

2010

Annual Report and Accounts

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Note from the Management Board

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Introduction

2010 was a year marked by an evolution in new technologies and consumer behaviour, requiring the development of activities at a regulatory level beyond the completion of the Management plan for the 2010-2012 period.

In this context, ICP - Autoridade Nacional de Comunicações (ICP-ANACOM) has responded both to the challenges in the Management Plan and to a new set of challenges, targeting its activities accordingly, in order to better serve citizens and society and to meet their most important needs. This takes place following its **mission** to "regulate, supervise and monitor the communications market, in order to ensure that all citizens benefit from a diversity of choice and universality of access to (electronic and postal) communications services in a market ruled by conditions conducive to innovation, investment and the efficient provision of service, guaranteeing to final consumers both quality and affordability, besides its responsibility in contributing to the development of the EU (European Union) internal market", including through efficient management of scarce resources such as the radio spectrum.

ICP-ANACOM developed its activities with the aim of accomplishing the organization's **vision** of:

- remaining a reference in the regulators' universe - nationally and internationally - aiming at continuous improvement in the management of our resources and capabilities, seeking excellence in results, human qualification and in the use of knowledge;
- being recognized for the way it relates to all stakeholders, standing up for the rights of users and of citizens in general and fostering the markets proper functioning;
- continuing to earn recognition for its interventionist and active role in international bodies and in providing technical representation of the Portuguese State, in addition to its competence in advising the Government on matters of communications policy.

Aware of its mission and vision, ICP-ANACOM maintained the **values and principles** which guide and govern its engagement with all stakeholders. These are based on professional and institutional ethics; on integrity; respect and responsibility; independence; transparency; defence and promotion of competition; promotion of technological neutrality; pro-activity and

anticipation; excellence in performance and a strict alignment with results; and greater individual responsibility of its staff.

The **critical factors for success** were also maintained and remain current and relevant to ICP-ANACOM's mission, vision and values and principles for the three-year period in question. These critical success factors for the development of ICP-ANACOM's activity consist of:

- orientation and focus on results;
- organizational efficiency;
- change management, learning and continuous improvement;
- people management;
- consistent integration in the development of the EU regulatory process.

The **strategic objectives** established in the 2010-2012 Management Plan in order to comply with the organization's mission and vision, values, principles and critical factors for success were as follows:

- to promote open and competitive markets;
- to assure and protect the interests of users and citizens in general;
- to improve the regulator's efficiency and performance capacity;
- to participate in the development of the EU internal market;
- to promote institutional and technical cooperation.

The 2010-2012 Management Plan, by identifying strategic objectives and actions, made it possible to monitor and accompany the implementation of strategic actions and those actions established as a priority for 2010, enabling improved and more objective assessment of ICP-ANACOM's performance. The Plan was reviewed by the Advisory Council which, pursuant to its competencies and within the established period, issued a positive opinion on the Management Plan for 2010.

This was the framework encompassing the activities pursued by ICP-ANACOM, both as advisor to the Government and in pursuance of its authorities and responsibilities as national regulatory authority (NRA).

While advising the Government, the activity of this Authority in 2010 gave continuity to the projects established in previous years, as is the case with the process of designating the universal service provider (USP), the process of transition to digital terrestrial television (DTT) or of next generation networks (NGN).

Following the work done in 2009 on the designation of the provider(s) of the USP, during the first half of 2010 ICP-ANACOM submitted the drafts to the government which it had prepared regarding the rules of the tender for the designation of the provider(s) of the Universal Service and the respective tender specifications.

ICP-ANACOM is responsible for ensuring that the DTT transition process proceeds in a timely manner and in a way which safeguards the interests of all Portuguese people, approval was given on 24 June 2010, pursuant to Resolution of Council of Ministers No. 26/2009 of 17 March, to the final decision on the detailed plan for the termination of terrestrial analogue transmissions (switch-off plan) associated with the introduction of DTT in Portugal.

Therefore, it was decided to maintain the switch-off plan which has been placed in public consultation and which states that the analogue television signal should be switched off in phases between January and April 2012.

In addition to the regular activities of verification of compliance with the obligations of the license granted to PT Comunicações (PTC), ICP-ANACOM organized several meetings with the participation by all entities which would be involved in the migration to digital, specifically the Government, PTC, the television stations and local authorities, in order to ensure that the transition is completed smoothly.

NGN are another area where ICP-ANACOM has acted as adviser to the Government in 2010. Further to participating in the formulation of the instruments of the five contests launched by the Government for the installation, management, operation and maintenance of high-speed networks in rural areas, as the entity charged with handling the tender procedures, ICP-ANACOM was responsible for appointing the tenders' panel and providing it with technical and secretariat support.

This Authority also made a contribution in the context of the process of notifying the EU as to the State aid that the Government planned to apply to the project, aiming to provide coverage of at least 50 per cent of the population of the geographic area of each of the

municipalities covered by the five areas into which the country was divided for this purpose: North, Centre, Alentejo and Algarve, Madeira and the Azores.

ICP-ANACOM worked on the legislative process, specifically in the context of the transposition of the Postal Directive, a crucial prior step in order to accomplish the last phase of liberalization of the postal service - due on 31 December 2010.

For the transposition of Directive 2008/6/EC of the European Parliament (EP) and the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services, ICP-ANACOM has continued with its undertaking to review the national regulatory framework: Lei de bases dos serviços postais (basic law for postal services), the bases of the universal postal service concession and the access regime for exercise of the activity of provision of postal services. In the context of providing assistance to the Government, ICP-ANACOM submitted a draft law to the Government in August to transpose the Directive.

ICP-ANACOM has been engaged in the transposition of the corresponding Directives in the implementation of the new regulatory framework for electronic communications, with a view to the submission of a draft legislative proposal to the Government - which occurred in February 2011.

The new regulatory framework for electronic communications is due to be transposed into the national legislation of the European Union's 27 Member States by May 2011 and includes two directives:

- 2009/136/EC Directive of the European Parliament and of the Council of 25 November 2009 (Citizen's Rights Directive) amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services, Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector and Regulation No 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws;
- 2009/140/EC Directive of the European Parliament and of the Council of 25 November 2009, amending Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services, Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and

associated facilities and Directive 2002/20/EC on the authorisation of electronic communications networks and services.

The changes introduced with the transposition of this set of Directives will, in the future, give ICP-ANACOM's activity a new framework for the accomplishment of its mission and objectives. The creation of the Body of European Regulators for Electronic Communications (BEREC), which is substantially different from the now discontinued European Regulators Group (ERG), determines a strategy of further extending the presence of national regulators in the activities of this body; otherwise a balance between national interests and the accomplishment of a European market for electronic communications will not be achieved.

In fact, if the entry into force of the new regulatory framework determines the enhanced independence of the NRA, the EC is also granted new powers in overseeing the application of remedies by national regulators - and the Commission is committed to ensuring that these rules are applied in a consistent manner, to avoid distortion of competition within the single market for telecommunications. Meanwhile, the NRA are given the option of employing the remedy of functional separation of networks, subject also to veto by the Commission.

Besides the changes arising from the implementation of so-called "Telecom Package", the EC issued other Directives in 2010 that impact the activities undertaken by this Authority. First of all, Directive 2009/114/EC of the European Parliament and Council of 16 September 2009 which amended Directive 87/372/EEC of the Council on the frequency bands to be reserved for the coordinated introduction of public pan-European cellular digital land-based mobile communications in the Community.

The EC took the following decisions and recommendations which impact the activities of ICP-ANACOM:

- **Decision 2010/166/EU** of the European Commission of 19 March 2010 on harmonised conditions of use of radio spectrum for mobile communication services on board vessels (MCV services) in the EU, and **Recommendation 2010/167/EU** of the same date on the authorisation of systems for mobile communication services on board vessels (MCV services), which had implications in the National Table of Frequency Allocations (NTFA), requiring its amendment.
- **Decision 2010/267/EU** of the European Commission of 6 May, published on 11 May, on harmonised technical conditions of use in the 790-862 MHz frequency band and which provides guidance to Member States for more efficient spectrum use through

the switchover from analogue to digital terrestrial television, with the aim of making them available to wireless broadband networks, particularly for 4th generation mobile communications technologies (LTE or Wimax) and which enacts the so-called "digital dividend".

- **Decision 2010/299/EU** of the European Commission of 21 May, published on 26 May, repealing Decision 2002/627/EC establishing the BEREC.
- By decision of the European Commission (**2010/C217/07**) of 10 August, published the next day in the Official Journal of the European Union, the European Regulators Group for Postal Services (ERGP) was established, to advise and assist the EU in consolidating the internal market for postal services and as to the consistent application in all Member States of the regulatory framework for postal services.
- **Recommendation 2010/304/EU** of the Commission of 12 May, published on 2 June, on the use of a harmonised methodology for classifying and reporting consumer complaints and enquiries.

In September 2010, the EC announced the adoption of three initiatives to promote deployment and take-up of fast and ultra-fast broadband in the EU. The package of initiatives adopted by the EC includes:

- a Commission Recommendation on regulated access to NGN, establishing a common regulatory approach to access to high-speed next generation fibre networks. The aim is that national regulatory authorities ensure an appropriate balance between the needs to encourage investment and to safeguard healthy competition. The principles of this recommendation follow the guidelines adopted by this Authority in February 2009;
- a draft Decision of the EP and of the Council establishing a five-year programme to promote efficient management of the radio spectrum and to ensure sufficient availability of spectrum until 2013 for wireless broadband, considering that this will help bring broadband connections to residents of remote areas and provide innovative services at a European level; and,
- a Communication on broadband, which presents a coherent framework for achieving the objectives of the Digital Agenda and which sets out the best way to encourage public and private investment in fast and ultra-fast broadband networks. In this Communication, the Commission calls upon Member States to approve operational plans for broadband with concrete deployment measures, providing guidance to

public authorities on how to reduce investment and support investment in broadband. To this end, the EC and European Investment Bank announced plans for the creation of broadband financing mechanisms.

With these documents, the EC has set out to meet the commitments assumed under the Digital Agenda for Europe, with a view to giving all citizens access to basic broadband by 2013 and fast and ultra-fast broadband by 2020, and also increasing use by citizens and businesses of online public services by 50 per cent to 80 per cent respectively by 2015.

By the end of the year, on 15 December, the EC published the European eGovernment Action Plan, which provides for the adoption of a raft of specific measures for the next five years.

Given the relevance of EU legislation to the development of its activities, ICP-ANACOM has maintained a regular presence at EU level. Foremost through participation in BEREC, an organisation which replaced the ERG and which is formed by the communications regulatory authorities of the European Union's 27 Member States.

The new body was created in late 2009 and held its first meeting in Brussels on 28 January 2010. In total, BEREC met five times over the course of 2010, and this Authority was present at all the plenary meetings of the IRG/BEREC and at the preparatory meetings that preceded them, participating in the Contact Network, which is the intermediate operating group comprising representatives of each NRA; ICP-ANACOM also took part in the respective work teams, addressing a wide range of matters related to the regulation of the electronic communications sector.

In 2010 BEREC approved and published its rules of operation and produced reports on various topics such as the application of the concept of “self supply” in the definition of markets and significant market power SMP analysis; international roaming compliance; alternative roaming tariffs; and international benchmark data. Their work also focused on the importance of the spectrum in market definition, in benchmarking of mobile termination rates (MTR) and on the future of the universal service. NGN were also on the agenda, and BEREC also responded to two consultations from the Commission: on net neutrality and on universal service.

At EU level, this Authority also participated, in representation of the Portuguese State, in the work of several committees: Communications, Radio Spectrum, Postal Directive.

At an international level, ICP-ANACOM represented Portugal at the Plenipotentiary Conference of the International Telecommunication Union (ITU), held in October in Mexico, and in various activities of the Union's specialized sectors. At the Plenipotentiary Conference resolutions were adopted on Internet and cyber-security, and approval was given to the creation of an independent committee to provide management advice, with internal and external auditing powers.

In the postal sector, in September, this Authority participated in the Strategic Conference of the Universal Postal Union (UPU), and took part in the relevant working groups of the UPU, the European Conference of Postal and Telecommunications Administrations (CEPT), European Committee for Postal Regulation (CERP) and the Postal Union of the Americas, Spain and Portugal (PUASP).

At Organisation for Economic Cooperation and Development (OECD) level, ICP-ANACOM has worked in the examination of the political aspects arising from the development and application of technologies and services in the area of information, computing and communications, and their impact on the economy and society in general.

International institutional cooperation is also a part of this Authority's responsibility, not only in Europe but also with respect to African, Latin American and Mediterranean countries, on both a bilateral and multilateral basis. In 2010, ICP-ANACOM participated in the meetings and conferences of organisations such as Regulatel, Euro-Mediterranean network of Regulators (EMERG) and Association of Communications and Telecommunications Regulators of the Community of Portuguese Speaking Countries (ARCTEL-CPLP), with which regular cooperation is maintained.

In the case of ARCTEL-CPLP which this Authority provides the secretariat, strategic and technical cooperation was enhanced over 2010, and annual cooperation programmes were executed with national regulatory authorities from PALOP and East Timor. The cooperation programmes comprised measures such as financing access to sources of information and knowledge, transfer of technical equipment, running and the organisation of training and scholarships.

Through the Centre of Excellence for Portuguese and Spanish speaking countries in Africa (ITU CE), and following on from 2009, ICP-ANACOM accompanied the various activities, both in preparation, in partnership with the projects coordination by the International

Telecommunications Union (ITU), and in national coordination, arranging participation by experts/trainers for the different programmes.

In 2010, 11 training programmes were held, involving a total of 50 days training for more than 300 technicians. 22 trainers were involved, nine of which were ICP-ANACOM staff.

REGULATION OF THE COMMUNICATIONS SECTOR

This Authority has taken a number of measures in the last year as part of its regulatory activity, both in relation to electronic communications and to the postal sector.

Firstly, changes were introduced to the wholesale offers of companies with SMP, specifically PTC and particularly in the regulated offers governing access to its infrastructure; these take on a leading role in creating conditions for effective competition, which is particularly crucial in the development of NGN.

By determination of 28 October, approval was given to amendments to the Reference Duct Access Offer (RDAO), involving, among other things, the provision of indicative information on the Extranet of PTC about the occupation of ducts in "areas C" - competitive areas - particularly in the metropolitan areas of Lisbon and Porto; a reduction in the time taken to respond to requests for feasibility analysis in "areas NC" - non-competitive areas; the availability of conditions of access to masts supporting aerial routes and to infrastructure providing transition from underground access to aerial access; and a reduction in the time limit for scheduling urgent interventions. New quality of service indicators were established (time limits for the cable installation service and duct clearance service), and changes were made to the conditions governing the payment of compensation for breach of obligations under the RDAO.

In February, ICP-ANACOM approved the final decision on the amendments to be made to the Reference Unbundling Offer (RUO). The main amendments is related to the obligation of PTC to review the levels of quality of service offered and to include offers of premium services, to introduce new compensation for failure to meet established deadlines and quality of service targets, and to provide more detailed information about the PTC's access network and its evolution.

The reference interconnection offer (RIO) of PTC was also amended in 2010. By determination of 19 November, new maximum prices were established for call termination and origination services, in activation; and in the prices per minute - both during peak times and off-peak times. Changes were also made to the wholesale prices associated with number portability and with pre-selection activation, taking into account the evolution of the costs involved and the volume of operations. Ultimately, the alterations give an overall average reduction of 5 per cent

By determination of 18 May, as part of the market analysis conducted in accordance with community regulation, approval was given to the final decisions on the wholesale markets for voice call termination on individual mobile networks, involving the definition of product markets and geographic markets, assessments of SMP and the imposition, maintenance, amendment or withdrawal of regulatory obligations (market 7 of Commission Recommendation 2007/879/EC of 17 December) as well as on the implementation of the obligation to control prices.

