity

Change in shareholders equity (excluding non-controlling interests) **Euro million**

	9M11
Equity before non-controlling interests (initial balance)	**4,392.4**
Net income	333.5
Net currency translation adjustments	(430.1)
Dividends	(1,118.0)
Net actuarial gains (losses), net of taxes	(24.7)
PT s shares acquired by Oi (1)	(148.3)
Other	(12.3)
Equity before non-controlling interests (final balance)	**2,992.5**
Change in equity before non-controlling interests	**(1,400.0)**
Change in equity before non-controlling interests (%)	**(31.9)%**

(1) This caption includes Euro 61 million of PT s shares acquired before 31 March 2011 (initial consolidation of Oi).

As at 30 September 2011, shareholders equity excluding non-controlling interests amounted to Euro 2,992 million, which represents a decrease of Euro 1,400 million in 9M11. This decrease is primarily explained by: (1) the dividends paid by PT to its shareholders amounting to Euro 1,118 million; (2) negative currency translation adjustments amounting to Euro 430 million, mainly related to the depreciation of the Brazilian real against the Euro, and (3) the acquisition by Oi of PT s own shares (Euro 148 million), which for accounting purposes are classified as threasury shares. These effects more than offset the net income generated in the period of Euro 333 million.

Strategic Investment in Oi

On 31 March 2011, PT concluded its strategic investments in Telemar Norte Leste, S.A. (Oi) and Contax, S.A. (Contax) for a total consideration of R$8,437 million (Euro 3,728 million). These strategic investments were made

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in connection with the agreements entered into with the controlling shareholders of Telemar Participações, S.A., which controls and fully consolidates Oi, and CTX Participações, S.A., which in turn controls and fully consolidates Contax. Under these agreements, PT shares the control of these companies and plays a key role in the strategic financial and operational policies and, consequently, the acquired investments are treated for accounting purposes as jointly controled entities. As allowed by IAS 31, PT s results in 9M11 include the proportional consolidation of the earnings of Oi and Contax Groups, as from 1 April 2011. Additionaly, the process of exchange of PT s interest in Dedic/GPTI for an additional stake in Contax was completed on 1 July 2011. Oi is proportionally consolidated, through the 25.6% direct and indirect stake that PT owns in Telemar Participações, the controlling shareholder of Oi, which fully consolidates Oi companies, including Tele Norte Leste Participações, Telemar Norte Leste and Brasil Telecom. Contax is proportionally consolidated through the 44.4% direct and indirect stake that PT owns in CTX Participações, which in turn fully consolidates Contax, which fully consolidates Dedic/GPTI as from 1 July 2011.

PT made the strategic investment in Oi and Contax through its wholly owned holding companies Bratel Brasil and PT Brasil, respectively, having acquired economic interests of 25.3% in Oi (Telemar Norte Leste) and 14.1% in Contax. The economic interest in Contax was increased to 19.5% on 1 July 2011, following the exchange of PT s interest in Dedic/GPTI for an additional stake in Contax

Consolidated Statement of Financial Position

The main changes in the statement of financial position are basically explained by the aquisition of the investments in Oi and Contax. This operation was completed as at 31 March 2011, and therefore PT proportionally consolidated the assets and liabilities of these companies in its statement of financial position as from 31 March 2011.

Total assets and liabilities increased from Euro 15.2 billion and Euro 10.6 billion as at 31 December 2010 to Euro 22.2 billion and Euro 18.4 billion as at 30 September 2011, respectively, reflecting primarily the impacts resulting from the acquisition and proportional consolidation of Oi and Contax (total assets and liabilities of Euro 7.4 billion and Euro 6.8 billion, respectively). Adjusting for these effects, total liabilities increased by Euro 1.1 billion, primarily due to the Euro 0.6 billion Eurobond issued in January 2011 and total assets decreased by Euro 0.4 billion, mainly due to the impact of the depreciation of the Brazilian Real against the Euro.

The main effects following the strategic investment in Oi and Contax and its proportional consolidation on PT s statement of financial position as at 31 March 2011 are: (1) total assets and liabilities related to those businesses amounting to Euro 9.3 billion and Euro 6.8 billion, respectively, and non-controlling interests of Euro 0.7 billion; (2) a reduction in cash and cash equivalentes of Euro 3.7 billion corresponding to the amount paid for the acquisition of these investements, and (3) the recognition of a preliminary goodwill amounting to Euro 1.8 billion as a result of this transaction.

Total assets and liabilities that were proportionally consolidated for the first time as at 31 March 2011, considering the goodwill recorded as a result of this transaction, include primarily tangible and intangible assets (Euro 6,445 million), cash and cash equivalents (Euro 1,696 million), current accounts receivable (Euro 778 million), deferred tax assets (Euro 654 million), gross debt (Euro 3,749 million), provisions (Euro 807 million) and related judicial deposits (Euro 984 million), current accounts payable and accrued expenses (Euro 773 million), taxes payable (Euro 630 million) and deferred tax liabilities (Euro 353 million).

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Consolidated statement of financial position **Euro million**

	30 September 2011	31 December 2010
Cash and equivalents	3,867.1	5,106.5
Accounts receivable, net	3,934.8	3,403.2
Inventories, net	128.5	101.5
Judicial Deposits	1,028.3	0.0
Financial investments	505.4	539.6
Intangible assets, net	4,573.2	1,111.7
Tangible assets, net	6,133.6	3,874.6
Accrued post retirement asset	11.8	1.9
Other assets	657.3	338.1
Deferred tax assets and prepaid expenses	1,312.6	692.7
Total assets	22,152.6	15,169.9
Accounts payable	1,136.8	722.6
Gross debt	12,407.7	7,206.3
Accrued post retirement liability	957.8	968.8
Other liabilities	2,989.3	1,063.0
Deferred tax liabilities and deferred income	880.9	600.1
Total liabilities	18,372.5	10,560.8
Equity before non-controlling interests	2,992.5	4,392.4
Non-controlling interests	787.6	216.7
Total shareholders equity	3,780.1	4,609.1
Total liabilities and shareholders equity	22,152.6	15,169.9

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02 Business performance

Portuguese Telecommunication Businesses

As from 3Q11, PT reports its Portuguese telecommunication businesses, which include former wireline and TMN, as a new operating segment. As part of this new operating report format, PT also reports its revenues on a per customer segment basis, which are as follows: (1) Residential , which comprises fixed telephony, broadband and pay-TV services, including double and triple-play services provided to homes, and was previously booked under the wireline caption; (2) Personal , which includes mainly mobile voice and broadband services provided to individuals and was previously included in TMN, and (3) Enterprise , which includes mobile and fixed voice, broadband and video services as well as customised and more sophisticated applications and ICT services marketed to large corporations and small and medium businesses and that was previously registered both in wireline and in TMN. Other services, including wholesale services and directories, are registered under a different revenue caption, Wholesale, other and eliminations . Tables related to wireline and TMN, PT s former operating segments are provided in Annex for comparative purposes.

The Portuguese telecommunication businesses continued to show steady customer growth, with the fixed retail customers growing 6.3% y.o.y to 4,709 thousand (net additions reached 182 thousand in 9M11) and mobile customers up by 0.5% y.o.y to 7,354 thousand (-65 thousand net additions in 9M11).