This latter decision determined a new schedule of gradual reductions in prices to be charged by mobile operators until 24 August 2011, when the value of 0.0350 euros per minute will be reached, providing major benefits for the consumer and fixed network operators and increasing competition levels in the mobile sector. This decision will be reviewed in 2011, to determine the prices to be charged after that date, in accordance with the cost model under development.

To define this model, which must be consistent and compatible with Recommendation 2009/396/EC of the European Commission of 7 May 2009, a public tender was launched to select the company that will work with ICP-ANACOM in this area. The contract with the selected company has been signed and work is underway.

In a final decision taken in September, ICP-ANACOM also adopted the analysis of retail and wholesale markets for leased lines (market 6) involving the definition of product and geographic markets, SMP assessment and the imposition, maintenance, amendment or withdrawal of regulatory obligations. As a result of this decision, ICP-ANACOM has deregulated the retail market for leased lines and a significant part of the wholesale market, corresponding to the trunk segments of a set of competitive routes, located primarily in the areas of greatest population density.

In February, ICP-ANACOM adopted the final decision on the definition of the methodology to be used for calculating the cost of capital of PTC and to be applied in 2009-2011, as part of the company's regulatory costing system.

In the area of numbering, approval was given to the creation of the 703 code in the national numbering plan (NNP). The code is allocated to the provision of electronic communications services on non-publicly available networks. This decision indicates the forms that the numbers should take, the rules governing the allocation of rights of use of these numbers and the conditions to which companies granted rights of use of these numbers are subject.

ICP-ANACOM has analyzed the proposed prices to be charged in 2011 in the residential segment and public payphones in the context of the provision of the US by PTC, whereby it was concluded that said prices are in compliance with the regulatory principles in force, particularly with regard to compatibility with the applicable price-cap. The new tariff provides for a reduction in the prices in local and national calls.

In 2010, the US of electronic communications was made subject to analysis with a view to defining the concept of excessive burden and to defining the methodology to be used for calculating the net costs incurred in its provision. The definition of these concepts is key in order to verify whether or not PTC, as the USP, is due compensation for its provision, and under what terms.

Since the majority of work was developed in 2010, the draft decision on the issue was not submitted to consultation until January 2011. According to the draft submitted to public consultation, it is expected that when the provider is not designed by tender, there is excessive burden when the annual market share of the USP, in terms of revenue, is less than 80 per cent; and when the amount of the calculated and audited net cost of US exceeds four million euros.

Also in 2010, on 11 November, the final decision was taken on the definition of items to be registered and the terms and format of availability of information in the Centralised Information System (CIS), which seeks, pursuant to Decree-Law no. 123/2009 of 21 May, to ensure the availability of information on all existing facilities suitable for the accommodation of electronic communications networks, including duct systems whose integration is key if NGN is to be developed at reasonable cost.

In this decision, ICP-ANACOM defines the items to be registered and the elements of characterization that must be included in the CIS. The decision also established the terms by which the registration items are characterised geographically.

By law, the entities covered by the obligation to provide information in the CIS are:

1. the State, Autonomous Regions and local authorities;
2. all entities under the authority or supervision of bodies of the State, Autonomous Regions and local authorities, performing administrative tasks, regardless of their entrepreneurial nature, as well as public companies and concessionaires, particularly those active in the field of infrastructure for roads, railways, ports, airports, water supply, sewerage, and transport and distribution of gas and electricity;
3. other entities in possession of or operating infrastructure encompassed by the public domain of the State, Autonomous Regions and local authorities;
4. electronic communications companies;
5. entities in possession of infrastructure which is suitable for housing electronic communications networks used by electronic communications companies.

Furthermore, the procedural documents were prepared with a view to launching the tender for the implementation and management of CIS. The analysis of proposals and award of the tender is scheduled for 2011.

The entry into force of this legislation, as amended by Decree-Law no. 258/2009 of 25 September, introduced the new legal framework *on infra-estruturas de telecomunicações em edifícios* (ITED) (telecommunications infrastructure in buildings) and *infra-estruturas de telecomunicações em urbanizações* (ITUR) (infrastructures for telecommunications in housing developments), determining intense activity by this Authority. In 2010, all the training institutions were appointed, together with the entities to manage the qualification, and the training curricula were defined. There remained only to notify all technicians to take the courses.

In this context a protocol was signed with the Ordem dos Engenheiros (Order of Engineers) and the Associação Nacional dos Engenheiros Técnicos (National Association of Technical

Engineers), with the aim of appointing training providers and designating the courses for engineers and technical engineers.

In addition to the work of disseminating the new legal regime among local authorities and the technicians, supervision was conducted to monitor compliance with the legal obligations.

By determination of 30 July 2010, the final decision was given in the process of settling the dispute brought by Radiomóvel, in which the applicant sought to obtain access or interconnection of its network with the networks of PTC, Sonaecom, TMN and Vodafone Portugal (Vodafone), with the respective agreements signed between the parties involved.

In 2010, ICP-ANACOM and CTT - Correios de Portugal (CTT) signed an amendment to the Price Convention of the universal postal service of 10 July 2008. The amendment relates to point I) of article 3 of the Convention, related to the consumer price index (CPI) adjustment, in order to adapt it to exceptional situations of negative inflation.

Amendment was likewise made to the Quality Convention of the universal postal service, particularly in matters related to the alteration of the formula used to calculate some of the quality of service indicators at the intra-community level, taking into account the timetable for making them available by the relevant body.

In terms of the, after ICP-ANACOM verified their compliance new universal postal service tariffs entered into force for reserved services, with a decrease of 2.1 per cent in the weighted annual average of the basket of prices.

SPECTRUM MANAGEMENT

ICP-ANACOM is also responsible for the management of the spectrum. In 2010, a high level of activity was seen, with a view to bringing regulation closer to the needs of the market and to ensure its effective integration in a framework of neutrality in terms of the services offered and the technologies used.

The national table of frequency allocations (NTFA) was approved to take effect in 2009/2010, updating the version then in force, in particular with regard to information on usage and on the frequency bands reserved and to be made available in 2010. Information has also been updated in the section on uses of the spectrum exempt from radio licensing and on the

elimination of technological restrictions previously imposed in the 900 MHz and 1800 MHz bands (refarming of 900-1800 MHz), in accordance with Directive 2009/114/EC and Decision 2009/766/EC, thereby allowing operators greater flexibility in the use of the two bands for the provision of mobile services (voice and broadband).

Having amended the NTFA in order to enable refarming of this spectrum, ICP-ANACOM decided to simultaneously modify the rights of use of frequencies assigned to the three operators of the mobile telephone service (MTS). After conducting a public consultation, the final decision was adopted which established the unification of the rights to provide the service, as allocated to Sonaecom, TMN and Vodafone, into a single title. As such, the distinction between technologies and frequency bands used for the provision of the MTS is eliminated, enhancing the effective implementation of the principle of technological neutrality.

Titles were allocated Onitelecom and to Bravesensor supporting the rights of use of frequencies to operate broadband wireless access (BWA) systems; these were assigned following the first spectrum auction conducted by ICP-ANACOM.

In accordance with Decision 2010/267/EU of the European Commission, which established that the spectrum released by the transition to DTT should be allocated to electronic communications, ICP-ANACOM decided, by determination of 16 December, to designate and make the 790-862 MHz sub-band available for the provision of electronic communications services. The NTFA was amended accordingly.

In the same month, and subsequent to an earlier decision, approval was given to the draft decision on the amendment of certain operating channels of Multiplexer A of the digital terrestrial television broadcasting service, as assigned to PTC, so that the band mentioned would be completely free. The final decision, to be taken after the conclusion of the public consultation, is carried forward to 2011.

Also in the context of DTT, by determination of 12 July and following a request from PTC, ICP-ANACOM decided, in light of the developments occurring in the subscription television markets, to approve revocation of the act granting rights of use of frequencies associated with Multiplexers B to F and, consequently, the five titles which support said rights and which were assigned to PTC. The decision comes after consideration of all commentary compiled at the hearing prior conducted of PTC and the position expressed by the Entidade Reguladora para a Comunicação Social (ERC) (Regulatory Authority for the Media).

In July, ICP-ANACOM approved a draft decision on the provision of mobile communications services on board vessels (MCV) using the 880-915 / 925-960 MHz and 1710-1785 / 1805-1880 MHz frequency bands. This draft was submitted to the general consultation procedure, but the final decision and the respective consultation report were given approval only in 2011, on 6 January.

To facilitate interaction between ICP-ANACOM and the holders of network or radiocommunication station licenses, and to ensure more efficient management thereof, the decision was taken to enable the conduct of this relationship using electronic means. The decision also determines how these electronic means should be used, as well as determining the corresponding electronic information formats. The project is being implemented in stages, involving the successive use of electronic procedures, in particular a dedicated web channel, and an application integration platform (ICP-ANACOM applications and those of radio license holders or applicants).

The new spectrum tariff model, which was first applied in 2009, led to the adoption of two decisions by the regulator during the last financial year.

On 25 November, approval was given to the amounts to be considered in the formula used to calculate the fees due in respect of the activity of supplier of electronic communications networks and services - as set forth in Law no. 5/2004 of 10 February and in Administrative Rule no. 1473-B/2008 of 17 December. As such, the value of the administrative fee of regulation applicable to suppliers of electronic communications networks and services, with reference to the year 2010, was set at 0.5770 per cent.

On this date, approval was also given to the value of the annual fee payable in respect of the exercise of the activity of supplier of publicly available electronic communications networks and services, payable by eligible bodies.

By determination of 30 July 2010 approval was given to the means of calculating the costs of regulating the activity of supplier of publicly available electronic communications networks and services.

OTHER RELEVANT ACTIVITIES

ICP-ANACOM is further engaged in other relevant activities, including supervision and inspection, which in many cases results in the instigation of infringement proceedings.

In 2010, subsequent to a number of inspections performed, in some cases on a repeated basis, to verify compliance with specific aspects of the Regulamento da Portabilidade (Portability Regulation), ICP-ANACOM instigated 16 infringement procedures against providers who had failed to fulfil their obligation to respond to electronic requests for portability within the time limit of 24 hours.

Furthermore, an announcement was made to the market, with the aim of alerting providers to the need to comply with various provisions of this Regulation, in particular as regards the time limit applicable to the implementation of portability with respect to mobile telephone numbers, and the consequent obligation to pay compensation due to the users for each day of delay in completion of this process.

In the same context, ICP-ANACOM recommended that providers clearly and prominently disclose information for users on their websites, outlets and points of sale, about the time limit of three days by which mobile telephone number portability must be concluded, and the right of customers to be compensated in the event that this time limit is not met.

SMS based or MMS based valued added services were also the target of inspection actions in 2010 that led to the instigation of 10 infringement procedures. The non-conformities found include failure to comply with the obligation to send a message with complete information under the terms of article 9 -A1, 2; and failure to comply with the obligation to provide barring under the terms of article 10/3, both of Decree-Law no. 63/2009 of 10 March.

In the performance of its regulatory activity, ICP-ANACOM, continued to be engaged in its institutional relationship with several national entities, including Autoridade da Concorrência (Adc) (Competition Authority) and ERC in particular, and respectively, in respect of infringement procedures and actions restricting competition, and on issues related to DTT.

A protocol was signed with Autoridade Nacional de Protecção Civil (ANPC) (National Authority for Civil Protection), with the aim of establishing cooperation mechanisms between

the parties. The protocol seeks to develop and put into operation the public communications component of the Plano Nacional de Comunicações da Protecção Civil (National Communication Civil Protection Plan), which, under current legislation, should be supported on public electronic communications networks and services.

Under this cooperation protocol, the entities agree to cooperate in the preparation of studies according to the remit of each authority on issues of common interest, to participate jointly in civil defence exercises at national or other level, and to participate jointly in protection and rescue operations in the context of the Dispositivo Integrado das Operações de Protecção e Socorro (Integrated Emergency and Protection Operations System).

ICP-ANACOM was also intensely engaged in disseminating information of relevance to the market with the implementation and dissemination of studies and reports and with organized events, both for those involved in the communications sector and for the general public. In Conferences, workshops and seminars were held over the year.

In October, ICP-ANACOM hosted its 4th International Conference, entitled "Net Neutrality: network regulation and content regulation", providing an opportunity for a broad debate with stakeholders on the various issues related to net neutrality, which is a concept both associated with the behaviour of network operators in relation to different types of protocols, applications and content, and also associated with access by Internet users to the services and applications they use.

Additionally, ICP-ANACOM was organiser of the 4th Congress of the International Union of Radio Science (URSI), held on the theme of "Radio Personal Communications: short range networks and RFID".

Eight seminars and workshops were held over the year on different subjects: Postal Regulation & Strategy under FMO and Electronic Competition; Dematerialisation of Public Administration Procedures; Regulating next generation access networks; Mobile broadband - a substitute for fixed?; Spectrum management: recent developments and challenges; Considerations in making electronic communications accessible to all; R&TTE Regime in Portugal - The role of supervisory bodies and of market players; and Risk and Innovation.

ICP-ANACOM produces and publishes a set of institutional publications, on an annual basis, such as the Annual Report and Accounts, the Regulation Report, the Activities Report, the

State of Communications, the Communications Sector in Portugal Yearbook and the Management Plan for the following three-year period.

Additionally, on a quarterly basis, statistical information is released on the various markets encompassed by ICP-ANACOM's activity: fixed telephone service, mobile service, Internet access service, subscription television service and postal service.

ICP-ANACOM also conducts and releases various studies and reports, seeking to provide analysis and supervision of the national market, with the aim of supporting the decision making process. In 2010, studies were carried out to evaluate the quality of global system for mobile communications (GSM) and universal mobile telecommunications system (UMTS) in the major urban areas and along the main roads of Mainland Portugal, as well as of fixed and mobile broadband Internet, from the perspective of the residential user.

During the year a study was developed on next generation access networks, in the national and international context, which examined recent developments and the various conditions affecting them, particularly in terms of the applicable regulatory framework and the strategies and products of the operators, as well as the impact of such networks on today's societies. This study was released in 2011.

In the postal sector two studies were conducted over 2010. One examined CTT's network of postal establishments, with a view to the identification, characterization and evolution of the network of postal establishments belonging to the universal postal service concessionaire or establishments belonging to private or other entities where postal services conceded to CTT are provided. The other study set out to compare the prices of postal services, as charged by the different providers of the US in the EU.

ICP-ANACOM also conducted a study to assess the level of satisfaction among users of its website. For this purpose, a survey was included on the website to gauge satisfaction with the Consumer Support area. The general assessment given by users who responded was positive, but with scope to improve certain aspects, particularly in terms of content.

Focus on consumers

Consumers are increasingly at the focal point of ICP-ANACOM's regulatory activity. Aware of the difficulties that consumers experience in terms of how communication services are provided and the conditions governing provision of these services - an experience which is evidenced by the growing number of complaints that are submitted to this Authority each year - and whereas it lacks legal competence to resolve many of the situations presented to it, ICP-ANACOM has sought to take a more active position in this respect.

To this end, in 2008, it launched a study to examine non-judicial means of dispute resolution available in the electronic communications sector. Based on the results of this study, ICP-ANACOM launched the project to establish a National Arbitration Center specializing in the electronic communications sector; this project has been included in the respective management plans.

Between 2009 and 2010, ICP-ANACOM completed all the administrative preparations necessary for the creation and installation of the centre. But since arbitration depends on the willingness of the parties who submit themselves to its jurisdiction and, despite a general expression of support, it was not possible to obtain a minimum guarantee of take-up. In fact, given the position expressed by potential parties, the commitment necessary to proceed with this initiative was deemed lacking, and as such, in July 2010, ICP-ANACOM decided to put the project to create the National Arbitration Centre on hold.

Since then, ICP-ANACOM has been examining other avenues of action which, taking advantage of the mechanisms and structures already existing in Portugal, allow this Authority to engage in the fulfilment of its responsibilities in respect of encouraging the settlement of disputes in the electronic communications sector.

Alongside this initiative, and with the constant aim of improving the service and level of relationship with consumers, ICP-ANACOM has implemented a set of new features on its website - www.anacom.pt.

A dedicated Consumer Support area has been launched, seeking to provide the general public, and users of electronic communications services in particular, with relevant information on how services are provided and the conditions governing their provision, information on how to react in the event of any failure by providers to fulfil their obligations,

while also explaining and clarifying the role of ICP-ANACOM and other relevant entities in this context.

In the initial phase, this new area covered electronic communications, with information organised by service, and was then extended to cover postal services. By answering frequently asked questions (FAQ) about various communications services, clarifications have been provided which address the most important queries raised by consumers.

Driven by this goal of ensuring that users of communications services have their interests properly protected through the publication of the information they need, in June, a Virtual Assistant service was launched on ICP-ANACOM's website. This is an interactive information area, which enables any citizen to find answers to queries on different issues, such as *international roaming*, portability and SMS-based value-added services.

The Customer Support area would end up being the seed of another project, which would be concluded only in 2011; this is the Consumer Portal, available at www.anacom-consumidor.com and launched on Consumer Day (15 March). As such, ICP-ANACOM is continuing to perform its role of protecting the interests of all users of communications services by ensuring that they have access to the information they need.

By consulting the Consumer Portal, citizens can find relevant information about the products available on the market, including services provided in bundles; details of active operators; what needs to be considered when choosing a services; what you need to know about contracts for the provision of services; specific issues related to tariffs, billing, cancellation; how to resolve problems with service providers; and the role of ICP-ANACOM and other relevant entities in this context.

Since its website is a major platform for the dissemination of information and basis for the relationship with the market and with consumers - as well as the monthly Spectru newsletter - it has been a priority for ICP-ANACOM to adopt best practice in this field and make the website accessible to everyone, including users with disabilities.

This goal has been achieved, given that the expert analysis conducted by the HCIM - Human-Computer Interaction and Multimedia team, an integral part of the LaSIGE Research Laboratory based at the Sciences Faculty of Universidade de Lisboa, concludes that ICP-ANACOM's website is adapted to the needs of users with disabilities.

In the context of the priority of ensuring the availability of consumer information, ICP-ANACOM launched two campaigns over the course of 2010. In March, in association with the Direcção-Geral do Consumidor (DGC) (Directorate General for the Consumer), an information campaign was launched, based on a specific leaflet, to inform citizens generally about message-based value added services (VAS), in particular on how they these services can be identified, how these services are subscribed to and how they can be cancelled, the conditions governing their provision, as well as the authorities which enforce compliance with the applicable rules.

The other campaign sought to bring the new roaming tariffs to the attention of the general public, following the price reduction determined by the EC, both for mobile voice calls and for the Internet access service when used abroad.

INTERNAL MANAGEMENT

The amount of income generated by ICP-ANACOM in the financial period referred to in this Annual Report and Accounts (2010) amounted to 83.5 million euros, while total expenditure totalled 47.2 million, providing a positive result of 36.3 million euros.

Investments effected totalled around about 4 million euros, which represents a 57 per cent increase over the previous year.

Spending was cut in 2010, compared to the previous year, by 25 per cent. It This reduction was due to the fact that a number of extraordinary expenditures were reported in 2009 which were not made on the initiative of ICP-ANACOM, specifically: the allocation of sponsorship totalling 10 million euros to Fundação das Comunicações Móveis (Mobile Communications Foundation); the hosting of the World Telecom Policy Forum (WTPF), at a cost of to 2.661 million euros; and the contribution to the European Space Agency (ESA), amounting to 3.039 million euros. Even without these extraordinary expenses in 2009, the total expenditures for 2010 would still be reported with a nominal decrease compared to 2009.

The following facts have relevance to the reading of this report: transfer made in favour of the Portuguese State, amounting to 12.407,957 euros, corresponding to 85 per cent of the net results of 2009, following the proposed application of results of ICP-ANACOM and in

accordance with the legal authorization conferred by paragraph 1 of article 8 of Law no. 12-A/2010, transfer to the AdC of the amount of 4.535,004 euros.

In terms of income, the value obtained as a result of the BWA auction amounted to 3.452 million euros.

The new tariff model of regulatory administration fees and radio spectrum fees was further implemented with 2010 being the second year of transition to this model, enabling a general reduction in the value of spectrum fees, while, at the same time, the amounts payable in respect of administrative fees have increased.

There was a reversal valued at 4.393 million euros in respect of provision for ongoing judicial proceedings. The value of this provision, in part related to annual additions associated with the formation of regulatory administration fees will be returned to providers of electronic communications networks and services in 2011.

The year now ended was also marked by changes in internal organization. The way in which ICP-ANACOM organizes itself in terms of structure is key to the performance of the functions assigned to it, within the criteria of high efficiency. It is therefore important to periodically examine and assess the extent to which the organisation's structure is suited to its functions, seeking to address the challenges facing the organisation in the near future.

Considering this objective and the particularly challenging macroeconomic scenario faced by Portugal, ICP-ANACOM has engaged itself in the collective effort that the country must make to overcome the difficulties it faces; as such a decision was made to review the internal structure. The purpose of this process was to increase the efficiency of the organisation, seeking to do more by making better use of existing resources.

The structure was based on one consisting of Departments (10) and Offices (4), these distinguished by being units which support the Management Board (MB), which sought to extend the organisation into previously inexistent areas, such as Studies or Security of Communications, and to strengthen skills and enhance focus in areas deemed critical to success in terms of objectives in the areas of human resources and information systems.

With this target achieved, it was necessary to consider whether there would be ways of enabling aggregations of areas which, while meeting the original objectives, would allow increased efficiency in the organisation as a whole.

At the level of communications security international developments have been reported, notably at the European level, which raise the profile of this aspect of the regulator's activity, whereby the organisation is called upon to adapt to this new challenge. It was also decided to strengthen the MB support unit and to set up a unit dedicated to consumer protection and on providing information to the market and another for the area of litigation and offences.

All this results in a new form of organisation for ICP-ANACOM, which is simpler and more focused, consisting solely of 10 departments, which is deemed most appropriate to pursue the objectives which are considered fundamental.

In terms of the strategic management of ICP-ANACOM's personnel, the diagnosis and development of competencies has taken on significant importance.

One of the commitments assumed in the context of the strategic actions implemented in 2010 was the consolidation of competencies which can contribute in a structured and cohesive manner to a culture based on the values of professional ethics, the promotion of change, teamwork and cross-organisation cooperation, dedication to the mission and initiative.

Various initiatives have been undertaken, including the implementation of a programme for the diagnosis and development of management skills; the promotion of internal mobility schemes; and changes to the performance evaluation system, with regard to the scales of competence assessment and objectives.

Also with internal impact, the particularly difficult situation faced by the country prompted the Government to adopt a package of measures to cut spending which, coupled with increased revenues, will enable it to reduce the public deficit. Although the use of more effective alternatives that are more suited to the reality of this Authority could have been considered, some of these measures apply to ICP-ANACOM, including those stipulated in Articles 3, 19, 24 and 27 of Law no. 55-A/2010, regarding the sale of properties, reduction in salaries, and restrictions on employing new staff, respectively. These measures may have negative impacts on the development of this Authority's activities.

Given the difficult financial environment in which the country finds itself, ICP-ANACOM (and perhaps other regulators) faces the enormous challenge of achieving a balance between: (1) sharing – as a public entity - in the efforts being made by the State, on the one hand; and (2) efficiently managing the resources available to it and remaining accountable to bodies with

democratic legitimacy, agents of the sector and the general public, on the other hand; while also (3) safeguarding its status as an autonomous and independent regulatory body, recognized under national and community legislation. This is a necessary balance, and although possible, achieving it will be difficult (especially when the country is passing through times such as these) and will depend on the effective and sustainable performance of regulatory bodies such as ICP-ANACOM.

Human Resources

1 Human resources

In 2010, the major focus of the strategic management of ICP-ANACOM's people was the diagnosis and development of competencies; in this respect, the quality of leadership and people development and the organisation's capacity to adapt are of key importance in a vulnerable economic and social context, where financial discipline and restraint underlies the activity of the Regulator as it strives to accomplish its strategic objectives.

The consolidation of competencies, which can contribute in a structured and cohesive manner to a culture based on the values of professional ethics, the promotion of change, teamwork and cross-organisation cooperation, dedication to the mission and initiative, was one of the commitments taken on as part of the strategic actions implemented in 2010.

The following key initiatives were undertaken:

- implementation of a programme for the diagnosis and development of management skills;
- management and development of the new application system for the management of competencies - *PeopleSoft*;
- promotion of Internal Mobility actions;
- application of a study of employee satisfaction;
- amendments to the Performance Evaluation System (PES), with regard to the scales of competence assessment and objectives;
- implementation of a pilot project in the form of *e-Learning* on "Planning and Time Management";
- mobilization of staff for internal and external social responsibility initiatives, aimed at the consolidation of concepts such as teamwork and cooperation awareness.

1.1 Human resources used

In comparison to 2009, ICP-ANACOM reported a slight increase this year in total staff, explained largely by the need to strengthen the litigation area.

Table no. 1.1 - Human resources used

	2006	2007	2008	2009	2010
1. Permanent staff	396	395	402	402	404
2. Requisitioned by ICP-ANACOM	2	1	1	1	1
3. Providing service to other entities	18	21	21	17	14
4. Fixed-term contract	14	12	5	7	6
5. Human resources used = (1)+(2)-(3)+(4)	394	387	387	393	397

There were 14 employees working outside ICP-ANACOM, as follows: five requested to various Ministries; nine seconded, including seven to Fundação Portuguesa das Comunicações (FPC) (Portuguese Communications Foundation) and two to Comissão de Planeamento de Emergência das Comunicações (CPEC) (Emergency Communications Planning Committee).

1.2 Selection and recruitment

During 2010, the following staff movements were reported:

- external recruitment - seven admissions and one member of staff hired on a fixed-term contract to deal with temporary situations of increased workload;
- internal mobility - six staff members;
- with regard to outgoing staff, six contracts were terminated, two on initiative of the people involved and two terminations due to death. There were also two retirements.

It remained a major concern of the MB, in terms of its human resources strategy:

- to ensure that the organisation's human capital has, and continues to have, the key competencies required to accomplish ICP-ANACOM's mission;

- to guarantee and monitor the personal development of employees according to the strategic interests and objectives of the Authority;
- to promote employee mobility, with a view to enhancing their motivation and development.

1.3 Professional training

In 2010, despite a financial-economic context which was less favourable than in previous years, ICP-ANACOM continued to make the development of its employees a priority, organizing training courses aligned with the strategic objectives set by the MB.

Although reflecting the continuation of training programmes scheduled in 2009 and the organisation of new programmes based on the identification of employee training needs, recorded over the 2009, the 2010 training plan was concluded with a decrease of about 5 per cent in number of training sessions compared to 2009 and a decrease of about 9.5 per cent in the number of participations.

The activities of this Authority in terms of training have been based on the establishment of partnerships with accredited or certified trainers, and also the agreement of protocols with educational institutions (universities), partly in the pursuit of measures that have been put in place over the last two years.

During 2010, the organisation of training programmes focused mainly on the concentration of needs, through the identification of improvements and actions manifested as priorities and critical to the development of employee competencies and consequently to optimize the regulator's capacity for performance. This focus is reflected in the maximization of resources used and in the control of costs, which in 2010 were reduced by about 23 per cent compared to 2009.

The execution of the 2010 Training Plan continued the implementation of programmes scheduled during the previous year, with 158 training programmes conducted, corresponding to about 14,899,30 hours of training given, with a total of 1,506 participations and entailing expenditure of 259,411 euros.

Table no. 1.2 - Resources used

	2010	2009
No. of programmes	158	166
No. of trainees participating	1506	1664
No. of days	2093	3393
No. of days/total staff - average	5.2%	8.7%
Training costs/staff costs (%)	1.2%	1.5%
Direct costs (thousands of euros)	259	338
Costs/total staff - average (euros)	657	867

Note: For calculation purposes the average level of total staff considered was 395.

The following training programmes took place which were of critical importance to ICP-ANACOM according to the number of participants and hours given:

Technical training

ICP-ANACOM organized five specialist technical training programmes in areas critical to the performance of the Regulator, on an intra-organisation basis:

1. training course on "Optical Fibre Networks" lasting 630 hours and involving 18 members of staff;
2. training course on "Digital TV - Signal Analysis", lasting 350 hours and involving 10 members of staff;
3. training course on "Radio Communication Systems/Dedicated Radio Systems", in the context of the protocol signed with the Universidade de Aveiro, lasting 525 hours and with the participation of 15 members of staff;
4. training course on the theme "Operation of Equipment to Evaluation DTT coverage", in the context of a partnership with renowned scholars and lasting 414 hours, involving 18 members of staff;
5. training course on the "Fundamentals of Communications Security", which involved 10 members of staff, totalling 350 hours of training.

In 2010 technical training was also delivered on an inter-company basis, covering issues in the administrative and financial areas, human resources, information technology and health and safety at work, representing approximately 996 hours of training with a total of 197 participations.

Behavioural training

ICP-ANACOM organized two programmes of behavioural training to improve the performance of staff in the context of the regulator's remit, on an intra-organisation and e-Learning basis:

1. training course on the theme of "Serving the public - Techniques and Behaviours", in which 13 members of staff participated with a total of 208 hours;
2. training course on "Planning and Time Management", which lasted 90 hours and involved 20 members of staff.

Over the course of 2010, ICP-ANACOM also conducted training which was cross-organisation in nature and which helped to improve the organisation's efficiency and capacity to act, including:

- financing of personal development programmes at a post-graduate, master's and doctoral level, involving 13 members of staff and representing a total of 2,064 hours of training;
- language training programmes (English, Spanish, French and German), involving 104 participants and totalling about 4,273 hours of training;
- training course entitled "Communicating in Clear Portuguese", which involved 39 members of staff and a total of 546 hours of training;
- significant staff presence at workshops, seminars and conferences organized and or sponsored by ICP-ANACOM, totalling about 425 participations and a total of 2,248 hours.

Traineeships

Also during 2010, with the objective of giving young people with higher qualifications the opportunity to undertake a professional traineeship in a real workplace, enabling them a faster and easier integration into the labour market, ICP-ANACOM, continued the practices that it has been following in offering traineeships to recent graduates and young people seeking their first job, and participated as a promoter in the Programa de Estágios Profissionais na Administração Pública (PEPAC) (Programme of Professional Traineeships in the Public Administration), accepting allocation of three trainees in economy, instrumentation and metrology engineering and electronic engineering and telecommunications.

1.4 Qualification of employees

The distribution of levels of professional qualification throughout organisation, which must be viewed from a perspective of achieving balance among the entire staff and their potential, remained stable, with a lack of significant staff inflow and outflow, and relevant increase in the number of staff at middle and top management level. This accomplishment results from the implementation of the new career development system, as well as from the promotion of initiatives directed at encouraging higher education studies.

Table no. 1.3 - Qualification levels

	2010	2009
Upper management	242	235
Middle management	131	134
Highly qualified professionals	0	0
Qualified professionals	14	14
Semi-qualified professionals	10	10
Total	397	393

1.5 Remuneration policy

ICP-ANACOM's main objective, in terms of its remuneration policy, was to provide its staff with a remuneration system which follows the overall strategy of the organisation, responding efficiently to the requirements and demands of its activity, with a view to achieving balance, in terms of salaries and the goal of attracting and retaining top-performing people and high levels of professional qualification, following the principles of internal equity and external competitiveness.

In 2010, ICP-ANACOM continued to provide a set of social and specific benefits, with particular regard to the update of study allowances, for allocation to members of staff and their descendants, with the aim of enhancing their personal and professional value through the development of their academic level.

A subsidy for additional study was established, associated with high level educational results

ICP-ANACOM also provides the added benefit of a fixed contribution retirement pension. This pension scheme now covers all staff.

ICP-ANACOM assumes the fixed monthly contribution, ranging from 1 per cent to 2 per cent of payroll.

In 2010, the cost of this pension plan amounted to about 291,497 euros.