Portuguese operating data

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Fixed retail accesses (000)	4,709	4,428	6.3%	4,709	4,428	6.3%
PSTN/ISDN	2,662	2,695	(1.2)%	2,662	2,695	(1.2)%
Broadband customers	1,072	964	11.2%	1,072	964	11.2%
Pay-TV customers	974	769	26.7%	974	769	26.7%
Retail RGU per access	1.77	1.64	7.6%	1.77	1.64	7.6%
Mobile Customers (000)	7,354	7,314	0.5%	7,354	7,314	0.5%
Postpaid	2,341	2,267	3.3%	2,341	2,267	3.3%
Prepaid	5,013	5,047	(0.7)%	5,013	5,047	(0.7)%
Net additions (000)						
Fixed retail accesses	77	83	(7.4)%	182	239	(23.6)%
PSTN/ISDN	(10)	(15)	33.7%	(33)	(52)	35.8%
Broadband customers	32	32	1.4%	71	102	(30.4)%
Pay-TV customers	55	67	(17.5)%	145	188	(23.3)%
Mobile Customers	20	46	(55.9)%	(65)	62	(205.0)%
Postpaid	23	22	3.4%	51	33	55.1%
Prepaid	(3)	23	(112.6)%	(116)	29	n.m.
Data as % of mobile service revenues (%)	28.5	25.2	3.3pp	27.7	24.5	3.2pp

Growth of fixed retail customers was underpinned by a solid performance of Meo, PT s pay-TV service, with pay-TV customers growing by 26.7% y.o.y to 974 thousand (net additions of 145 thousand in 9M11), and by an accelerated growth of broadband customers, which were up by 11.2% y.o.y to 1,072 thousand (net additions 71 thousand in 9M11). The success of Meo is achieved on the back of a very differentiated value proposition, which leverages on an innovative non-linear pay-TV service offering a seamless multiscreen experience with live TV channels, video on demand, games and music on demand available on multiple devices. With 974 thousand customers, Meo already commands a 33.6% market share and on 14 November PT announced that Meo had surpassed one million

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customers. Mobile customers benefited from a solid performance of post paid customers, which grew by 3.3% y.o.y (51 thousand net adds in 9M11). The e nunca mais acaba tariff plan, that reached 568 thousand customers in 9M11, as well as the wireless broadband customers also continued to show solid growth trends.

During 9M11, PT launched new features and commercial offers aimed at further strengthening and differentiating its value proposition to all its customer segments, leveraging on the convergence of the TV, PC and mobile phone. In terms of services, PT continues to make available convergent offers that include fixed and mobile voice, fixed and mobile broadband and that may also bundle a laptop or smartphone to various customer segments. Additionally, PT also developed convergent applications for TMN, Sapo and Meo customers, including Meo Mobile, which offers 40 TV channels and remote home recording via the mobile phone, and Music Box, which offers unlimited mobile, PC and TV access to over four million songs. Moreover, PT launched during the summer period a specific campaign, using both Meo and TMN s brand that offers a double loyalty programme for Meo and TMN customers. For new Meo subscriptions, TMN customers get a bonus of Euro 5 for a six month period following the installation of Meo. Other convergent services, like Meo Jogos, a platform for games on demand through the PC, continues to be available for Meo customers. Finally, Meo online is a convergent value added service that allow customers to access live TV channels, the VoD catalogue for movie rentals and Meo s programming grid through the PC. PT s web portal, Sapo, continued to be an important lever to develop, in close collaboration with Meo and TMN, differentiated and convergent applications and services for the residential and personal customer segments. These apps and services are available on various platforms and devices, including Android, iPhone and iPad and on PT s TV platform.

Residential

In 9M11, retail net additions reached 203 thousand, as a result of the growth of the pay-TV service, which accounted for 135 thousand net additions, bringing the total pay-TV residential customers to 909 thousand (up by 26.7% y.o.y). September was the best performing month in terms of Meo sales in 2011. Fixed broadband net additions in the nine months stood at 70 thousand, with the residential broadband customer base growing by 13.6% y.o.y to 880 thousand. Residential PSTN/ISDN lines increased by 0.5% y.o.y in 9M11, also reflecting the positive impact of the triple-play offers. Residential revenue generating units per access, or total retail accesses divided by PTSN/ISDN lines stood at 2.07, up 9.1% y.o.y reflecting the continued success of the triple-play offers. As a result of this success, residential ARPU was up by 6.1% y.o.y to Euro 30.7. This performance is even more noteworthy as it was achieved against a backdrop of: (1) a challenging economic environment, which leads to some pressure on those services that are more exposed to the economic environment, such as premium and thematic channels, video on demand and other value added services, and (2) aggressive commercial stance by certain competitors that offer unlimited international voice traffic in the monthly fee, with a direct negative impact on traffic revenues.

The solid growth of residential customers is clearly supported by the success of Meo, PT s innovative pay-TV service that has already moved towards a seamless multiscreen experience, with live TV channels, video-on-demand and games and music on demand. Meo delivers a differentiated content proposition, with more than 150 TV channels, including exclusive content, HD and 3D channels, thousands of VoD titles and interactivity over anchor programmes (e.g. Ídolos, Secret Story, Biggest Loser). Meo also offers advanced and customised applications, through multiple widgets in an app store covering areas like: (1) Entertainment (e.g. surf, football); (2) Convenience (e.g. news, pharmacies), and (3) Personal Content (e.g. online photo storage).

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Residential operating data

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Fixed retail accesses (000)	3,460	3,155	9.7%	3,460	3,155	9.7%
PSTN/ISDN	1,671	1,663	0.5%	1,671	1,663	0.5%
Broadband customers	880	774	13.6%	880	774	13.6%
Pay-TV customers	909	718	26.7%	909	718	26.7%
Retail RGU per access	2.07	1.90	9.1%	2.07	1.90	9.1%
Net additions (000)						
Fixed retail accesses	81	95	(14.4)%	203	274	(26.0)%
PSTN/ISDN	(0)	2	(104.5)%	(2)	1	(281.6)%
Broadband customers	30	30	0.6%	70	95	(26.2)%
Pay-TV customers	51	64	(19.3)%	135	178	(24.3)%
ARPU (Euro)	30.9	29.5	4.6%	30.7	28.9	6.1%
Non-voice revenues as % of revenues (%)	58.5	52.2	6.3pp	57.8	50.2	7.6pp

PT continued to surprise the pay-TV market with new content experiences. Leveraging on the second edition of Secret Story, the notorious reality show on TVI (a local FTA channel), MEO launched an exclusive Secret Story channel, airing live 24h of the Secret Story house, with an interactive application that allows customer to select the camera from which they want to follow participants in the house and delivers exclusive best of videos. This channel has been a clear commercial success, reaching over 10% audience share and out-performing all other pay-TV channels on most days of the week since it was launched. With RTP, another leading FTA channel, Meo launched a new interactive application that allows customers to create their own news playlists by selecting and aggregating categorised news clips from a catalogue automatically collected and categorised by Meo-RTP throughout the day. Meo also strengthened its music offer by launching a radio application that brings together 25 radio stations on the TV screen. Radio stations include: (1) the radio stations of the Renascença group, the clear leader in this market; (2) SW TMN, PT s new radio station targeted at the youth segment, and (3) several international radios.

In 9M11 Meo continued to strengthen its brand, which is perceived by the market as a young, innovative and fun brand. Moreover, in September 2011 Meo reached the highest brand notoriety amongst all pay-TV operators, with spontaneous ad recall reaching 62% having increased the lead over the second pay-TV operator to more than 40pp. Operating revenues in the Residential customer segment reached Euro 510 million, up by 5.9% y.o.y a noteworthy performance that is clearly leveraged on Meo s commercial success, which is unerpinning growth of double-play and triple-play services. As a result of this success, the weight of non-voice services in Residential stood at 57.8% in 9M11, up by 7.6pp y.o.y.

Personal

Mobile Personal customers, including voice and broadband customers, were stable in 9M11, having stood at 5,872 thousand at the end of the period as the growth in post-paid customers (+4.8% y.o.y to 1,054 million) was compensated by the decline in pre-paid customers. Post-paid customer growth was underpinned by the commercial success of TMN s Unlimited tariff plans and by the continued growth of broadband customers.