1.6 Performance evaluation

With a view to the continuous improvement of the performance evaluation system, the scales used for assessing the objectives and competencies were reviewed and certain points were clarified in the evaluation manuals provided to staff.

1.7 Programme for the diagnosis and development of skills

Aiming for excellence in management and effective leadership, a diagnostic of behavioural skills was developed for the management of the organisation, based on assessment centre methodology. This diagnosis enabled the skills of ICP-ANACOM's managers to be more

objectively and thoroughly ascertained, providing information relevant to the definition of action plans that will support the development of individuals and teams in the context of organisational change.

1.8 Application of a study of employee satisfaction

With the aim of monitoring staff satisfaction and motivation indices, and continuing the established policy of biennial implementation, the electronic questionnaire was administered to all staff. The overall level of staff satisfaction remained close to the previous study (2008), with a favourable response rate of 62 per cent, in a record considered as "positive" in market benchmarking studies.

The detail of the findings will form the basis for formulating an action plan to implement the necessary improvements reflected in the study. Its repeated administration has made it possible to gauge the evolution of business results, so that the effectiveness of the implemented actions can be assessed.

1.9 Other activities

Internal communication

In the context of strengthening the content of internal communication, there was regular communication of organisational changes and initiatives, particularly with regard to the different HR processes.

It is also important to emphasize the meeting of ICP-ANACOM, which had the same objective as in previous years, as an exercise to develop team work, communication and "experience" of the organisation's values.

Social responsibility

ICP-ANACOM engaged in social responsibility initiatives to promote relationships of cooperation and efforts by others, as well as development according to the position in the organisation.

In this context, it is again important to highlight the annual meeting, which involved a day of activities of physical improvement to an institution of social solidarity and saw strong involvement by the majority of staff.

This event aimed not only to raise awareness among ICP-ANACOM staff as to the different dimensions of community responsibility, but also to promote effective, aligned, motivated and cohesive working teams both from an operational and behavioural standpoint, imprinting the Regulator's values on the performance of its people.

In this chapter it is also important to make reference to the continuation of the programme to support people quitting smoking, together with a personalized nutrition programme.

Other specific actions of social responsibility were undertaken, both internally and externally.

Assets and Investments

2 Assets and investments

2.1 Assets

The evolution of ICP-ANACOM's asset position was marked by an increase of 5 per cent in the value of net tangible and intangible fixed assets.

Table no. 2.1 - Tangible and intangible assets

	2010	2009	2008	VAR 10/09	
Gross value	72 721 879	69 813 447	69 511 628	2 908 432	4%
Accumulated depreciations and Amortizations	54 363 693	52 338 722	50 133 811	2 024 971	4%
Net assets	18 358 186	17 474 725	19 377 817	883 461	5%

This increase results from the combined effect of positive changes of 4 per cent observed both in gross assets and also in accumulated depreciation and amortization. This growth runs counter to the trend reported in the past year, when gross assets increased less than accumulated depreciation and amortization, leading to a sharp fall in net investments.

The reversal in the trend of last year can be explained by the combined effect of: i) investment for the year was above the average of recent years, ii) the full effect of depreciation and amortization for the year resulting from these investments will only be felt in subsequent years since most of the equipment went into operation at the end of the year, whereby only one twelfth of the value of annual depreciation and amortization is reflected in the present period.

The following table presents the net change in the main components of the heading 'tangible and intangible assets', enabling a more precise understanding of the origin of the changes reported.

Table no. 2.2 - Tangible and intangible fixed asset variation

	2010	2009	2008	VAR 10/09
Total investment for year	4 023 374	2 567 636	3 771 230	57%
Deferred costs - adaptation works	-16 852	-31 052	-47 539	-46%
Investment in tangible and intangible fixed assets	4 006 522	2 536 584	3 723 691	58%
Depreciations and amortizations of financial year	-3 217 964	-3 813 381	-3 532 460	-16%
Disinvestments	-411	-458	-1 692	-10%
Settlements	95 314	-624 763	43 324	-115%
Increase / reduction in assets	883 461	-1 902 018	232 863	-146%

The variation reported in the investments in 2010 compared to 2009, was positive, by 57 per cent, while depreciation and amortization for the year decreased by 16 per cent.

During the present period, certain adjustments were made to gross investments and accumulated depreciation and amortization, resulting from minor adjustments and corrections made to accounting records of previous years, with a net effect of 95,314 euros. Net disinvestments had no significant value.

2.2 Investments

Investments made during 2010 in tangible and intangible fixed assets and adaptation works in buildings not owned by ICP-ANACOM, amounted to 4,023,374 euros, representing an increase of 57 per cent over the previous year. This increase results primarily from the fact that some investments planned for 2009 actually occurred in 2010, increasing the value of execution this year with deductions made to the value reported in the previous year, specifically in respect of the DTT project and the proposed technological refurbishment of the monitorização e controlo do espectro (MCE) (Spectrum Monitoring and Control) (conversion of two mobile stations), which amounted to 267 thousand euros and 156 thousand euros, respectively. The investment made in 2009 (2,567 million euros) was lower than the average reported over the past ten years (3,495 million euros).

The evolution of investments made over the last ten years is reported as follows:

Table no. 2.3 - Investments 2001 to 2010

<u>YEAR</u>	<u>VALUE</u>	<u>YEAR</u>	<u>VALUE</u>
2001	3 990 163	2006	4 000 176
2002	3 771 425	2007	2 711 250
2003	3 148 224	2008	3 771 229
2004	3 205 025	2009	2 567 636
2005	3 766 345	2010	4 023 374
10 YR AVERAGE	3 495 485		

The importance of investments in descending order of value were as follows: information systems and technology (78 per cent), basic radio and laboratory equipment (11 per cent), improvements to owned and rented buildings (4 per cent); and other administrative equipment and diverse assets (7 per cent).

The following analysis is made of the investments in each area:

Area of information systems and technology, in which actions were undertaken with an overall execution value of 3,121,775 euros.

- In the field of solutions aimed at improving the services provided to the market and to the consumers, investment totalled 548,636 euros.

Several initiatives were taken to increase the number of electronic channels for delivery of services by ICP-ANACOM, including:

- In the area of solutions for the improvement of services provided to the market, a platform was constructed to collect market information electronically - Sistema de Informação de Mercado (SIM) (Market Information System), whereas its repository and means of processing (Business Intelligence) comprises a platform where several channels of compilation are to be implemented.
- Plano de Licenciamento Electrónico (Electronic Licensing Plan), with two of the defined phases already concluded and the last underway - the full provision of licensing services electronically, particularly by allowing the monitoring of internal processes by licensable entities.
- Integration of the Tratamento de Solicitações de Mercado (Processing of Market Enquiries) system with the Rede Telemática de Informação Comum (RTIC)

(Telematic Network of Common Information), in order to provide citizens with better and more integrated information.

- Improvement of ICP-ANACOM's website, with more and better features, including new Online Services which allow the electronic handling of various processes involving the regulated market and the citizen.
 - Development of solutions for electronic interaction with the market, including a Solução de Gestão de Numeração (Numbering Management Solution) and the adaptation of the ITED/ITUR solution already available in the context of electronically provided services.
 - Creation of a new observatório de tarifários (tariff monitor) with a new philosophy of presentation and information compilation that allows the inclusion of n-play packages and other factors intended to provide better information to citizens.
 - Evolution of the Intranet management solution of the Independent Regulators Group (IRG) in the panorama of international representation and cooperation, with the creation occurring, in this context, of the website of the Euro-Mediterranean Network of Regulators (EMERG).
- In the field of solutions intended to bring an internal improvement of services, executed investment was reported at 1,482,221 euros:

Various systems were set up and adapted to improve internal efficiency, including, in particular, the following:

- Development of various systems to improve internal efficiency, key among which are the Novo Modelo de Taxas - Regime Transição (New Fee Model - Transition Regime); Extensão à Revisão Conceptual e Automatização do Sistema de Custeio (Extension to the Conceptual Review and Automation of the Costing System) of ICP-ANACOM; Adaptation of Enterprise Resource Planning (ERP) to Law no. 55-A/2010 of 31 December (Law of the 2011 State Budget); adaptations to the sistema de normalização contabilística (SNC) (Accounting Standardisation System), and others.
- Development of various mechanisms for distributing the internal consumption costs of technological resources, promoting greater accountability and rationalization, especially in terms of telephones and printing and copying.

- Improvement and extension of use of the document management and workflow solution, promoting dematerialization of certain internal processes.
 - Automation of work processes inherent to spectrum management promoting significant productivity gains.
- In the field of infrastructural technological architecture, investment amounted to 1,090,918 euros.

Several initiatives were implemented aimed at achieving the objective of technological consolidation, notably through the project of migration from Microsoft Exchange infrastructure - project to upgrade, in technological terms, the e-mail communication service, providing a set of new features, higher capacity and higher levels of reliability and performance.

Radio spectrum management area and laboratories: investments amounted to 592,762 euros, and were assigned to the following projects:

- Projecto de monitorização integrada (PMI) (Integrated Monitoring Project) - Barcarena Monitoring Centre, with a total value of 26,599 euros.

The investments made result from the strategic need to provide the services of monitoring and control of the spectrum with the integration of all the technical support infrastructure for SMC, thereby creating a national SMC network, including all SMC centres (fixed part), mobile units, sistema integrado de controlo das emissões radioelétricas (SINCRER) (National System for Remote Control of Radioelectric Emissions), in order to:

- increase the effectiveness and efficiency of SMC;
- automate certain technical operational tasks associated with SMC;
- rationalize technical infrastructures supporting SMC technical tasks, implementing the SMC workstation concept;
- share technical infrastructures supporting SMC tasks, making it possible to solve more complex problems by having them analyzed in real time by several technicians from different SMC centres;
- enable greater flexibility in terms of human resources by allocating technicians to other more important and demanding tasks;

- facilitate the possible connection and consequent integration of the future SMC network with sistema integrado de gestão do espectro (SIGE) (integrated spectrum management system), through its planning and licensing tools.

At the end of 2010 the project related to the remote stations for the Azores and Madeira branches was completed.

- Project for the technological upgrade of SMC, with a total amount of 182,947 euros.

This investment was made with the aim of properly equipping ICP-ANACOM's operational services for carrying out the spectrum monitoring and control activities with the required quality, independence and accuracy and included the establishment of two spectrum monitoring and control mobile stations for the Branches of the Azores and Madeira.

Additionally, two mobile radio direction finder stations were equipped on the Mainland capable of decoding sub-acoustic tones.

- DTT signal testing and analysis system, with a total value of approximately 266,801 euros:

As part of this project, in addition to six DTT signal monitors for resolving interference, two coverage evaluation systems were acquired and three pieces of equipment for monitoring the broadcast capacity and the MPEG frame.

This project focuses on properly equipping the operational services of ICP-ANACOM for the performance of spectrum monitoring in the area of DTT or DVB-T, with the required quality, independence and reliability.

- Laboratory modernization project, amounting to 49,412 euros.

The laboratories received a technological upgrade with the aim of improving their capacity with regard to improving the uncertainties associated with measurement. In fact, the external audit conducted by Instituto Português de Acreditação (IPAC)

(Portuguese Accreditation Institute) on the radio testing area concluded that one of the measuring devices used in testing procedures, in particular the Communications Monitor, did not meet the criteria for uncertainties stipulated in the harmonized standards published by European Telecommunications Standards Institute (ETSI) for conduction carrier power measurement. In this context, six RF attenuators and a power sensor were acquired to replace equipment which in the most part is over 20 years old and which has already seen significant deterioration of its characteristics.

A calibration kit was also acquired for the Vector Network Analyser (VNA), which will reduce annual costs of calibration which previously had to be performed abroad, also avoiding the need to stop the respective measuring chain. As such it will always be possible to check whether the VNA/Calibration kit is functioning according to specifications.

Measurement equipment was also acquired to upgrade the capacity of the electromagnetic compatibility testing system (LISN), with a view to conducting tests for PLC technology.

- Other current investments, totalling 67,003 euros.

Current investments refer to activities not associated with projects, resulting from the SMC activity; these aim to provide operational services with the equipment which is best suited for carrying out the missions assigned to them.

In this area, the following acquisitions are highlighted:

- two receivers with the ability to decode and analyze MPX and RDS components;
- five portable frequency meters;
- various accessories connected to radio frequency.

Area of infrastructure, administrative equipment and other equipment, with investment made totalling 308,837 euros.

- As part of the maintenance of the buildings themselves, investment totalled 31,332 euros, with respect to the following situations:

- study phase of a building project in Barcarena for the installation of certain ICP-ANACOM services, amounting to 24,881 euros;
 - small improvements in the buildings of the Azores and Barcarena Branches, totalling 6,451 euros.
- In the area of installations, investment amounted to 141,059 euros as a result of the following situations:
 - replacement of the air conditioning system in the Porto building, totalling 99,651 euros;
 - update of voice and data telephone exchanges at Barcarena and the Azores and Madeira Branches, amounting to 30,243 euros;
 - other interventions, amounting to 11,165 euros.
 - In the administrative area, the amount of investment was 119,594 euros, most notably:
 - acquisition of miscellaneous furniture needed in the reorganization of spaces;
 - acquisition of signage following the change of the logo made in late 2009;
 - acquisition of fire equipment to meet the requirements of the audits conducted under new applicable legislation;
 - equipment required for the normal functioning of this Authority, including, calculators, receivers, various tools and utensils, mobile phones and UPS.
 - As regards the adaptation works carried out in rented buildings, the amount totalled 16,852 euros.

The need to perform these works was motivated by the reorganization of the spaces in a number of ICP-ANACOM's departments.

Economic and Financial Analysis

3 Economic and financial analysis

The overall evolution of expenses, income and the net result from 2009 to 2010 is shown in the summary statement that is presented below:

Table no. 3.1 - Results

	2010		2009		VAR 10/09	
Income	83 534 450	100%	77 883 098	100%	5 651 352	7%
Expenses	47 179 328	56%	63 285 502	81%	-16 106 174	-25%
Net result	36 355 122	44%	14 597 596	19%	21 757 526	149%

The evolution of expenses between 2009 to 2010 was marked by a strong reduction of about 25 per cent, taking into account that several initiatives took place in 2009 which ICP-ANACOM was bound to perform by ministerial order or under cooperation protocols, with significant impact on the year's expenses, which did not occur in 2010, specifically:

- sponsorship awarded to Fundação das Comunicações Móveis (Mobile Communications Foundation) to the amount of 10 million euros;
- organisation of 4th World Telecommunication Policy Forum (WTPF-09), which entailed expenditure of 2,661 million euros;
- performance of commitments entered into by the State in respect of the European Space Agency (ESA), amounting to 3,039 million euros.

Excluding these initiatives, total expenditure in 2010 would still have been lower than reported in 2009, cut by 1 per cent in nominal terms or 2.4 per cent in real terms.

The evolution in income in 2010 resulted in an increase of 7 per cent compared to 2009, with the following having an impact on results through increased revenues:

- in 2010: reversal of the provision made for ongoing litigation, amounting to 4,393 million euros; reversal of impairment of receivables, amounting to 109 thousand euros; modification of certain assumptions in the actuarial valuation of the Pension Fund in 2010, amounting to 1,512 million euros; and the values in respect of the BWA auction to the amount of 3,452 million euros;
- in 2009: reversal of impairment of receivables to the amount of 1,653 million euros.

Without these extraordinary items, income in 2010 would have been 3 per cent lower than reported in 2009, largely due to the reimbursement of regulatory fees to operators, amounting to 2,219 million euros. This reimbursement was due to the recalculation of the costs of regulation, undertaken for two reasons: i) the legal proceedings instigated by Radiomóvel, against which provision had been constituted, has been ruled defunct, ii) the value of provisions constituted against a process of Vodafone has been removed from the calculation of the costs of regulation, since it had been improperly considered under this kind of cost.

The combination of the developments described above, and others with less impact reported under expenditure and income, determined a net result which was more than the result reported in 2009, with a value amounting to approximately 36, 355 million euros.

3.1 Detailed evolution of income

The detailed evolution of income by major category is shown in table No. 3.2 which is presented below:

Table no. 3.2 - Income

	2010	2009	VAR 10/09	
Electronic communications	74 805 372	72 300 218	2 505 154	3%
Remaining provisions of service	926 273	647 916	278 357	43%
Other income and earnings	6 411 205	2 435 104	3 976 101	163%
Interest and other similar income	1 391 600	2 499 860	-1 108 260	-44%
TOTALS	83 534 450	77 883 098	5 651 352	7%

Overall income increased by 7 per cent. 4 per cent was extraordinary income associated with the allocation of rights as a result of the BWA auction. Otherwise, the increase reported would have been only 3 per cent. -increases were also reported under the heading, 'Remaining Provisions of Service', and 'Other income and earnings', and decreases were reported under, 'Interest and other similar income'.

Electronic communications invoicing corresponded to the second year of the transition period, as provided for under Administrative Rule no. 1473-B/2008 of 17 December, which entered into force on 1 January 2009.

Given the transition period, the sum of settled regulatory fees represent 66 per cent of the tariff value and the fees for use of the spectrum correspond to 66 per cent of the new model and 33 per cent of the model previously in force (with appropriate adjustments in the case of broadcasting services, whose transition period is five years instead of the three years approved in the case of other services).

Overall, an increase of 3 per cent was reported under the heading of 'Electronic Communications', with the following detail:

Table no. 3.3 - Electronic communications

		2010	2009	Variation
Annual EC regulation fees	i)	18 153 433	10 961 389	66%
Fees for use of frequencies	i)	51 864 607	60 704 539	-15%
Fees for use of numbers	i)	1 300 332	621 490	109%
Others	i)	3 487 000	12 800	
Total		74 805 372	72 300 218	3%

The fees that fall under the Lei das Comunicações Eletrónicas are described briefly below.

- i) Law no. 5/2004 of 10 February - Lei das Comunicações Eletrónicas (LCE) (Electronic Communications Law) - establishes the legal regime governing electronic communications networks and services and associated resources and services.

The legislation that supports the collection of fees in this context is Administrative Rule no. 1473-B/2008 of 17 December, new fee model provided for in article 105 of the LCE.

The fees contained in this law and administrative rule are as follows:

- issuance of statements supporting rights issued by ICP-ANACOM for the exercise of the activity of supplier of electronic communications networks and services, regarding the allocation of rights of use frequencies and numbers;

- exercise of the activity of supplier of publicly available electronic communications networks and services;
- use of frequencies;
- use of numbers.

The new tariff is reflected in the distribution of income according to type of fee, *i. e.* the increase in fees related to activity and use of numbers and lower fees for use of frequencies, during the transition period, with ICP-ANACOM maintaining its overall level of income.

In fact, the increase of 3 per cent reported in the sum of fees charged in 2010 is due exclusively to the values related to the BWA auction, to the amount of 3,452 million euros, in the context of the statement supporting the rights issued by ANACOM, as provided for in the LCE.

The fees associated with the activity of electronic communications networks and services, are determined according to the costs incurred by ICP-ANACOM through its regulatory activities. They are calculated using three-year moving averages (excluding the costs of raising provision for ongoing litigation, for which a five-year moving average is used). Such costs do not include values associated with activities undertaken by ICP-ANACOM outside the regulation of electronic communications networks and services, and its allocation among suppliers of electronic communications networks and services is made in proportion to their relevant income (associated with their activity) for the year preceding that in which the fees are settled. Operators whose income does not exceed 100 thousand euros are not included. These operators do not pay fees. Operators with relevant income which does not exceed 1,5 million euros pay a fixed rate of 2,5 thousands of euros.

On 7/7/2010 ICP-ANACOM published the annual report of its administrative costs and the sum of the results of the fees referred to in points a) to d) of paragraph 1, of article 105 of Law no. 5/2004 of 10 February, in order to perform the appropriate adjustments according to differences (if any) between the total amount of fees and administrative costs.

Table no. 3.4 shows the detail of the calculation of administrative costs which gave basis to the regulatory fees payable to ICP-ANACOM by suppliers of electronic communications networks and services.

Table no. 3.4 -Calculation of costs to determinate the fees from suppliers of electronic communications network and services

	Breakdown of ICP-ANACOM costs (ex provisions associated with EC)				Provisions related to EC (average of 5 years)	Breakdown of costs in 2010 (with EC associated provisions)
	2010 (1) (2)	2009	2008	Average (3 years)		
1. Costs of regulation and spectrum management	51 651 923	44 643 696	47 751 312	48 015 644	7 067 491	55 083 135
1.1 Costs relating to EC	40 733 338	35 206 565	38 832 209	38 257 371	7 067 491	45 324 862
1.1.1 Administrative costs	27 576 290	23 834 689	24 813 409	25 408 130	7 067 491	32 475 621
a) Declarations supporting rights	44 481	38 446	78 713	53 880		53 880
b) Exercise of activity of supplier of EC networks and services	26 846 992	23 204 343	23 324 681	24 458 672	7 067 491	31 526 163
c) Allocation of rights of use of frequencies	592 567	512 167	1 276 749	793 828		793 828
d) Allocation of rights of use of numbers	92 250	79 733	133 266	101 750		101 750
1.1.2 Frequency management costs	12 981 444	11 220 098	13 950 140	12 717 227		12 717 227
1.1.3 Numbering management costs	175 604	151 778	68 660	132 014		132 014
1.2 Postal regulation costs	2 656 796	2 296 317	2 527 149	2 493 421		2 493 421
1.3 Other costs of regulation	8 261 789	7 140 814	6 391 954	7 264 852		7 264 852
2. Other costs	4 889 577	18 304 595	3 820 472	9 004 881		9 004 881
Total costs	56 541 500	62 948 291	51 571 784	57 020 525	7 067 491	64 088 016

Table no. 3.5 presents a comparison of fees paid for the use of frequencies, by type of service.

Table no. 3.5 - Fees in respect of use of frequencies

	2010		2009		VAR 10/09	
Public land mobile service	39 044 189	75%	49 414 655	81%	-10 370 466	-21%
Land mobile service - private networks	2 594 956	5%	2 605 955	4%	-10 999	0%
Fixed radio service	7 531 153	15%	6 673 412	11%	857 741	13%
Satellite radio service	650 881	1%	533 732	1%	117 149	22%
Radio and television broadcasting service	361 643	1%	308 381	1%	53 262	17%
Mobile trunking service	612 912	1%	469 619	1%	143 293	31%
Fixed wireless service (FWA)	367 400	1%	367 400	1%	0	0%
Other services	701 473	1%	331 385	1%	370 088	112%
Total	51 864 607	100%	60 704 539	100%	-8 839 932	-15%

The category of remaining provisions of service encompasses other income which is derived from the other activities of ICP-ANACOM, including fees associated with access to and the exercise of postal services, the installation of telecommunications infrastructures in buildings ITED/ITUR, laboratory testing, fees applicable to access and exercise of the activity of audiotext services, and surcharges for late payment of fees and fines resulting from inspection activities. Developments in 2010 resulted in an increase of 43 per cent compared to 2009, with the following detail:

Table no. 3.6 - Remaining provisions of service

	2010	2009	Variation
Postal services	i) 138 481	161 000	-14%
Amateur service fees - SAAS	ii) 6 521	5 099	28%
Citizen Band service fees - CB	iii) 125 174	98 688	27%
ITED	iv) 36 861	154 528	-76%
Others	v) 619 236	228 601	171%
Total	926 273	647 916	43%

The rules that govern the settlement and collection of most of the fees contained in the items referenced above are:

- i) Fees in respect of the activity of providing postal services

Decree-Law no. 150/2001 of 7 May, as amended by Decree-Law no. 116/2003 of 12 June, establishes the regime of access to and the exercise of the activity of provider of postal services operated in competition and Administrative Rule no. 1473-B/2008 of 17 December supports the collection of fees due in this context.

ii) Administrative fees and fees for use of the Amateur Radio service

Decree-Law no. 53/2009 of 2 March establishes the rules governing the use of the amateur radio service, and Administrative Rule no. 1473-B/2008 of 17 December establishes fees due in respect of this service.

iii) Fees of the Citizen Band service - CB

Decree-Law no. 47/2000 of 24 March establishes the legal regime applicable to the use of the Personal Radio Service - Citizen's Band (CB-SRP), whereas fees are set by Administrative Rule no 1473-B of 17 December.

iv) Fees of the ITED service

Decree-Law no. 59/2000 of 19 April (repealed by Decree-Law 123/2009 of 21 May) establishes the legal regime governing the installation of ITED and the connection of such infrastructure to the public telecommunications networks, as well as the activity of installation certification and conformity assessment of equipment, materials and infrastructure, the fees for which are set by Administrative Rule no. 1473-B/2008 of 17 December.

v) Includes Remaining Provisions of Service, including fines paid, laboratory tests and calibrations, Audiotext, etc.

There was a reduction in ITED/ITUR registration and renewal fees following a period of two years of increased renovations due to the implementation of current legislation; meanwhile the increase in other fees stems from an abnormal amount of fines paid during the year 2010, almost exclusively due to the share allocated to ICP-ANACOM (40 per cent) of a fine paid to Vodafone for portability non-compliance, amounting to 750 thousand euros.

Table no. 3.7 - Other income and earnings

	2010	2009	Variation
Allocation of investment subsidies (Note 13)	3 890	3 890	0%
Recognition of income in respect of costs of past periods	-	93 605	-100%
Pension fund	1 512 093	68 290	2114%
Reversals of provisions and impairments	4 501 286	1 652 868	172%
Operation subsidies	38 233	48 871	-22%
Others	355 703	567 580	-37%
Total	6 411 205	2 435 104	163%

The increase of over 100 per cent in 'Other income and earnings', compared to 2009 reflects the extraordinary items mentioned above, observed in the reversals of provisions for ongoing litigation (4,393 million euros) and in the impairment of receivables (109 thousand euros in 2010 and 1,653 million euros in 2009) and the modifications in the assumptions of the actuarial study of the pension fund, related to the relevant monthly remuneration determined in the State Budget for 2010 (1,512 million euros).

Table no. 3.8 - Interest and other financial income

	2010	2009	Variation
Bank interest	1 142 434	1 313 746	-13%
Late payment interest	249 166	1 186 114	-79%
	1 391 600	2 499 860	-44%

Under this heading, the amount of late payment interest charged in 2009 was unusually high, totalling 1,105 million euros. This result from Zon's payment of invoices issued to Bragatel between 2001 and 2003 in respect of the fixed wireless service (FWA).

3.2 Detailed evolution of expenses

The detailed evolution of expenses by major heading is shown in Table no. 3.9:

Table no. 3.9 - Expenses

	2010	2009	VAR 10/09
Supplies and external services	13 118 888	12 148 315	970 573 8%
Personnel costs	22 207 775	23 055 692	-847 917 -4%
Other costs	8 634 701	23 930 901	-15 296 200 -64%
Depreciation and amortization costs	3 217 964	3 813 381	-595 417 -16%
Provisions	0	337 213	-337 213 -100%
TOTALS	47 179 328	63 285 502	-16 106 174 -25%

Expenditure was cut substantially, to the order of 25 per cent, with notable reductions reported in almost all headings, except for supplies and services, for which an increase was reported of 8 per cent.

In the years 2010 and 2009, the detail of expenditure on supplies and services is as follows:

Table no. 3.10 - Supplies and external services

		2010	2009	Variation
Specialized works	i)	4 226 510	3 799 895	11%
Publicity and advertising	ii)	254 913	343 693	-26%
Surveillance and security	iii)	407 831	409 187	0%
Maintenance and repair	iv)	2 849 977	2 262 455	26%
Books and technical documentation	v)	249 221	240 794	3%
Energy and liquids	vi)	485 791	456 527	6%
Travel, accommodation and transport	vii)	636 752	668 853	-5%
Rents and leases	viii)	1 901 141	1 779 963	7%
Communication	ix)	700 264	741 897	-6%
Insurance	x)	148 906	159 585	-7%
Cleanliness, hygiene and comfort	xi)	294 672	287 115	3%
Other supplies and services	xii)	962 910	998 351	-4%
		13 118 888	12 148 315	8%

The variations, line by line, are not very significant, except for those related to specialized works, maintenance and repair, with increases and publicity and advertising.

A brief description of the components of each item is presented below, together with a more detailed analysis of the main headings.

- i) Specialized works: expenses incurred in the execution of studies, reports, audits and other provisions of service required to support the activities of ICP-ANACOM in specific areas where there is no need to employ staff.

Table no. 3.11 - Specialized works

	2010	2009	Variation
Studies	1 836 477	1 651 969	11%
Legal consultation	338 230	309 635	9%
Auditing	352 145	471 054	-25%
IT consultancy	836 413	675 829	24%
ICP-ANACOM website consultation	204 010	152 560	34%
Translations	93 468	151 212	-38%
Publication	205 477	209 539	-2%
Other	360 290	178 097	102%
Total	4 226 510	3 799 895	11%

- ii) Publicity: expenses incurred as a result of advertising campaigns conducted by ICP-ANACOM in order to disclose relevant facts, including those of interest to consumers in general.
- iii) Surveillance and security: services provided by companies.
- iv) Maintenance and repair: services necessary to ensure the operational maintenance of ICP-ANACOM's property, including technical assistance contracts entered into with the same objective, particularly in the context of information systems, radio spectrum monitoring and laboratories.
- v) Books and technical documentation: technical books (in paper or electronic form), technical documentation, magazines and other publications, needed by ICP-ANACOM's technical areas.
- vi) Energy and liquids: expenses related to consumption of electricity, fuel and water.
- vii) Travel, accommodation and transport: expenses related to foreign travel associated with international meetings and in representation of the Portuguese State, and inside the country as part of its inspection activities, representing about 80 per cent and 20 per cent respectively.

Table no. 3.13 - Travel and accommodation outside Portugal

	2010	2009	Variation
Trips	409	419	-2%
Days	1 615	1 895	-15%
Average cost per trip	797	829	-4%

Travel and accommodation expenses have been reduced in recent years. This reduction results from a reduction in number of trips taken and in the number of days away, and from the reduction in transport costs.

Some of these costs are offset by compensation, with respect to the participation of ICP-ANACOM in meetings promoted within the EU. Such compensation is recorded as subsidies and therefore the gross cost of travel is considered under this heading. If the net cost of this travel were considered, the value for 2010 would have amounted to 287,900 euros, instead of 326,133 thousand euros, corresponding to a 5 per cent reduction in relation to 2009.

- viii) Rents and leases: rent payable on premises where ICP-ANACOM has its head office, operating leases and other rentals.

Table no. 3.14 - Rents and leasing

	2010	2009	Variation
Building rents	1 592 990	1 526 624	4%
Leasing	257 439	203 973	26%
Others	50 712	49 366	3%
Total	1 901 141	1 779 963	7%

- ix) Communication: expenses related to telephones, faxes, mobile phones, postal services, leased lines, among others, supported at the Head Office, Barcarena, Porto and the Madeira and Azores Branches.
- x) Insurance: insurance costs related to buildings and contents, vehicles, travel in Portugal and abroad, civil liability, among others.
- xi) Cleanliness, hygiene and comfort: services provided by specialist companies in Head Office, Barcarena, Porto and the Madeira and Azores Branches.

- xii) Other supplies and services: supplies and services not covered by previous headings, including tools and utensils, office supplies, uniforms, cafeteria articles, newspapers, technical magazines and publications, representation expenses.

A large part of "Specialist works" were expenses related to studies needed to fulfil obligations which apply to ICP-ANACOM in the context of its regulatory activity, especially the 4th study evaluating the quality of the Internet access service, amounting to 639 thousand euros, which is performed biennially, and the study on the evaluation and characterization of communications security to the amount of 429 thousand euros. There were also increases reported in supporting information systems and technology expenses, given the increasing sophistication of these systems. With regard to these types of consultation services, part of the amount executed was provided for under the "software" investment heading. However, upon completion of the projects, it was concluded that the expenses should be categorised as computer consulting. Therefore, the value of the investment heading - "software" fell short of the budgeted amount and specialized work - computer consulting over budget.