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Personal operating data

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Mobile Customers (000)	5,872	5,874	(0.0)%	5,872	5,874	(0.0)%
Postpaid	1,054	1,005	4.8%	1,054	1,005	4.8%
Prepaid	4,819	4,869	(1.0)%	4,819	4,869	(1.0)%
Net additions (000)	13	39	(67.6)%	(91)	68	(232.8)%
Postpaid	13	18	(23.5)%	32	46	(29.6)%
Prepaid	(1)	21	(104.3)%	(123)	22	n.m.
MOU (minutes)	91	88	3.8%	88	83	6.0%
ARPU (Euro)	10.2	11.3	(9.8)%	9.8	11.1	(12.1)%
Customer	9.2	9.9	(7.1)%	8.8	9.7	(9.5)%
Interconnection	0.9	1.4	(29.8)%	1.0	1.4	(30.3)%
SARC (Euro)	27.8	28.4	(2.2)%	27.2	27.1	0.5%
Data as % of service revenues (%)	30.6	28.4	2.3pp	30.9	28.7	2.2pp

PT s strategy for the Personal customer segment is anchored on mobile data offers based on market segmentation to meet customer demand for increasingly higher bandwidth and provide the best quality of service in the market. TMN s commercial offers include: (1) voice and data tariff plans designed to integrate seamlessly unlimited voice and data plans targeted at the high value post-paid segments and, in the pre-paid segment, to prevent migration to the low value tariff plans by offering additional voice and data services; (2) distinctive smartphone offering leveraging on a comprehensive portfolio of circa 30 smartphones, including exclusive handsets, and on innovative value added and convergent services to use on-the-go (mobile TV, music on demand, social network aggregator, etc), and (3) mobile broadband competitive offers of up to 21.6Mbps speed and offering free access to PT s leading national WiFi nework.

In 9M11, TMN consolidated strategic changes in its commercial offer for the Personal segment. These include the launch of the e nunca mais acaba and of the unlimited tariff plans, which are targeted at improving the upselling of mobile Internet, leveraging on an increased popularity of smartphones, and promoting usage of voice and value added services. In particular, the e nunca mais acaba tariff plan reached 568 thousand customers by the end of 9M11, reflecting a clear commercial success only 8 months after the commercial launch, which is being celebrated with a marketing campaign targeted at communicating the 600 thousand mark. TMN launched a new offering in March targeted at the kids segment, which is positioned upon the concept of security and cost control thus addressing the main concerns of parents in choosing the first mobile phone for their children. This offer became available with the launch of a new tariff plan with free calls and sms to parents and with an authorised contact list for a monthly fee of Euro 5. TMN also introduced changes in the roaming tariff structures. In August, TMN launched two new daily tariff plans for internet no telemóvel , TMN s internet offering for smartphones, aimed at increasing the number of customers that use mobile internet while in roaming. Additionaly, TMN launched convergent offers aimed at reducing churn. These offers include Pontos TMN a dobrar , which doubles the benefits (air miles) attributed to those customers who are simultaneously customers of TMN and Meo. As a result, TMN is clearly improving its market share in this segment.

As a result of these initiatives, Personal revenue trends are showing sustained improvements throughout the year. In effect, customer revenues declined by 8.3% y.o.y to Euro 468 million in 9M11 and -6.8% y.o.y in 3Q11, showing a sequential improvement when compared to -8.9% y.o.y in 2Q11 and -9.4% y.o.y in 1Q11. This clear improvement is underpinned by the growth of internet no telemóvel revenues and by sequential improvements in voice revenues, particularly in prepaid services. Service revenues in the Personal customer segment declined by 11.0% in 9M11, as a result of the decline in interconnection revenues (-29.3% y.o.y to Euro 52 million in 9M11), which reflect

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the regulated declines in MTRs. ARPU of the personal segment stood at Euro 9.8 (-12.1% y.o.y). The weight of non-voice revenues in service revenues stood at 30.9% in 9M11, up by 2.2pp y.o.y.

Enterprise

The Enterprise customer segment includes mobile and fixed, voice and data and IT convergent and integrated offers provided to large corporates and to small and medium size businesses. In this customer segment PT aims at growing its revenue base beyond connectivity by seizing the ICT opportunity on the back of best-in-class and data centre investments to meet demand for high bandwidth services and virtualisation. The value proposition for corporate customers is anchored on the following pillars: (1) maximise value from traditional telecommunication services by upselling additional services, including fixed-mobile convergence on FTTH to push for VPN, LAN management and video services; (2) IT transformation accelerated by cloud computing, where PT aims at leveraging on partnerships with key suppliers to enable business process transformation and significant cost reductions to the enterprise customers; (3) leverage on specialisation to seize gains from scale, including focus on BPO and outsourcing to improve productivity, and (4) introduce a business consulting approach in order to extend the services provided to corporations to video, multiscreen and highly differentiated convergent services. In the SME customer segment, PT aims at integrating its service offerings, including bundling fixed and mobile and voice and data offers with access to subsidised equipment (PCs, PBX, smartphones and tablets) while at the same time making available vertical solutions to specific sectors (ex: restaurants and coffee-shops, retail, healthcare). During 9M11, PT also continued to invest significantly on its cloud computing offering both for corporates and SMEs, having now in place structured offers, SmartcloudPT, that include infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS).

Enterprise operating data

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Fixed retail accesses (000)	1,096	1,114	(1.7)%	1,096	1,114	(1.7)%
PSTN/ISDN	841	876	(3.9)%	841	876	(3.9)%
Broadband customers	191	188	1.2%	191	188	1.2%
Pay-TV customers	64	50	26.3%	64	50	26.3%
Retail RGU per access (2)	1.30	1.27	2.3%	1.30	1.27	2.3%
Mobile Customers (000)	1,416	1,373	3.1%	1,416	1,373	3.1%
Net additions (000)						
Fixed retail accesses	(6)	(8)	25.1%	(21)	(25)	17.5%
PSTN/ISDN	(12)	(13)	8.4%	(31)	(42)	25.6%
Broadband customers	2	2	21.9%	0	6	(93.6)%
Pay-TV customers	4	3	19.5%	10	10	(4.5)%
Mobile Customers	8	7	22.3%	26	(0)	n.m.
ARPU (Euro)	25.5	27.8	(8.2)%	26.3	28.9	(9.1)%

As a result of these important investments, revenue performance of the corporate segment continued to improve in 9M11. In effect, operating revenues in the Enterprise customer segment declined by 9.9% y.o.y to Euro 737 million and -9.0% y.o.y in 3Q11, compared to -10.4% y.o.y in 2Q11 and -10.1% y.o.y in 1Q11. In 9M11, non-voice services weighted 46.1% in retail revenues, up by 3.0pp y.o.y.

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Consolidated financial performance in Portugal

In 9M11, revenues in Portugal declined by 7.7% y.o.y to Euro 2,174 million. This performance was penalised by lower wholesale revenues (Euro 24 million), including lower ULL revenues and lower capacity sales, lower sales (Euro 26 million), and by lower revenues from the directories business (Euro 16 million).

Notwithstanding the revenue pressure in the Portuguese telecommunication businesses, the measures implemented to control costs and the transformation initiatives that are taking place are allowing PT to reduce costs and improve margins.