The increased complexity of information systems has created the need to make use of more technically advanced maintenance contracts which are therefore more costly to ICP-ANACOM, resulting from increased automation of the processes, dematerialisation and provision of services online to stakeholders. As such, the 24 per cent increase reported under the Software heading largely reflects such automation. In parallel, urgent and large-scale conservation and maintenance works were executed in respect of the earth antennae and networks of the remote radio emissions control stations, totalling approximately 194 thousand euros, determining an increase in basic equipment expenses.

The increase under the 'Rents and leasing' heading reflects, on the one hand, rental of a floor in the building at Av. José Malhoa 14, for the whole year, whose rent in 2009 covered only half of the year and, on the other hand, the policy of rationalization and increasing the efficiency of ICP-ANACOM's vehicle fleet, which resulted in a reduction in the vehicle fleet and replacement of older owned vehicles with leased vehicles.

A more pronounced reduction in expenses was reported under the heading of publicity and advertising, since the campaign planned in the context of ITED/ITUR was not executed and those planned in the context of digital terrestrial television were only partially concluded.

A decrease of 4 per cent was reported in personnel costs incurred for the financial years 2010, compared to 2009, with the following evolution recorded by heading:

Table no. 3.15 - Personnel costs

	2010	2009	Variation
Remunerations			
Management boards	1 030 332	1 101 047	-6%
Personnel	16 508 760	17 214 166	-4%
	17 539 092	18 315 213	-4%
Social Costs			
Remuneration costs	2 954 043	2 900 696	2%
Pension costs (Note 15)	291 497	282 384	3%
Healthcare costs (Note 15)	170 876	121 057	41%
Social action costs	702 312	555 839	26%
Others	8 366	-	
	4 127 094	3 859 976	7%
Training	259 411	338 008	-23%
Other personnel costs	282 178	542 495	-48%
Total	22 207 775	23 055 692	-4%

The variation in the compensation awarded to ICP-ANACOM's management boards reflects a 5 per cent reduction in the salaries of the members of the MB, effective from July 2010. This follows the publication of Law no. 12-A/2010 of 30 June (article 12). The variation in employee compensation results from the fact that in 2009, an amount in respect of productivity bonuses, considered as a (specialised) expense was higher than the amount actually processed in 2010, which situation led to an adjustment (credit) in 2010 of 318,222 euros. At the same time, no bonus values from 2010 were specified for processing in 2011.

In the detail of social costs, there was an increase in charges related to healthcare, following an actuarial study conducted by the consulting firm Towers Watson, reported to 31 December 2010, and the increase in social action expenses, health insurance, following the 20 per cent increase in health insurance premium due to the increase in incidents in the previous year, and the increase in participation following the improvement of benefits granted to staff, agreed in the Acordo de Regulamentação Colectiva de Trabalho (ARCT).

A reduction of 64 per cent was reported under 'Other costs and losses', with the following evolution:

Table no. 3.16 - Other costs and losses

		2010	2009	Variation
Subscriptions	i)	999 457	1 001 088	0%
Meetings and conferences	ii)	507 528	3 326 668	-85%
Comissão Planeamento Com. Emergência	iii)	321 933	346 985	-7%
Fundação Portuguesa das Comunicações	iv)	795 263	1 045 649	-24%
Autoridade da Concorrência (AdC)	v)	4 535 004	4 425 648	2%
Cooperation	vi)	523 450	227 231	130%
Participations	vii)	-	3 039 071	-100%
Sponsorship	viii)	542 658	10 410 314	-95%
Others	ix)	409 408	108 247	278%
Total		8 634 701	23 930 901	-64%

The most significant increases were reported under the 'Cooperation' and 'Others' headings, and the largest reduction reported under the 'Sponsorships', 'Participations' and 'Meetings and conferences' headings.

A brief description is presented below of the components of each heading, as well as the most important reasons for variations.

i 'Contributions': expenses related to the payment of contributions to national and international postal and telecommunications bodies (ITU, UPU, UPAEP, CEPT, ETSI, etc.) in representation of the Portuguese State.

ii. 'Meetings and conferences': expenses related to events, held nationally and internationally, promoted by ICP-ANACOM or by international organisations. Examples include meetings held in the context of working groups and conferences and seminars organized in the context of the communications sector.

iii. iv. and v. 'CPEC', 'FPC' and 'AdC': charges related to the logistical support provided to these entities, following ministerial order, administrative rule and guidelines, respectively.

vi. 'Cooperation': expenses related to traineeships of representatives of PALOP at ICP-ANACOM and training by staff of this Authority in the respective countries.

vii. 'Participations': costs related to the cooperation and partnership protocols which are binding upon ICP-ANACOM by order of the Portuguese State or the Government.

viii. 'Sponsorships': Costs related to sponsorships awarded as part of the activities in which ICP-ANACOM is engaged, through various provisions, including disclosures, training and publicity.

ix. 'Others': expenses not covered under the previous headings, including unfavourable exchange rate variations and various accounting adjustments.

The following exceptional charges were reported in 2009 which were not repeated in 2010:

- under 'Meetings and conferences', ICP-ANACOM organized and promoted the WTPF Forum, which entailed expenditure of 2,661 million euros;
- 'Sponsorships' was awarded to Fundação das Comunicações Móveis (FCM) (Mobile Communications Foundation), with reference to the *e.escolinha* initiative and amounting to 10 million euros, following order of the Government;
- significant payments were made to the European Space Agency (ESA), reported under 'Participations', under the existing protocol, virtually exhausting the total amount provided for therein.

The value of the contribution to Fundação Portuguesa da Comunicações (FPC) (Portuguese Communications Foundation) was less than that of 2009.

Of the following increases were reported:

- 'Cooperation': in relation to the action promoted by the ITU to establish a Center of Excellence for portuguese and spanish-speaking african countries which had the agreement of Portugal, provision was made for a phased contribution from 2008, after signing the agreement. In 2010, a payment was made with respect to three phases, already accrued, to the amount of 291,404 euros;
- 'Others': this heading includes, among other items, the compensation granted to a former director, pursuant to paragraphs 4 and 5 of article 23 of the Statutes of ICP-ANACOM, amounting to 155 thousand euros, unfavourable exchange variations, amounting to 56 thousand euros and the correction of values of investments made in previous years, amounting to 50 thousand euros.

There was no need to increase the 'Provisions' heading; to the contrary, there was a reversal in the value of provision made against ongoing legal proceedings, which was reported as income for the year.

There was a reduction of 16 per cent in 'Depreciation and amortization costs for the year', which was essentially related to the fact that investment, despite having reached a high level, was concentrated at the end of the year, so that the depreciation of the most significant part of the investments occurred only in the last month of the year, upon the equipment's entry into operation.

3.3 Financial situation

No significant changes were reported to the structure of ICP-ANACOM's balance sheet and financial situation during the 2010 financial year, as can be seen from the information provided in the following table:

Table no. 3.17 - Balance structure				
	2010	2009		2010
			Equity capital	78 380 995
			Other reserves	32 046 031
Total assets	100%	100%	Transferred results	3 597 729
Non-current assets	16%	16%	Other changes in equity	6 382 113
Current assets	<u>84%</u>	<u>84%</u>	Net results	36 355 122
			Non-current liabilities	47 890 664
			Provisions	44 927 664
Total liabilities + Equity capital	100%	100%	Debts to third parties	2 963 000
Equity capital	58%	48%	Current liabilities	8 742 263
Liabilities	<u>42%</u>	<u>52%</u>	Non-current assets	21 183 901
			Current assets	113 830 021
			Cash	106 835 643
			Others	<u>6 994 378</u>

The weight of 'non-current assets' (investments and post-employment benefits - pension fund) remained constant compared to 'Current assets' (cash, deferrals and receivables) despite the significant increase in the pension fund surplus.

An increase was reported under 'liabilities+equity capital' in the weight of equity, due mainly to the fact that the net result of the financial period, amounting to 36,355 million euros, exceeded the application of results from the 2009 financial period (delivery to the State), amounting to 12,408 million euros.

Overall, the financial structure remained balanced and solid. This ensures ICP-ANACOM's financial autonomy, as established in its statutes, which is essential to its independence as a regulator of the communications sector.

Proposed Application of Results

4 Proposed application of results

Following the practice of previous years, it is proposed that the net result for the year ended 31 December 2010, amounting to 36,355,122 euros, should be transferred to:

- 'Investment Reserves', to the amount of 5,453,268 euros (15 per cent of the value), with the purpose of being used in the constitution of statutory capital, under the terms of Administrative Rule no. 1534-A/2002 of 23 December;
- 'Delivery to the State' to the amount of 30,901,854 euros (85 per cent of the value), which will be reported under 'Transferred results' until such time as the transfer is performed.

Given that the ICP-ANACOM's invoicing occurs in the 4th quarter of the year, delivery to the State must be done on the basis of available funds and, at the latest, prior to the end of the financial period.

Financial Statements

5.1 Balance at 31 December 2009 and 2010 (euros)

Description	Notes	2010.12.31	2009.12.31
ASSETS			
<u>Non-current assets</u>			
Tangible fixed assets	7	14 551 520	15 339 328
Intangible assets	8	3 806 666	2 135 397
Other receivables	10 and 15	2 825 715	323 908
		21 183 901	17 798 633
<u>Current assets</u>			
Customers	9	3 366 732	4 263 184
Advance payment to suppliers		4 433	228 079
Receivables	10	996 928	688 810
Deferrals	11	2 626 285	3 012 788
Cash and bank deposits	4	106 835 643	86 788 729
		113 830 021	94 981 590
Total assets		135 013 922	112 780 223
EQUITY AND LIABILITIES			
EQUITY			
Other reserves	13	32 046 031	29 856 392
Transferred results	13	3 597 729	3 035 015
Other changes in equity	13	6 382 113	6 386 003
Net result for period		36 355 122	14 597 596
Total equity		78 380 995	53 875 006
LIABILITIES			
<u>Non-current liabilities</u>			
Provisions	14	44 927 664	49 320 163
Post-employment liabilities	15	2 963 000	2 445 000
		47 890 664	51 765 163
<u>Current liabilities</u>			
Suppliers		1 244 620	1 510 079
State and public entities	16	728 813	702 562
Other payables	17	6 768 830	4 927 413
		8 742 263	7 140 054
Total liabilities		56 632 927	58 905 217
Total equity and liabilities		135 013 922	112 780 223

The annex notes constitute an integral part of the financial statements presented above.

FINANCIAL AND ADMINISTRATIVE DIRECTOR

MANAGEMENT BOARD

5.2 Income statement by categories for the financial periods ending on 31 December 2010 and 2009 (euros)

Description	Notes	2010.12.31	2009.12.31
INCOME AND EXPENSES			
Services provided		75 731 645	72 948 134
Operating subsidies		38 233	48 872
Supplies and external services		-13 118 888	-12 148 315
Personnel costs		-22 207 775	-23 055 692
Impairment of receivables (losses/reversals)	12	108 786	1 652 868
Provisions (increases/reductions)	14	4 392 500	-337 213
Other income and gains		1 871 686	733 365
Other costs and losses		-8 634 701	-23 930 902
Results before depreciations, financing expenses and tax		38 181 486	15 911 117
Costs/reversals of depreciation and amortization	18	-3 217 964	-3 813 381
Operating results (before financing costs and taxes)		34 963 522	12 097 736
Interest and similar income		1 391 600	2 499 860
Net result for period		36 355 122	14 597 596

The annex notes constitute an integral part of the financial statements presented above.

FINANCIAL AND ADMINISTRATIVE DIRECTOR

MANAGEMENT BOARD

5.3 Statement of changes in equity in financial periods ending on 31 December 2010 (euros)

	Other reserves	Transferred Results	Other changes in equity	Net result for period	Total
As on 31 December 2008 (POC)	36 059 243	0	0	23 856 218	59 915 461
Changes in period					
First adoption of new accounting standards (SNC)	-9 059 069	3 035 015	6 957 150	0	933 096
Other changes recognised in equity	-9 059 069	3 035 015	-571 147	0	-571 147
			6 386 003	0	361 949
Net result for period				14 597 596	14 597 596
Integral result	-9 059 069	3 035 015	6 386 003	14 597 596	14 959 545
Capital operations in period					
Distributions	0	0	0	-21 000 000	-21 000 000
Other operations					
- Transfer of results of previous period	2 856 218	0	0	-2 856 218	0
	2 856 218	0	0	-23 856 218	-21 000 000
As on 31 December 2009 (SNC)	29 856 392	3 035 015	6 386 003	14 597 596	53 875 006
Changes in period					
Other changes recognised in equity					
- Employee benefits (Note 15)	0	562 714	0	0	562 714
- Subsidies (Nota 13)	0	0	-3 890	0	-3 890
	0	562 714	-3 890	0	558 824
Net result for period				36 355 122	36 355 122
Integral result	0	562 714	-3 890	36 355 122	36 913 946
Capital operations in period					
Distributions	0	0	0	-12 407 957	-12 407 957
Other operations					
- Transfer of results of previous period	2 189 639	0	0	-2 189 639	0
	2 189 639	0	0	-14 597 596	-12 407 957
As on 31 December 2010	32 046 031	3 597 729	6 382 113	36 355 122	78 380 995

The annex notes constitute an integral part of the financial statements presented above.

FINANCIAL AND ADMINISTRATIVE DIRECTOR

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5.4 Statement of cash flows for the financial period ending on 31 December 2010 (euros)

Description	Notes	2010.12.31	2009.12.31
Cash flows from operating activities			
Receivables from clients		79 451 452	73 798 084
Payments to suppliers		-12 740 761	-11 747 755
Payments to personnel		-23 288 001	-22 751 224
Cash flow generated by operations		43 422 690	39 299 105
Other receivables/payments		-8 686 527	-23 482 628
Net cash flows from operating activities		34 736 163	15 816 477
Cash flows from investment activities			
Payments related to:			
Tangible fixed assets		-1 096 289	-718 880
Intangible assets		-2 455 256	-1 600 089
Other assets		0	0
Receivables from:			
Tangible fixed assets		45 774	1 000
Intangible assets		0	0
Other assets		0	0
Investment subsidies	13	46 569	46 011
Interest and similar income		1 177 910	2 201 642
Net cash flows from investment activities		-2 281 292	-70 316
Cash flows from financing activities			
Receivables from:			
Other financing operations		0	0
Payments related to:			
Delivery to the State	13	-12 407 957	-21 000 000
Other financing operations		0	0
Net cash flows from financing activities		-12 407 957	-21 000 000
Variation in cash and cash equivalents		20 046 914	-5 253 839
Cash and cash equivalents at start of period	4	86 788 729	92 042 568
Cash and cash equivalents at end of period	4	106 835 643	86 788 729

The annex notes constitute an integral part of the financial statements presented above.

FINANCIAL AND ADMINISTRATIVE DIRECTOR

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6 Annex to the financial statements

1. Introductory note

ICP-ANACOM has its headquarters at Av. José Malhoa 12 in Lisbon.

ICP-ANACOM is a legal person under public law, endowed with administrative and financial autonomy and its own assets. Its purpose is to regulate, supervise and represent the communications sector under the terms of its statutes and other applicable law.

The statutes of ICP-ANACOM (published in annex to Decree-Law no. 309/2001, of 7 December) of the Lei das Comunicações Electrónicas (Electronic Communications Law) (articles 4 and 5 of Law no. 5/2004 of 10 February) and Lei de Bases dos Serviços Postais (Basic Law of Postal Services) (article 18 of Law no. 102/99 of 26 July, with the amendments introduced by Decree-Law no. 116/2003 of 12 June) state that ICP-ANACOM is the national regulatory authority for electronic and postal communications. In addition, it is responsible for assisting the Government, upon request or on its own initiative, in the definition of strategic guidelines and general policies for communications, suggesting or proposing policy or legislative measures, and also for providing technical representation of the Portuguese State in international counterpart bodies (paragraphs a) and r) of paragraph 1 of article 6 of its statutes).