In 9M11, operating costs excluding D&A declined by 9.9% y.o.y (Euro 129 million) to Euro 1,181 million. Wages and salaries declined by 8.4% y.o.y (Euro 17 million) to Euro 190 million, as a result of the focus on cost cutting, including: (1) lower variable and overtime remunerations; (2) higer efficiency levels in certain internal processes, and (3) the benefits from the curtailment programme implemented in 4Q10. Direct costs were down 11.3% y.o.y in 9M11 (Euro 46 million) to Euro 359 million, reflecting: (1) lower traffic costs at TMN, following the impact of the regulatory MTR cuts and lower roaming interconnection costs; (2) lower costs associated with the directories business, and (3) lower costs associated with the provision of LAN services to schools. These declines were partially offset by an increase in programming costs reflecting the growth in customer base (+26.7% y.o.y, EoP) and notwithstanding the continued decline in average programming cost per customer (-20.9% y.o.y in 9M11). Commercial costs were down by 4.7% y.o.y in 9M11 (Euro 11 million) to Euro 224 milion, reflecting the racionalisation of TMN s handset portfolio and lower equipment sales which are driving down cost of goods sold in mobile business, which more than compensated higher commissions and marketing on the back of continued marketing of Meo and the new tariff plans in mobile. Other operating expenses were down by 11.9 % y.o.y in 9M11 (Euro 55 million) to Euro 409 milion, as a result of: (1) lower support costs, which benefited from the introduction of a new self-care website, the revision of IVR self-care processes, and new script tools and revision of processes aimed at increasing first call resolution; (2) lower maintenance and repairs, which following the rollout of PT s FTTH network benefit from less faults and also benefit from an extensive field force transformation programme that is delivering improved quality of service, and (3) a strict cost control, which is benefiting from several context initiatives, like renegotiation of network maintenance contracts, renegotiation of collection fees and car pooling for sales force and field force, that are already delivering visible results.

In 9M11, EBITDA in Portugal stood at Euro 993 million (-5.0% y.o.y) with a margin of 45.7% (+1.3pp y.o.y). EBITDA performance in the Wireline business is also noteworthy as it reached Euro 564 million in 9M11 (+0.6% y.o.y). At TMN, EBITDA was down by 11.3% y.o.y to Euro 433 million in 9M11. EBITDA margin stood at 46.6% in 9M11, reflecting a very solid focus on cost cutting and profitability.

Capex in 9M11 was down by 0.7% y.o.y to Euro 400 million. Customer related capex stood Euro 130 million (-20.2% y.o.y), representing 32% of total capex in Portugal, as a result of lower unitary equipment costs and innovation, namely the roll out of the RF overlay that is bringing down the number of set top boxes per customer and a higher level of refurbished equipments that are reinstalled in new customers. Infrastructure capex was up by 16% y.o.y to Euro 210 million as a result of the investment in new technologies, including the FTTH rollout, the increased coverage of TMN s base stations with fibre and the swap of TMN s 2G network to 4G enabled equipment. EBITDA minus capex in 9M11 stood at Euro 592 million.

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Portuguese telecommunication operations income statement (1) **Euro million**

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Operating revenues	**731.0**	**789.3**	**(7.4)%**	**2,173.6**	**2,354.7**	**(7.7)%**
Residential	171.0	162.3	5.4%	510.0	481.7	5.9%
Service revenues	168.0	160.8	4.5%	501.5	473.0	6.0%
Sales and other revenues	3.0	1.5	101.7%	8.4	8.7	(2.5)%
Personal	199.9	224.0	(10.8)%	574.8	648.1	(11.3)%
Service revenues	178.9	197.6	(9.5)%	520.1	584.2	(11.0)%
Customer revenues	162.2	173.9	(6.8)%	468.0	510.5	(8.3)%
Interconnection revenues	16.7	23.7	(29.6)%	52.1	73.7	(29.3)%
Sales and other	21.0	26.4	(20.2)%	54.7	63.9	(14.4)%
Enterprise	238.0	261.6	(9.0)%	736.7	817.2	(9.9)%
Wholesale, other and eliminations	122.1	141.5	(13.7)%	352.1	407.7	(13.6)%
Operating costs	**401.1**	**443.4**	**(9.5)%**	**1,180.7**	**1,310.0**	**(9.9)%**
Wages and salaries	63.9	69.3	(7.8)%	189.5	206.8	(8.4)%
Direct costs	120.0	134.5	(10.8)%	358.6	404.1	(11.3)%
Commercial costs	80.5	86.2	(6.6)%	224.1	235.3	(4.7)%
Other operating costs	136.7	153.4	(10.9)%	408.5	463.9	(11.9)%
EBITDA (2)	**329.9**	**345.9**	**(4.6)%**	**992.9**	**1,044.7**	**(5.0)%**
Post retirement benefits	12.5	17.8	(29.6)%	37.3	53.4	(30.2)%
Depreciation and amortisation	168.2	180.7	(6.9)%	519.7	494.9	5.0%
Income from operations (3)	**149.2**	**147.3**	**1.3%**	**435.9**	**496.4**	**(12.2)%**
EBITDA margin	45.1%	43.8%	1.3pp	45.7%	44.4%	1.3pp
Capex	149.6	138.5	8.0%	400.5	403.1	(0.7)%
Capex as % of revenues	20.5%	17.5%	2.9pp	18.4%	17.1%	1.3pp
EBITDA minus Capex	180.3	207.4	(13.0)%	592.4	641.6	(7.7)%

(1) Operations in Portugal include former wireline and TMN. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

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International Businesses

Oi

In 3Q11, Oi s revenue generating units (RGUs) stood at 67,055 thousand, up by 7.5% y.o.y, including: 19,078 fixed lines (-6.5% y.o.y); 4,776 thousand broadband customers, Oi Velox , up by 10.5% y.o.y, 330 thousand pay-TV customers (+17.9% y.o.y), and 42,871 thousand mobile customers, which grew by 14.7% y.o.y.

Oi operating data

	3Q11	3Q10	y.o.y
Wireline Services - Oi Fixo			
Lines in Service (000)	19,078	20,410	(6.5)%
Residential	13,277	14,487	(8.4)%
Commercial	5,004	5,088	(1.6)%
Public Telephones	797	836	(4.7)%
Alternatives Plans (000)*	13,155	12,927	1.8%
Proportion of Lines in Service (%)	69.0%	63.3%	5.6pp
ARPU Fixed (R$)	50.1	55.3	(9.4)%
Broadband Services - Oi Velox			
Broadband Customers (000)	4,776	4,324	10.5%
Proportion of Lines in Service (%)	25.0%	21.0%	4.1pp
ARPU Broadband (R$)	39.1	43.8	(10.8)%
Mobile Services - Oi Móvel			
Mobile Customers (000)	42,871	37,387	14.7%
Pre-Paid Plans	35,657	30,962	15.2%
Post-Paid Plans	4,848	4,569	6.1%
Oi Control	2,367	1,856	27.5%
Oi Conta Total (000)	1,477	1,423	3.8%
Market Share Oi (%) - Brazil	18.9%	19.5%	(0.7)pp
Proportion of Net Additions in Brazil (%)	13.3%	2.5%	10.8pp
Monthly Churn rate (%)	4.1%	4.1%	0.0pp
CAPU (R$)	31	24	29.2%
ARPU Mobile (R$)	22.2	22.9	(3.1)%
Pay TV - Oi TV			
Pay TV Customers (000)	330	280	17.9%
RGUs (000)	**67,055**	**62,401**	**7.5%**

During 3Q11, Oi continued to invest in the convergence of services, making available to its customers Oi Fixo Mais and Oi Fixo Ilimitado . These plans add value to fixed phone calls by expanding its benefits including: (1) free minutes for local fixed calls; (2) free minutes for national long distance fixed calls using Oi s long distance codes; (3) free minutes for local calls to Oi Mobile, and (4) digital calling services. At the end of 3Q11, Oi repositioned its offers that include unlimited on-net local fixed calls, aiming at strengthening its offering value proposition. This includes: (1) Oi Fale Ilimitado Digital , with unlimited minutes on-net local fixed calls, but the first 1,000 minutes can be use for off-net fixed calls, and digital calling services, and (2) Oi Fixo Ilimitado Digital , that includes all the benefits of Oi Fale Ilimitado Digital and more 5,000 minutes for national long distance fixed calls using Oi s long distance calls. Oi continued to provide special commercial conditions to Oi Velox customers when joining these offers. Oi also launched a new plan Oi Conta Total Brasil with the purpose to repositioning Oi Conta Total existing plan. This new plan allows customers to have unlimited long distance calls from Oi Fixed or Oi Mobile to a fixed line of