Specifically, it is ICP-ANACOM's mission to regulate, supervise and monitor the electronic communications market in order to assure that all citizens are provided with a diverse choice and universal access to (electronic and postal) communications services, in a market with conditions that foster innovation, investment, and efficient service provision, guaranteeing affordable prices for all consumers, besides its responsibility in contributing to the development of the EU internal market.

ICP-ANACOM also has the duty of guaranteeing the fulfilment of the rules applying to the sector, as well as the obligations to which electronic and postal communications operators are subject and the efficient management of use of the radio spectrum.

Within the framework of its representative duties, ICP-ANACOM provides technical participation and sectorial representation of the Portuguese State in international

organisations, follows-up on the experiences of foreign communications regulation and establishes relationships with other regulatory entities.

It is also the regulator's duty to cooperate with other public and private entities in promoting scientific research with application to telecommunications, as well as to raise awareness about the industry nationally and internationally, promoting technical standardization, in cooperation with other entities, in the communications sector and associated fields. It is also charged with cooperating in the definition of public emergency planning policies for the communications sector, technically supporting the organisations and services which are responsible for the establishment and management of the emergency communications integrated network.

ICP-ANACOM's legal framework was tailored to its mission and responsibilities; it is a mixed regime combining the prerogatives of public law, indispensable for the performance of its authoritarian duties, with the flexibility and efficiency of private law.

ICP-ANACOM is an independent body, as classified by the framework law for public institutes (Law no. 3/2004 of 15 January, article 48, paragraph 1, point f)) and articles 6 and 20 of Decree-Law no. 210/2006 of 27 October, which gives approval to the organisational structure of MOPTC, by which a special regime is bestowed with derogation of the common regime where such is strictly necessary to its specificity.

Paragraph 2 of the above mentioned article 20 of Decree-Law no. 210/2006 further underlines that "ICP-ANACOM is independent in the exercise of its functions, in the context of law, without prejudice to the guiding principles of communications policy set by the Government, according to constitutional and legal terms and the acts subject to ministerial tutelage under terms anticipated by law and in these statutes".

These financial statements were approved by the Management Board at its meeting on 31 March of 2011. It is the opinion of the Management Board that these financial statements provide a true and proper reflection of the operation of ICP-ANACOM, as well as its position, financial evaluation and cash flows.

2. Accounting standards followed in the preparation of the financial statements

2.1 Basis of preparation

These financial statements are the first prepared by ICP-ANACOM in accordance with the *normas contábilísticas e de relato financeiro* (NCRF) (Accounting and Financial Reporting Standards) – issued and in force as on the 1st of January of 2010 – and in accordance with NCRF 3 - First-time adoption of accounting and financial reporting standards, whereby ICP-ANACOM prepared its opening balance on the transition date on the 1st of January of 2009. In the process of transition from the previously adopted accounting standards Plano Oficial de Contabilidade (POC) (Official Accounting Plan) to the SNC, in its 2010 financial statements, ICP-ANACOM has altered some of the accounting and valuation criteria applied, so that they appear in accordance with the NCRF. As such, the comparative figures given in respect of the 2009 financial period have been re-expressed to reflect such adjustments. A reconciliation and description of the impacts of the transition from previous rules to the SNC, in equity, income statement and cash flows are presented in note 2.4.

Preparation of the consolidated financial statements, in accordance with SNC, entailed the use of estimates, assumptions and critical judgments in the process of determining the accounting policies to be adopted by ICP-ANACOM, with significant impact on the value of assets and liabilities, as well as on income and costs in the reported period.

Although these estimates were based on the best expectations with regard to future and current events and actions, and in studies conducted by specialist companies in certain specific areas, current and future results may differ from these estimates. Those areas involving a higher element of judgment or complexity, and areas in which assumptions and estimates significantly affect the financial statements are presented in note 3.18.

2.2 Derogation of the provisions of the SNC

There were, during the course of the financial year relating to these statements, no exceptional circumstances that would directly imply a waiver from any provision of the SNC.

2.3 Comparability of financial statements

The information contained in these financial statements is entirely comparable with the previous financial year, presented on a comparative basis in the present financial statements. However, these comparative figures have been re-expressed to reflect the alteration in accounting standards, so that there are differences from the values reported in the financial statements for the previous year (see note 2.4).

2.4 First-time adoption of NCRF

ICP-ANACOM adopted the NCRF issued and in force on the 1st of January of 2010, having applied these rules retrospectively to all periods presented, except in the case of those exemptions and exclusions allowed by NCRF 3 on the retrospective application of reporting set forth by SNC standards.

The exemptions used by ICP-ANACOM in preparing the opening balance on the transition date on the 1st of January of 2009 relate to tangible and intangible assets, to the extent that they were valued according to the value determined under previous rules, whether or not subject to re- evaluation before the transition date.

The revaluations performed in previous financial periods in respect of tangible fixed assets held by ICP-ANACOM on the 1st of January of 2009 were performed based on applicable law.

At the time of these re-evaluations, the book value of re-valued tangible assets is comparable to fair value or to depreciated cost to be considered for the purposes of the SNC, adjusted by the correction index of monetary devaluation. As such, on the transition date, the value of re-valued tangible assets was not subject to adjustment.

The criteria for recognition, appreciation and depreciation of assets which were not re-valued, adopted under previous accounting rules, are comparable to the criteria of the historical cost model in the NCRF and were therefore not made subject to adjustment.

Reconciliation of the adjustments of transition to the NCRF

On the 31st of December of 2009 and the 1st of January of 2009, the adoption of accounting principles and policies in accordance with the NCRF had the following effects:

Reconciliation of equity

The total adjustment on the transition date reflects the difference recorded in the financial statements resulting from the conversion to NCRF. The details of these adjustments are as follows:

Table no. 6.1 - Equity reconciliation

	<u>Adjust.</u>	<u>2009.12.31</u>	<u>2009.01.01</u>
Equity POC		52.941.910	59.915.461
Investment subsidies	1	136.860	140.750
Post-employment benefits	2	936.046	1.029.651
Impairments	3	-135.280	-135.280
Bon-recoverable debts (receivables)	4	-3.456	-3.456
Intangible fixed assets (net of amortizations)	5	-1.074	-1.289
		<u>933.096</u>	<u>1.030.376</u>
Equity SNC		<u>53.875.006</u>	<u>60.945.837</u>

Reconciliation of net result

For the 2009 financial year, the adoption of accounting principles and policies in accordance with the NCRF impacted the net result as follows:

Table no. 6.2 - Reconciliation of net result

	<u>Adjust.</u>	<u>2009.12.31</u>
Net result POC		14 597 596
Post employment benefits	2	-93 605
Others		93 605
Total adjustments		<u>0</u>
Net result SNC		<u>14 597 596</u>

Alteration to the cash flow statement

The alterations to the cash flow statement were not considered significant for disclosure.

Details of the adjustments

The adjustments mentioned in the reconciliation of equity and of the net result, resulting from differences identified between the POC and SNC standards can be summarized as follows:

Adjustment 1 - Under the SNC the value in respect of investment grants not yet recognized in the results shall be presented in equity when, according to the POC, this value was reported as a liability.

Adjustment 2 - ICP-ANACOM maintains a balance as an asset in respect of the costs related to past services not yet recognized in the results, related to the defined benefits retirement plan, whose rights were already acquired. Under the SNC, costs of past service relating to acquired rights may not be deferred, but must be recognized in the period to which they relate.

Adjustment 3 - The balance of the debts of customers corresponds to the recoverable amount.

Adjustment 4 - The account of securities to be settled reflects recoverable values only.

Adjustment 5 – De-recognition of the fixed assets recorded under the POC as intangible fixed assets, but which according to the SNC did not qualify for recognition as intangible assets.

3. Principal accounting policies

The principal accounting policies applied in preparing the financial statements are those described below. These policies have been consistently applied to all years presented, unless otherwise indicated.

3.1 Currency conversion

3.1.1 Functional and presentation currency

The financial statements of ICP-ANACOM and respective notes of this annex are presented in euros, unless stated otherwise.

3.1.2 Transactions and balances

Transactions in currencies other than euros are converted into the functional currency using the exchange rates on the transaction date. The exchange rate gains or losses resulting from payment/receipt and conversion, at the exchange rate on the date of the balance sheet, of assets and liabilities denominated in foreign currencies are recognized in the income statement.

3.1.3 Exchange rates used

The foreign currency rates used to convert balances in foreign currency were as follows:

Table no. 6.3 - Currencies

	<u>31.12.2010</u>	<u>31.12.2009</u>
US dollar	0.74588	0.6918
Swiss franc	0.79808	0.67263
Pounds Sterling	1.15865	1.12296

3.2 Tangible fixed assets

Tangible assets are valued at acquisition cost, less accumulated depreciation and any impairment losses. This cost includes the estimated cost on the date of transition to the SNC and the acquisition costs for assets obtained subsequent to that date. Tangible assets

transferred from the former CTT and acquired directly by ICP-ANACOM up to 31 December 1992 were reviewed prior to the date of transition to the SNC (01 January 2009) according to the legal provisions and official monetary depreciation coefficients (note 7).

The acquisition cost includes the purchase price of the asset, costs directly attributable to its acquisition, including non-deductible taxes, and charges incurred in preparing the asset so that it is proper condition for use.

Expenses incurred as a result of subsequent renewals and major repairs, which increase the useful life or productive capacity of assets are recognized in the cost of the asset or recognized as a separate asset, as appropriate, only when it is probable that future associated economic benefits will flow to the entity and when the cost can be reliably measured; the carrying amount of the replaced part is derecognised from the balance sheet.

Related to repairs and maintenance of a current nature, charges are recognized as an expense in the period in which they incurred.

The expenses resulting from adaptation works in rented buildings are recognized as an expense of the period according to the rental period provided for in the respective contracts.

The philatelic property, whose value was determined based on an assessment made before the date of transition to the SNC, is not subject to depreciation, by which it is subject to periodic impairment tests.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method from the date on which they become available for use. The useful lives estimated for the most significant tangible assets are as follows:

Table no. 6.4 - Useful lives of tangible assets

	<u>Years</u>
Buildings and other constructions	Between 10 and 50 years
Basic equipment	Between 5 and 10 years
Transport equipment	Between 4 and 7 years
Tools and utensils	4 years
Administrative equipment	Between 4 and 10 years
Other tangible fixed assets	<u>Between 0 and 10 years</u>

The useful lives of assets are reviewed as on each financial reporting date, so that the reported depreciation conforms to the consumption patterns of the assets. Changes to the useful lives are treated as an accounting estimate alteration and are applied prospectively.

Gains or losses on disposal of assets are determined by the difference between the exit value and book value of the asset, recognized in the income statement.

3.3 Intangible assets

Intangible assets are recognized and measured:

- (i) at purchase price, including costs related to intellectual property rights and non-refundable taxes on purchases, after deducting trade discounts and rebates;
- (ii) any expenses directly attributable to the preparation of the asset for its intended use.

ICP-ANACOM recognizes the amounts spent on software purchased from third parties as intangible assets (note 8).

ICP-ANACOM values its intangible assets after initial recognition, using the Cost Model, as provided for in NCRF 6 - Intangible assets, which requires that an intangible asset should be carried at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets with a defined useful life are amortized on a systematic basis from the date on which they are available for use over the estimated useful life. ICP-ANACOM has no intangible assets with indefinite useful life. Software is amortized over three years.

3.4 Impairment of assets

Assets with defined useful lives are tested for impairment whenever events or alterations in surrounding conditions indicate that the value at which they are registered in the financial statements is not recoverable.

When there is impairment is recorded or reversed, amortization and depreciation of the assets are recalculated prospectively in accordance with the recoverable value.

3.5 Financial assets

ICP-ANACOM determines the classification of financial assets on the date of initial recognition, in accordance with NCRF 27 - Financial Instruments.

3.6 Client and other receivables

The headings 'Customers' and 'Other receivables' constitute rights to receive in respect of fees paid to ICP-ANACOM and are initially recognized at fair value and subsequently measured at amortized cost less impairment adjustments, when applicable (notes 9 and 10).

Impairment losses are recorded in respect of customers and accounts receivable, whenever there is objective evidence that they are not recoverable.

- Natural persons and legal persons

After taking all steps for collection of debts (including issuance of certificate of debt for submission to tax office) and maintaining the debt to be recovered, these are considered non-recoverable and subjected to the calculation of impairment.

Exceptions are made in cases where debts are contested or in a similar situation to contested debt, where debts are associated with current bankruptcy proceedings, and other cases for which certificates of debt have not been issued to the Tax Office, which are immediately considered non-recoverable and subject to the calculation of the impairment in respect of their entire amount.

- Legal and natural persons (professionals) based abroad

After taking all steps for collection of debts and maintaining the debt to be recovered, they are considered non-recoverable and subject to the calculation of impairment. Indeed, in these cases where ICP-ANACOM has access to no effective means of

enforcing payment, as with clients based in the national territory, lack of payment on the date stipulated in the invoice is sufficient reason to consider the debt as non-recoverable, regardless of whether steps are taken in an attempt to achieve actual collection.

In all cases, debts in litigation, contested debts and debts on appeal, with debtors in bankruptcy and where there is strong probability that they will not be recovered are always subject to the determination of impairment.

Identified impairment losses are recorded in the income statement under 'impairment of receivables' and are subsequently reversed in the event that indication of impairment no longer exists (note 12).

3.7 Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits (note 4).

3.8 Suppliers and other payables

The headings Suppliers and other payables are obligations to pay for acquired goods or services and are recognized at fair value.

3.9 Post-employment benefits

ICP-ANACOM staff who came from CTT were covered by CTT's retirement and survival pension plan on the date of their transfer. ICP-ANACOM took on responsibility for this plan. (note 15).

On the 23rd of October of 2003, the Management Board approved a fixed contribution complementary pension plan for all staff with Social Security. In 2008, the Management Board decided to extend this to the rest of the workers, with effect on the 1st of January of 2008. Pension fund managers control both plans.

Staff who came from CTT is not covered by Social Security benefits and assistance; instead they are insured by CTT's IOS - Instituto das Obras Sociais (Institute for Social Works). ICP-ANACOM has taken on the healthcare responsibilities associated with this situation.

3.9.1 Defined benefit plan – Retirement and survival pension and healthcare

The retirement and survival pension plan covering ICP-ANACOM staff transferred from former CTT is a defined benefit plan and was constituted as an autonomous fund to finance liabilities and is not included in the balance.

The healthcare plan for employees in state retirement covered by the IOS is a defined benefit plan without constituted fund, whose liabilities are reported on the balance sheet.

Liabilities related to the payment of these benefits are estimated annually by independent actuaries and are calculated using the projected credit unit method. The present value of the obligation of the defined benefit was determined by deducting future benefit payments using the interest rate of highly rated bonds denominated in the same currency in which the benefits would be paid and with a maturity approaching the maturity of the assumed liability.

The liability to be recognized on the balance sheet in respect of health care liabilities under the retirement and pension and survivor plan will be the present value of benefit obligations determined as on the date of the balance, less the fair value of the plan's assets.

Recognition of actuarial deviations

Actuarial deviations arise from experience adjustments and alterations in actuarial assumptions.

ICP-ANACOM recognizes all calculated actuarial gains and losses, for all plans in force, directly in equity as reported in the 'Statement of changes in equity'. Gains and losses resulting from costs or gains of the current services of a defined benefit plan are recognized in the period in which they occur.

3.9.2 Defined contribution retirement pension plan

The defined contribution plan established by ICP-ANACOM for its entire staff is financed by ICP-ANACOM and by the employees. ICP-ANACOM has no additional responsibilities beyond the contributions to be made in respect of past services. The contributions are reported under 'Personnel costs' in the period to which they refer.