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any operator in Brazil, through Oi s long distance prefixes, while also offering the possibility of faster Oi Velox services. Additionally, Oi continued to invest in the quality of its fixed broadband service, which offers speeds up to 20Mbps for prices that start at R$39.90 per month, and expanded Oi Velox to 4,600 cities in Brazil. Oi also increased the speeds it provides to customers, as a means to differentiate and strengthen its services. As a result, the average fixed broadband speed stood at 2.33Mbps at the end of 3Q11, which compares to 2.13Mbps in June 2011, 1.91Mbps in March 2011 and 1.38Mbps in September 2010. As referred to above, Oi Velox customers reached 4,776 thousand at the end of 3Q11 (+10.5% y.o.y), including 938 thousand (20% of total base, compared to 17% at the end of June 2011) with speeds of more than 5Mbps and 446 thousand with speeds higher than 10Mbps (389 thousand as at 30 June 2011). In September 2011, Oi initiated a partnership with the Government for the implementation of Plano Nacional de Banda Larga), aiming at increasing the access and penetration of broadband in Brazil. Oi launched an initial plan with 1Mbps speed in 100 municipalities for and up to the end of the year more 200 cities will be covered. In this context, Oi pretends to cover 4,800 cities until 2014. Oi s TV service is primarily targeted at its fixed customers. During 3Q11, Oi continued to promote the new offers launched in June 2011 aimed at increasing the penetration of TV plans with premium movies channels, namely Telecine and HBO. In October 2011, Oi launched its new service in Rio de Janeiro that includes GloboSat and TV Globo channels. Oi s pay-TV service is made available in 23 states and in the Federal District. At the end of 3Q11, Oi s pay-TV customers reached 330 thousand, having grown by 17.9% y.o.y.

Oi s mobile customers stood at 42,871 (+14.7% y.o.y), with net additions of 1,331 thousand in 3Q11 and 5,484 thousand in the last 12 months. Oi s mobile customer base already represents 63.9% of Oi s total RGUs. Gross additions in 3Q11 stood at 6.5 million, a solid pace that represents the best performance since 2008. Churn level in the period is primarily explained by the decision to adopt a more restrictive policy to keep inactive customers in the customer base, particularly in the prepaid segment, aiming at minimising spectrum fees and improving Oi s profitability. The implementation of this new policy began in 2Q11 and was finalised in 3Q11. It is worth highlighting that 41% of this quarter disconnections were in July, 33% in August and 26% in September. Additionally, Oi simplified its postpaid offering structure, reinforcing its strategy aimed at reducing churn and launched a new commercial campaign focused on establishing fair and distinct values for handset and services, which breaks down the value of voice and data services as well as of the handset. Oi continued to offer a broad set of postpaid plans, with prices that start at R$48.0 per month that include 10 thousand monthly minutes for local calls made to any Oi or fixed line customer beyond the minutes packaged in the subscription fee and 200MB of internet traffic for smartphones. During 3Q11, Oi continued to market the new offers launched in the end of 2010, that allow daily bonuses, which are dependent on the amount of the recharges, that may be used for on-net and off-net SMS, local calls to fixed lines and Oi Mobile and long distance calls using Oi s long distance codes to Oi fixed and mobile customers. In 3Q11, as a complement to these new offers, Oi launched SMS packages, allowing customers to send on-net and off-net messages with up to 64% discount. During 2011, Oi has been increasing some recharging requirements in certain regions, aiming at improving profitability, while at the same time offering improved bonuses to maintain the attractiveness of commercial offers. As a result, Oi s mobile customer base grew 14.7% y.o.y. Prepaid customers stood at 35,657 thousand, representing 83.2% of Oi s mobile customer base. Postpaid customers grew by 6.1% y.o.y to 4,848 thousand in 3Q11and Oi Control customers grew by 27.5% to 2,367 thousand customers.

In 2011, Oi continued to reinforce its strategy aimed at increasing attractiveness of its offers and convergence of its products. At the end of July 2011, Oi launched a new campaign for Fathers Day, bringing additional benefits for postpaid customers Oi à Vontade and Oi Conta Total . These additional benefits, beyond the initial ones, include up to 5 hours per day in local fixed calls to Oi mobile customers for Oi Conta Total plans and up to 5 hours per day in DDD for local calls made to any Oi or fixed line customer calls for Oi à Vontade plans. Oi also launched a new

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convergent offer, Oi Conta Total Light , following the purpose to repositioning Oi Conta Total existing plan, for customers with a low usage profile. This new offer includes mobile, fixed telephone and broadband for R$129. During the quarter, Oi also launched new data plans, Oi Dados and Oi Velox 3G , with a comprehensive range of tarrifs to reach all the customers profiles. These plans include 1Mbps speed and unlimited traffic.

In 9M11, Oi s consolidated gross revenue, as reported by Oi in compliance with Brazilian regulations, namely the requirements of Comissão de Valores Mobiliários (CVM) and presented in accordance with the IFRS, declined by 4.6% y.o.y to R$ 32,923 million and consolidated net revenue declined by 5.6% y.o.y to R$ 20,949.

Oi consolidated revenues **R$ million, 100%**

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Wireline	**7,606**	**8,378**	**(9.2)%**	**23,424**	**25,623**	**(8.6)%**
Local (exc. - VC1)	2,753	3,156	(12.8)%	8,628	9,640	(10.5)%
Local Fixed-to-Mobile (VC1)	873	1,001	(12.7)%	2,651	3,011	(12.0)%
Long Distance FF + PCS	900	1,062	(15.2)%	2,883	3,345	(13.8)%
LD Fixed-to-Mobile (VC2/3)	243	299	(18.7)%	756	944	(19.9)%
Network Usage	226	240	(5.6)%	711	704	1.0%
Data	2,226	2,190	1.6%	6,549	6,573	(0.4)%
Public Phones	53	113	(53.0)%	256	404	(36.7)%
Additional Services / Advanced Voice	331	318	4.1%	990	1,001	(1.1)%
Mobile	**3,064**	**2,835**	**8.1%**	**8,715**	**8,229**	**5.9%**
Services	3,030	2,802	8.1%	8,606	8,075	6.6%
Subscriptions	680	673	1.1%	1,929	1,929	0.0%
Outgoing Calls	1,084	1,060	2.3%	3,184	3,028	5.2%
Domestic/Inter. Roaming	30	25	20.8%	85	94	(9.5)%
Network Usage	695	648	7.2%	1,991	1,890	5.3%
Data / Value Added	540	395	36.5%	1,416	1,134	24.9%
Sales of handsets, sim cards and others	34	33	3.8%	109	154	(28.7)%
Other services	**255**	**223**	**14.4%**	**783**	**669**	**17.0%**
Total gross revenues	**10,925**	**11,436**	**(4.5)%**	**32,923**	**34,521**	**(4.6)%**
Consolidated net revenues	**6,940**	**7,346**	**(5.5)%**	**20,949**	**22,182**	**(5.6)%**
Wireline	4,830	5,332	(9.4)%	14,804	16,272	(9.0)%
Mobile	1,944	1,846	5.3%	5,641	5,400	4.5%
Other Services	166	168	(1.2)%	504	510	(1.2)%

Oi s wireline gross revenues declined by 8.6% y.o.y to R$ 23,424 million. Wireline revenue performance is mainly explained by: (1) lower fixed-to-fixed local service revenues (-10.5% y.o.y), on the back of declining fixed lines in service and lower local traffic; (2) lower fixed-to-mobile calls (VC1), down by 12.0% y.o.y, due to lower installed base of fixed lines, the bundle in the fixed subscription fee of fixed to mobile calls and larger traffic bonuses offered by mobile operators; (3) lower long distance revenues (FF, SMP, VC2 and VC3) due to aggressive mobile offers that bundle long distance calls in the subscription fee and the increase of Oi s alternative plans that now include long distance calls, and (4) lower data transmission service revenues (-0.4% y.o.y) due to lower ARPU, as a result of a more aggressive commercial stance by Oi in the market to be able to compete more effectively, namely in broadband services.

Oi s mobile gross revenues stood at R$ 8,715 million, having increased by 5.9% y.o.y on the back of higher revenues from outgoing calls and mainly data and value added services. This revenue performance is primarily due to: (1) increased traffic revenues (+5.2% y.o.y) on the back of customer growth; (2) network usage, which increased by

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5.3% y.o.y, due to higher mobile traffic, primarily following the inclusion of free SMS in bundled offers, and (3) revenues from value added services, which increased by 24.9% y.o.y, on the back of higher penetration of 3G services and increased popularity of SMS offers. In 9M11, data and value added revenues represented 16.5% of mobile service revenues as compared to 14.0% in 9M10.

Oi income statement **R$ million, 100%**

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Consolidated net revenues	**6,939.5**	**7,345.8**	**(5.5)%**	**20,949.3**	**22,181.6**	**(5.6)%**
Operating costs	**4,472.2**	**4,550.6**	**(1.7)%**	**14,021.1**	**14,161.0**	**(1.0)%**
Cost of Services	1,496.6	1,452.5	3.0%	4,325.2	4,421.8	(2.2)%
Cost of Goods Sold	47.5	11.7	n.m.	148.3	105.4	40.7%
Interconnection Costs	1,162.8	1,216.1	(4.4)%	3,494.1	3,778.1	(7.5)%
Selling Expenses	1,162.5	1,206.1	(3.6)%	3,695.9	3,593.6	2.8%
General and Administrative Expenses	671.0	565.2	18.7%	1,958.3	1,606.3	21.9%
Other Operating Expenses (Revenue), net	(68.1)	98.9	n.m.	399.2	655.8	(39.1)%
EBITDA (1)	**2,467.3**	**2,795.2**	**(11.7)%**	**6,928.3**	**8,020.6**	**(13.6)%**
Depreciation and amortisation	1,367.4	1,546.1	(11.6)%	4,258.8	4,635.4	(8.1)%
Income from operations	**1,099.9**	**1,249.1**	**(11.9)%**	**2,669.5**	**3,385.2**	**(21.1)%**
EBITDA margin	35.6%	38.1%	(2.5)pp	33.1%	36.2%	(3.1)pp

(1) EBITDA = income from operations + depreciation and amortisation.

EBITDA, as reported by Oi, amounted to R$ 6,928 million (-13.6% y.o.y), with a margin of 33.1%. EBITDA performance in 9M11 as compared to 9M10 reflected primarily lower wireline revenues, notwithstanding also lower operating expenses (-1.0% y.o.y to R$ 14,021 million). Oi s opex decline was mainly driven by: (1) lower interconnection costs (-7.5% y.o.y), as a result of higher proportion of on-net traffic, as well as increased weight of SMS in total off-net usage; (2) lower provisions for bad debt (-17.3% y.o.y), due to higher collection eficiency, namely in wireline business, having accounted for 2.0% of gross revenues in 9M11, down by 0.3pp y.o.y, and (3) higher other operating revenues benefiting from lower provisions for profit sharing and from some reimbursements related to pension plans that present a surplus position; and notwithstanding the increase in: (1) wages and salaries (+12.5% y.o.y), as a result of increased staff levels, mainly in call centre areas, and salary adjustments occurred in December 2010, and (2) third-party services (+5.0% y.o.y), mostly due to higher selling expenses, namely in terms of commissions, focused on the postpaid mobile segment as well as on Oi Conta Total and fixed broadband. D&A declined by 8.1% y.o.y to R$ 4,259 million, largely due to lower D&A in the wireline business which benefited from assets already fully depreciated.

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Other international assets

In 9M11, other international assets, on a pro-forma basis, increased their proportional revenues by 14.3% y.o.y to Euro 322 million and increased EBITDA by 4.9% y.o.y to Euro 157 million, mainly due to the performance in Unitel in Angola, CTM in Macao and in MTC in Namibia.

Proportional income statement of other international assets (1) **Euro million**

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Operating revenues	**113.0**	**98.8**	**14.4%**	**322.3**	**282.0**	**14.3%**
EBITDA (2)	**55.2**	**50.9**	**8.4%**	**157.2**	**149.8**	**4.9%**
Depreciation and amortisation	11.8	10.6	11.0%	34.5	30.6	12.7%
Income from operations (3)	**43.5**	**40.3**	**7.7%**	**122.7**	**119.2**	**2.9%**
EBITDA margin	48.9%	51.6%	(2.7)pp	48.8%	53.1%	(4.4)pp

(1) Pro-forma consolidation of other international assets using the percentage of ownership held by PT. **(2)** EBITDA = income from operations + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Highlights of main assets in Africa and Asia (9M11) (1) **Million (financials)**

	Stake	Rev. local	y.o.y	EBITDA local	y.o.y	Margin	Rev. Eur	EBITDA Eur
Unitel, Angola (2) (4)	25.00%	1,286	18.8%	728	14.2%	56.6%	914	518
MTC, Namibia (3) (4)	34.00%	1,156	8.3%	590	2.4%	51.0%	118	60
CVT, Cape Verde (3) (4)	40.00%	6,460	(0.2)%	3,219	1.6%	49.8%	59	29
CTM, Macao (2)	28.00%	2,979	47.3%	992	11.3%	33.3%	264	88
CST, S.Tomé & Principe (3) (4)	51.00%	214,275	(6.9)%	58,875	(14.2)%	27.5%	9	2
Timor Telecom, East Timor (3)	41.12%	48	18.2%	26	13.3%	54.2%	34	19

(1) Figures account for 100% of the company. PT has management contracts in CVT, CST and Timor Telecom. **(2)** Equity consolidation method. **(3)** Full consolidation method. **(4)** These stakes are held by Africatel, which is 75% controlled by PT.

In 9M11, Unitel s revenues and EBITDA, in Angolan Kwanzas, increased by 20.4% and by 16.0% y.o.y, respectively, and, in USD, increased by 18.8% and by % 14.2 y.o.y, to USD 1,286 million and 728 USD million. In 9M11 Unitel presented strong 3Q11 operational and financial figures on the back of campaigns to promote voice, increased penetration of mobile broadband, strengthening of its distribution channels and increased quality of its network.

In 9M11, MTC s revenues and EBITDA increased by 8.3% and 2.4% y.o.y, reaching NAD 1,156 million and NAD 590 million, respectively. This revenue performance was achieved against a backdrop of a significant decline in MTRs and heavy promotions with traffic bonus to reinforce further MTC s competitive position. Excluding the impact of lower MTRs (average tariff down 34.0% y.o.y), revenues and EBITDA would have increased by 10.0% and 4.3%, respectively. In 9M11, EBITDA margin stood at 51.0%. Data revenues accounted for 21.1% of service revenues. In 9M11, MTC focused its marketing efforts and commercial activity on: (1) launching BlackBerry solutions for postpaid and prepaid offers, thus further enhancing its smartphone offering; (2) campaigns aimed at promoting usage, and (3) boosting growth of broadband customers, under the brand Netman, with download speeds of up to 7.2 Mbps.

In 9M11, CVT s revenues slightly decreased by 0.2% y.o.y to CVE 6,460 million, while EBITDA increased by 1.6% y.o.y to CVE 3,219 million. EBITDA margin stood at 49.8%. Revenues and EBITDA evolution were impacted by international accounting rules related to concession contracts (IFRIC 12). Excluding these effects, revenues and EBITDA would have increased by 2.9% and 2.2%, respectively. In 9M11, mobile revenues were positively impacted by retail and roaming revenue growth, while wireline revenues were positively impacted by broadband growth. In

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9M11, CVT launched: (1) new commercial offers for corporate segment, under the new brand CVT Negócios; (2) several campaigns to stimulate SMS usage, and (3) new TV channels to strengthen further IPTV market momentum. Broadband and IPTV customers increased significantly, representing 25.6% and 11.0% of the wireline customer base, respectively.

In 9M11, CST s revenues decreased by 6.9% y.o.y to STD 214,275 million and EBITDA decreased by 14.2% y.o.y to STD 58,875 million. EBITDA margin was 27.5%. Excluding some accounting reclassifications made during 9M11, revenues would have increased by 4.8% y.o.y. EBITDA performance was negatively impacted by a new tax on foreign suppliers and an increase in commercial costs. Excluding those impacts, EBITDA would have increased by 4.0% y.o.y. In 9M11, São Tomé e Príncipe reached more than 67% of penetration of mobile services.

In 9M11, CTM s revenues and EBITDA increased by 47.3% y.o.y and by 11.3% y.o.y, to MOP 2,979 million and MOP 992 million, respectively. EBITDA margin stood at 33.3%. Revenue growth was driven by an increase in equipment sales and telecom services to corporate customers. Mobile service revenues increased by 14.0% impacted by growth in data and roaming revenues. Data revenues represented 20.0% of mobile service revenues. In 9M11, CTM launched several marketing campaigns aimed at increasing smartphones and wireless broadband penetration.

In 9M11, Timor Telecom s revenues and EBITDA increased by 18.2% y.o.y and by 13.3% y.o.y, to USD 48 million and USD 26 million, respectively, mainly as a result of the strong increase in customer base. EBITDA margin stood at 54.2%. At the end of September, Timor Telecom had 548 thousand mobile customers. Data revenues accounted for 17.7% of mobile service revenues. In 9M11, Timor Telecom: (1) launched several voice and data stimulation campaigns, and (2) strengthened its distribution network.

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Consolidated financial statements

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED INCOME STATEMENT

FOR THE NINE AND THREE MONTH PERIODS ENDED 30 SEPTEMBER 2011 AND 2010

Euro

	Notes	9M11	9M10	3Q11	3Q10
CONTINUING OPERATIONS					
REVENUES					
Services rendered		4,222,054,643	2,636,664,859	1,674,140,159	895,110,497
Sales		95,675,178	111,655,844	36,866,114	39,656,432
Other revenues		98,087,941	44,239,939	36,012,141	17,397,203
	5	**4,415,817,762**	**2,792,560,642**	**1,747,018,414**	**952,164,132**
COSTS, LOSSES AND (INCOME)					
Wages and salaries		743,321,416	470,592,158	283,960,889	163,747,717
Direct costs		716,154,377	412,784,469	299,250,904	137,352,741
Commercial costs		351,407,150	272,186,306	140,650,576	98,018,299
Supplies and external services		721,044,844	442,680,198	258,776,696	148,192,280
Indirect taxes		121,400,649	33,990,504	55,870,785	11,418,808
Provisions and adjustments		108,448,283	31,113,525	54,268,529	11,569,077
Depreciation and amortisation	15	913,998,536	549,274,796	349,564,062	199,584,429
Post retirement benefits costs	6	40,637,318	53,467,700	14,257,047	17,822,567
Curtailment costs	6	6,337,564	10,852,969	765,172	1,613,756
Losses (gains) on disposal of fixed assets, net		(42,943)	(979,799)	89,808	(1,807,160)
Other costs, net	7	18,013,071	111,233,065	10,926,291	100,672,487
		3,740,720,265	**2,387,195,891**	**1,468,380,759**	**888,185,001**
Income before financial results and taxes	5	**675,097,497**	**405,364,751**	**278,637,655**	**63,979,131**
FINANCIAL LOSSES AND (GAINS)					
Net interest expenses	5 and 8	199,426,072	175,549,954	118,170,429	56,944,015
Equity in earnings (losses) of associated companies, net	5	(169,098,713)	(65,375,621)	(46,599,246)	18,544,647
Net other financial losses	5 and 9	86,543,057	35,467,825	17,070,168	23,287,711
		116,870,416	**145,642,158**	**88,641,351**	**98,776,373**
Income before taxes		**558,227,081**	**259,722,593**	**189,996,304**	**(34,797,242)**
Income taxes	5 and 10	155,088,583	64,127,014	53,309,631	37,603,344
Net income from continuing operations		**403,138,498**	**195,595,579**	**136,686,673**	**(72,400,586)**
DISCONTINUED OPERATIONS					
Net income from discontinued operations	5 and 11		5,551,451,400		5,474,765,812
NET INCOME		**403,138,498**	**5,747,046,979**	**136,686,673**	**5,402,365,226**
Attributable to non-controlling interests		69,667,004	129,344,442	31,079,840	49,156,893
Attributable to equity holders of the parent	12	**333,471,494**	**5,617,702,537**	**105,606,833**	**5,353,208,333**
Earnings per share					
Basic	12	0.39	6.41	0.12	6.11
Diluted	12	0.38	6.00	0.12	5.70

Earnings per share from continuing operations					
Basic	12	0.39	0.15	0.12	(0.10)
Diluted	12	0.38	0.15	0.12	(0.10)

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

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE MONTH PERIODS ENDED 30 SEPTEMBER 2011 AND 2010

	Notes	9M11	9M10	3Q11	3Q10
Income (expenses) recognised directly in shareholders equity					
Foreign currency translation adjustments					
Translation of foreign operations (i)		(466,265,947)	397,674,704	(438,084,355)	(224,601,835)
Transferred to profit and loss (ii)		(37,794,036)	(1,166,099,952)		(1,134,159,099)
Post retirement benefits					
Net actuarial gains (losses)	6	(32,971,620)	(72,623,637)	(32,195,584)	70,577,626
Tax effect	10	8,242,905	19,245,264	8,048,896	(18,703,071)
Hedge accounting of financial instruments					
Change in fair value		(3,316,449)	(6,425,077)	(4,942,904)	(1,512,904)
Transferred to profit and loss		98,411	2,823,867	32,805	915,525
Tax effect		852,780	954,321	1,301,176	83,210
Other expenses recognised directly in shareholders equity, net (iii)		(11,830,527)	(4,473,635)	3,023,689	(877,618)
		(542,984,483)	**(828,924,145)**	**(462,816,277)**	**(1,308,278,166)**
Income recognised in the income statement		**403,138,498**	**5,747,046,979**	**136,686,673**	**5,402,365,226**
Total income recognised		**(139,845,985)**	**4,918,122,834**	**(326,129,604)**	**4,094,087,060**
Attributable to non-controlling interests		(6,186,882)	227,972,358	(37,777,715)	(4,333,169)
Attributable to equity holders of the parent		**(133,659,103)**	**4,690,150,476**	**(288,351,889)**	**4,098,420,229**

(i) Losses recorded in the nine and three month periods ended 30 September 2011 are mainly related to the impact of the depreciation of the Brazilian Real against the Euro on Portugal Telecom s investments in Oi and Contax. Gains and losses recognized in the nine and three month periods ended 30 September 2010 are related, respectively, to the impact of the appreciation and depreciation of the Brazilian Real against the Euro on Portugal Telecom s former investment in Brasilcel (gain of Euro 337 million and loss of Euro 173 million, respectively), that was disposed of to Telefónica in September 2010.

(ii) In the nine months period ended 30 September 2011, this caption corresponds to the cumulative amount of foreign currency translation adjustments relating to the investment in UOL, which was reclassified to consolidated profit and loss upon the completion of the disposal of this investment in January 2011 (Note 14). In the nine months period ended 30 September 2010, this caption includes an amount of Euro 1,134,159,099 (Note 11) corresponding to the cumulative amount of foreign currency translation adjustments relating to the investment in Brasilcel, which was reclassified to profit and loss upon the disposal of this investment in September 2010, and an amount of Euro 31,940,853 (Note 11) corresponding to a portion of the cumulative amount of foreign currency translation adjustments that was reclassified to profit and loss following a repayment of part of the investment in Brasilcel through share capital reductions occurred at this company during the first half of 2010.

(iii) In the nine month periods ended 30 September 2011and 2010, this caption includes Euro 10 million and Euro 4 million, respectively, corresponding to the tax effect on dividends received from own shares recorded under equity swap contracts, relating to the dividends paid by Portugal Telecom in June 2011 and May 2010.

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

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2011 AND 31 DECEMBER 2010

Euro

	Notes	30 Sep 2011	31 Dec 2010
ASSETS			
Current Assets			
Cash and cash equivalents		3,203,517,865	4,764,732,734
Short-term investments		663,586,350	341,772,444
Accounts receivable		3,927,657,250	3,384,124,217
Inventories		128,510,764	101,515,755
Taxes receivable		296,958,291	37,545,321
Prepaid expenses		97,324,820	39,617,800
Judicial deposits	13	200,223,485	
Other current assets		59,062,796	25,647,001
Non-current assets held for sale	14		160,448,046
Total current assets		**8,576,841,621**	**8,855,403,318**
Non-Current Assets			
Accounts receivable		7,146,048	19,113,062
Financial investments		505,442,496	379,198,216
Intangible assets	15	4,573,230,899	1,111,692,584
Tangible assets	15	6,133,619,962	3,874,613,414
Post retirement benefits	6	11,774,799	1,927,991
Deferred taxes	10	1,194,583,909	653,075,198
Judicial deposits	13	828,081,005	
Other non-current assets		321,887,731	274,908,378
Total non-current assets		**13,575,766,849**	**6,314,528,843**
Total assets		**22,152,608,470**	**15,169,932,161**
LIABILITIES			
Current Liabilities			
Short-term debt	16	3,401,787,536	951,921,279
Accounts payable		973,870,353	711,489,295
Accrued expenses		895,485,394	558,974,927
Deferred income		275,267,268	287,808,093
Taxes payable		424,242,258	57,410,840
Provisions	17	271,822,595	87,683,131
Other current liabilities		186,201,786	28,391,592
Total current liabilities		**6,428,677,190**	**2,683,679,157**
Non-Current Liabilities			
Medium and long-term debt	16	9,005,929,895	6,254,380,288
Taxes payable		293,096,288	3,805,301
Provisions	17	556,132,336	40,947,202
Post retirement benefits	6	957,802,216	968,792,596
Deferred taxes	10	596,002,966	311,597,337
Other non-current liabilities		534,872,596	297,585,145

Total non-current liabilities	**11,943,836,297**	**7,877,107,869**
Total liabilities	**18,372,513,487**	**10,560,787,026**
SHAREHOLDERS EQUITY		
Share capital	26,895,375	26,895,375
Treasury shares	(326,382,864)	(178,071,827)
Legal reserve	6,773,139	6,773,139
Reserve for treasury shares	6,970,320	6,970,320
Revaluation reserve	661,111,962	693,283,402
Other reserves and accumulated earnings	2,617,123,169	3,836,598,153
Equity excluding non-controlling interests	**2,992,491,101**	**4,392,448,562**
Non-controlling interests	787,603,882	216,696,573
Total equity	**3,780,094,983**	**4,609,145,135**
Total liabilities and shareholders equity	**22,152,608,470**	**15,169,932,161**

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

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PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2011

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Revaluation reserve	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2009	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**722,108,135**	**733,636,104**	**1,318,311,246**	**1,069,135,212**	**2,387,446,458**
Dividends						(503,626,688)	(503,626,688)	(51,751,239)	(555,377,927)
Acquisitions, disposals and share capital increases (i)								(1,040,747,347)	(1,040,747,347)
Tax effect on equity component of exchangeable bonds						(15,143,542)	(15,143,542)		(15,143,542)
Realization of revaluation reserve					(32,364,562)	32,364,562			
Income recognized directly in equity						(927,552,061)	(927,552,061)	98,627,916	(828,924,145)
Income recognized in the income statement						5,617,702,537	5,617,702,537	129,344,442	5,747,046,979
Balance as at 30 September 2010	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**689,743,573**	**4,937,380,912**	**5,489,691,492**	**204,608,984**	**5,694,300,476**

Euro

[redacted]

Balance as at 31 December 2010	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**693,283,402**	**3,836,598,153**	**4,392,448,562**	**216,696,573**	**4,609,145,135**
[redacted]									
Change in the consolidation perimeter related to Oi and Contax acquisition (Note 2)								709,690,052	709,690,052
[redacted]									
Share distribution and redemption of								(86,347,388)	(86,347,388)

Brasil Telecom shares (Note 1)					
[redacted]					
Realization of revaluation reserve	(32,171,440)	32,171,440			
[redacted]					
Income recognized in the income statement		333,471,494	333,471,494	69,667,004	403,138,498
[redacted]					

(i) This caption includes a reduction of Euro 1,049 million, corresponding to the non-controling interests of Vivo as at the date of disposal of this business, and an increase Euro 8.7 million resulting from the acquisition of GPTI.

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

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PORTUGAL TELECOM SGPS, S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2011

Euro

	Notes	9M11	9M10
OPERATING ACTIVITIES			
Collections from clients		4,938,274,066	3,090,368,148
Payments to suppliers		(2,193,808,568)	(1,522,382,716)
Payments to employees		(746,419,877)	(469,580,537)
Payments relating to income taxes	18.b	(119,397,318)	(37,657,867)
Payments relating to post retirement benefits, net	6	(148,645,463)	(84,692,826)
Payments relating to indirect taxes and other		(455,779,026)	(150,901,417)
Cash flows from operating activities from continuing operations	18.a	**1,274,223,814**	**825,152,785**
Cash flows from operating activities from discontinued operations	11		**603,033,383**
Cash flows from operating activities (1)		**1,274,223,814**	**1,428,186,168**
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	18.c	84,162,241	11,684,490
Financial investments	18.d	170,496,269	1,288,284
Tangible and intangible assets		3,778,543	11,950,639
Interest and related income	18.e	247,921,023	41,507,027
Dividends	18.f	146,949,883	53,660,109
Other investing activities	18.g	44,604,303	422,318
		697,912,262	**120,512,867**
Payments resulting from:			
Short-term financial applications	18.c	(405,976,146)	(251,751,834)
Financial investments	18.h	(2,075,048,786)	(335,652)
Tangible and intangible assets		(877,102,712)	(619,532,709)
Other investing activities	18.h	(31,378,084)	(12,095,651)
		(3,389,505,728)	**(883,715,846)**
Cash flows from investing activities related to continuing operations		**(2,691,593,466)**	**(763,202,979)**
Cash flows from investing activities related to discontinued operations	11		**4,399,821,507**
Cash flows from investing activities (2)		**(2,691,593,466)**	**3,636,618,528**
FINANCING ACTIVITIES			