3.10 Provisions and contingent liabilities and assets

Provisions are recognized upon verification of all the following conditions:

- i. there is a present legal or constructive obligation arising from past events;
- ii. there is a high probability that an expenditure will be required of internal resources for the settlement of this obligation;
- iii. the amount can be reasonably estimated (note 14). Whenever one of the criteria is not met, no provision is constituted, but ICP-ANACOM discloses the item as a contingent liability, unless it is considered there is only a remote possibility of payment being required, in which situation no disclosure is made.

Contingent assets are not reported in the financial statements but disclosed in the notes when it is probable that there will be a future economic benefit.

3.11 Subsidies from the EU or other entities

ICP-ANACOM recognizes the reimbursements from the EU or other entities according to the value of receipt.

Non-refundable investment subsidies are initially recognized under the equity heading under 'Other changes to equity' and are subsequently credited in the income statement according to the depreciation of the assets to which they relate (note 13).

Operating subsidies are recognized as income in the income statement in the same period as the associated expenses are incurred and recorded, provided they are known in useful time.

3.12 Revenue

ICP-ANACOM's revenue corresponds to the fair value of the amount received or receivable in respect of the settlement of different fees stemming from legislation related to the regulation of the communications sector and other applicable legislation.

The different fees applied by ICP-ANACOM essentially correspond to: fees payable under the Lei das Comunicações Eletrónicas (LCE) (Electronic Communications Law); fees in respect of the activity of providing postal services; administrative fees and fees for use of the amateur radio service; and other registration fees.

Revenue concerning these fees is recognized in the period to which they relate, regardless of the date of receipt.

3.13 Revenues from financial investments

Revenues relating to interest or other income to be recognized in each period in respect of assets are determined according to the effective interest rate method.

3.14 Accrual basis

The income and expenses of ICP-ANACOM are recorded in accordance with the principle of accruals, whereby they are recognized as they accrue, regardless of when they are received or paid. The differences between the amounts received and the corresponding accrued income and expenses are reported under 'Other accounts payable/receivable' and 'Deferrals'.

3.15 Surcharges and late-payment interest

Non-payment of fees which are due under the LCE and other applicable legislation within the stipulated time limit determines the charging of late-payment interest and surcharges, by legal imposition which is binding upon ICP-ANACOM. These values are recognised only when the right of receipt becomes effective, always adopting prudence, taking into account the risks of non-collection.

3.16 Fines receivable

Among the assignments conferred upon ICP-ANACOM is the enforcement of laws, regulations, standards and technical requirements applicable to the communications sector, whereas failure to comply is often typified as an infringement. In this context, it is incumbent upon this Authority to investigate and decide on infringement cases within its jurisdiction and enforce fines.

In most cases, 40 per cent of the value of the fines is retained by ICP-ANACOM and 60 per cent is transferred to the State.

These values are recognised by ICP-ANACOM when actually received.

3.17 Charges in respect of special projects and protocols in the context of the information society

Charges in respect of special projects and protocols in the context of the information society, stemming from agreements between the Government, or ICP-ANACOM on its behalf, and beneficiaries are reported in the income statement for the financial year in which payment occurs and disclosure is made of any outstanding payments.

3.18 Critical estimates and judgements

Estimates and judgments having an impact on the financial statements of ICP-ANACOM are continuously evaluated, representing, on the date of each report, the best estimate, taking

into account the history of performance, experience and expectations about future events that, under the circumstances, are deemed reasonable.

The intrinsic nature of the estimates may, for the purposes of financial reporting, result in a difference between the real reflection of the situation analysed and the amounts estimated. The estimates and judgments that have significant risk of material adjustment to the carrying value of assets and liabilities during the next financial year are as follows.

3.18.1 Provisions and contingent liabilities

ICP-ANACOM periodically examines any obligations arising from past events that warrant recognition or disclosure.

The subjectivity inherent in determining the likelihood that resources may be required for the settlement of obligations, and the amount thereof, may lead to significant adjustments, particularly in relation to ongoing legal proceedings and to contingencies, as referred to in notes 14 and 20.

3.18.2 Actuarial assumptions

The determination of liabilities in respect of retirement pensions and healthcare requires the use of assumptions and estimates of a demographic and financial nature, which may significantly influence the amounts of liabilities on each reporting date. The most sensitive variables refer to the discount rate used to update the liabilities, the rate of wage increase and the mortality tables.

Additionally, liability in respect of the defined benefit retirement and survivor pension plan is subject to legislation relating to the statutes of the CGA and the general Social Security scheme, so that any amendments to these laws could lead to a material variation in such liabilities.

3.18.3 Tangible and intangible assets

The determination of the useful lives of assets as well as the method of depreciation and amortization to be applied is essential in order to determine the amount of depreciation/amortization to be recognized in the income statement of each financial year.

These two parameters are defined according to the best judgement of what will occur with respect to the assets in question.

3.18.4 Impairment

The determination of any loss through impairment may be triggered by the occurrence of various events, many of which are outside ICP-ANACOM's sphere of control.

The identification of impairment indicators, estimated future cash flows and determination of the fair value of assets implies a high degree of judgement by ICP-ANACOM regarding the identification and evaluation of various indicators of impairment, the expected cash flows, applicable discount rates, useful lives and residual values.

In particular, the analysis carried out periodically of the accounts receivable balances may give rise to the need to record impairment losses, which losses are determined based on available information and estimates made by ICP-ANACOM of the expected cash flows to be received.

4 Cash flow

4.1 Cash and cash equivalents not available for use

ICP-ANACOM has no balance of cash or cash equivalent subject to restrictions of use for the financial periods presented.

4.2 Breakdown of the values reported under cash and bank deposits

On December 31 of 2010 and 2009, the values of cash and bank deposits are reported as follows:

Table no. 6.5 - Cash and bank deposits

	<u>2010</u>	<u>2009</u>
Cash		
- Cash	19 256	28 650
Bank deposits		
- Demand deposits	466 387	410 079
- Term deposits	<u>106 350 000</u>	<u>86 350 000</u>
Cash and cash equivalents	<u>106 350 000</u>	<u>86 350 000</u>

The policy followed by ICP-ANACOM in the management of available funds has included the use of term deposit financial applications, thereby minimizing risk, with deposits diversified among several banking institutions where ICP-ANACOM holds an active account and which are rated as investment grade A or above, according to one of the major rating agencies.

These applications are not available in their entirety to ICP-ANACOM, in economic terms. They also cover provisions for on going legal proceedings, which amounted as on 31 December 2010, to 44,927,664 euros and provisions for healthcare of staff covered under the health scheme of the IOS/CTT amounting to 2,963,000 euros. In addition, this Authority also holds a balance of Statutory Capital Reserves amounting to 32,046,031 euros.

5 Accounting policies, alterations in accounting estimates and errors

In the present financial year, it was not necessary to amend estimates or to register errors relating to prior financial years.

6 Taxation

Under the terms of paragraph 1 of article 1 of the statutes approved by Decree-Law no. 309/2001 of 7 December, ICP-ANACOM is a legal person governed by public law, endowed with administrative and financial autonomy and its own assets.

The same legislation further establishes that ICP-ANACOM prolongs the legal entity of Instituto das Comunicações de Portugal (ICP), as created by Decree-Law no. 188/81 of July 2, maintaining all the legal or contractual rights and obligations included in the respective legal area.

Accordingly, ICP-ANACOM enjoys exemption from the payment of Corporate Income Tax (IRC) as one of the entities included in the provisions of paragraph 1 of article 9 of the IRC code. It is also exempt from stamp duty, under the terms of point a) of article 6 of Código do Imposto do Selo (Stamp Duty Code). Value Added Tax (VAT) paid by ICP-ANACOM in the acquisition of goods and services, not recoverable, is reported under the respective headings of costs and tangible and intangible fixed assets on the income statement and on the balance sheet.

7 Tangible fixed assets

During the financial years ending the 31st of December of 2010 and 2009, the movements reported under the heading of tangible fixed asset were as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Others	Assets in progress	Total
Acquisition cost								
Balance as on 01 January 2009	1 325 259	14 008 657	22 520 040	1 199 646	11 197 154	8 891 697	174 076	59 316 529
Acquisitions	0	149 954	531 518	31 899	200 508	35 677	76 264	1 025 820
Disposals	0	0	0	0	0	0	0	0
Transfers and write-downs	0	-27 201	-95 948	-703	-1 241 540	-639 118	18 019	-1 986 491
Balance as on 31 December 2009	1 325 259	14 131 410	22 955 610	1 230 842	10 156 122	8 288 256	268 359	58 355 858
Acquisitions	0	147 508	464 428	155 535	255 515	134 764	24 881	1 182 631
Disposals	0	0	0	-327 576	-6 090	0	0	-333 666
Transfers and write-downs	0	-83 354	-310 262	0	-29 960	-33 557	-87 712	-544 845
Balance as on 31 December 2010	1 325 259	14 195 564	23 109 776	1 058 801	10 375 587	8 389 463	205 528	58 659 978
Accumulated depreciation and impairment losses								
Balance as on 01 January 2009	0	9 819 864	19 050 640	1 198 046	10 090 566	1 839 912	0	41 999 028
Depreciation for period	0	390 637	1 229 946	16 349	718 936	94 416	0	2 450 284
Disposals	0	0	0	0	0	0	0	0
Transfers and write-downs	0	-27 201	-95 367	-703	-1 241 542	-67 970	0	-1 432 783
Impairment losses	0	0	0	0	0	0	0	0
Balance as on 31 December 2009	0	10 183 300	20 185 219	1 213 692	9 567 960	1 866 358	0	43 016 529
Depreciation for period	0	307 826	1 045 032	19 590	449 400	62 825	0	1 884 673
Disposals	0	0	0	-327 576	-6 090	0	0	-333 666
Transfers and write-downs	0	-83 190	-312 784	0	-29 547	-33 557	0	-459 078
Impairment losses	0	0	0	0	0	0	0	0
Balance as on 31 December 2010	0	10 407 936	20 917 467	905 706	9 981 723	1 895 626	0	44 108 458
Net value as on 1 January 2009	1 325 259	4 188 793	3 469 400	1 600	1 106 588	7 051 785	174 076	17 317 501
Net value as on 31 December 2009	1 325 259	3 948 110	2 770 391	17 150	588 162	6 421 898	268 359	15 339 329
Net value as on 31 December 2010	1 325 259	3 787 628	2 192 309	153 095	393 864	6 493 837	205 528	14 551 520

The heading 'Land' and 'Buildings and other constructions' report the infrastructure belonging to ICP-ANACOM existing in Barcarena, Porto, Pinheirinhos da Azóia and the Autonomous Regions of Madeira and Azores.

Under the heading 'Basic Equipment' all equipment is reported which is indispensable to the execution of the function of inspection of the communications sector with which ICP-ANACOM is charged according to its statutes, whether conducted centrally (fixed) or in the field (mobile) as well as laboratory equipment necessary for testing of its own equipment or that of external entities.

The heading 'Transport Equipment' includes all vehicles that are part of the permanent fleet of ICP-ANACOM, necessary to carry out exterior inspection activities.

The main component of the heading 'Administrative equipment' is information technology equipment (hardware). It also records all equipment and devices of an administrative nature used at ICP-ANACOM, including various furniture and photocopiers, etc.

'Other tangible assets' includes philatelic property from the former Overseas Portugal colonies (*Ultramar*) which was detached from the State's private domain and included in the assets of ICP-ANACOM in 1998 under paragraph 2 of the Joint Order of the Minister for Equipment, Planning and Territorial Administration and the Minister Assistant no. 325/97 of the 18th of September of 1997, published in the *Diário da República* (the official journal) no. 226, 2nd Series, of September 30 of 1997. This Order prohibits any disposals affecting this asset without prior authorization of the responsible ministry. The initial value of the philatelic property was determined on the date of that Order and recorded as a reserve in equity (note 13). Later, in 2005, the value was updated to 6,820,414 euros, rising on the 31st of December of 2010 to 6,249,144 euros (31 December 2009: 6,249,144 euros). With the adoption of the SNC, these assets were reclassified under the heading 'Other changes in equity'. The philatelic property is not depreciated but is subject to periodic impairment tests.

In 2009, an accounting adjustment was made in respect of this collection, amounting to 571,270 euros, after FPC - Fundação Portuguesa das Comunicações (Portuguese Communications Foundation), to which the collection had been transferred for the purpose of public exhibition under the protocol made between the parties, reported the disappearance of a number of stamps making up the collection. The disappearance of the stamps was reported to the Criminal Police, by FPC, and ICP-ANACOM notified the insurance company; both situations are currently being analysed. It is expected the reimbursement of the value of the missing stamps (note 21.3) to ICP-ANACOM, by the insurer.

'Assets in progress' is used to report all goods that cannot yet be exploited because they are in test or acceptance phase, while existing at ICP-ANACOM. The most significant values included under 'Assets in progress' refer to the following projects:

Table no. 6.7 - Projects in progress

Description	2010	2009
Integrated Monitoring Project	180 647	198 469
Others	87 712	7 059
	<u>268 359</u>	<u>205 528</u>

Transfers of 'Assets in progress' to other tangible fixed assets headings occurring in 2010 refer mainly to the concluded portion of the Integrated Monitoring Project and to the completion of ICP-ANACOM signage, following the change of the logo.

Depreciations of tangible fixed assets are reported in their entirety under 'Costs/Reversals of depreciation and amortization' on the income statement.

As on December 31 of 2010, 6,801,827 euros of tangible fixed assets were in possession of third parties, including 6,249,144 euros in respect of the philatelic property from the former Portuguese overseas colonies (*Ultramar*) in the custody of FPC.

8 Intangible assets

During the financial years ending on December 31 of 2010 and 2009, the movements reported under the intangible asset headings were as follows:

Table no. 6.8 - Intangible assets

	<u>Software</u>	<u>Others</u>	<u>In progress</u>	<u>Total</u>
Acquisition cost				
Balance as on 01 January 2009	9 010 702	57 392	1 127 005	10 195 099
Acquisitions	1 975 268	0	308 008	2 283 276
Disposals	0	0	0	0
Transfers and write-downs	-172 863	-57 392	-790 531	-1 020 786
Balance as on 31 December 2009	10 813 107	0	644 482	11 457 589
Acquisitions	2 976 600	50 023	612 675	3 639 298
Disposals	0	0	0	0
Transfers and write-downs	-390 504	0	-644 482	-1 034 986
Balance as on 31 December 2010	13 399 203	50 023	612 675	14 061 901
Accumulated depreciation and impairment losses				
Balance as on 01 January 2009	8 132 172	2 611	0	8 134 783
Acquisitions	1 362 883	214	0	1 363 097
Disposals	0	0	0	0
Transfers and write-downs	-172 863	-2 825	0	-175 688
Balance as on 31 December 2009	9 322 192	0	0	9 322 192
Acquisitions	1 333 290	0	0	1 333 290
Disposals	0	0	0	0
Transfers and write-downs	-400 247	0	0	-400 247
Balance as on 31 December 2010	10 255 235	0	0	10 255 235
Net value as on 1 January 2009	878 530	54 781	1 127 005	2 060 316
Net value as on 31 December 2009	1 490 915	0	644 482	2 135 397
Net value as on 31 December 2010	3 143 968	50 023	612 675	3 806 666

'Intangible Assets' include investments made over the years in software, required for both the technical areas (laboratories and inspection) and for the support areas.

Transfers from 'Assets in progress' to other 'Intangible assets' headings occurring in 2010 refer to projects which were completed, including the reformulation of the content management system, reengineering of ICP-ANACOM's website, the adaptation of the internal application systems to new legislation (new fees model and amateur and amateur satellite services), the integrated solution of services of technological information systems, and other items of lesser significance.

On December 31 of 2010 and 2009, projects in progress are detailed as follows:

Table no. 6.9 - Projects in progress

Description	2010	2009
Integrated IT application of STI services		328 830
Projects related to internal adaptation to new legislation		161 853
e-NTFA (National Table of Frequency Allocations) application	197 033	
IT application 'Development of mobile termination costing model'	206 783	
Numbering management IT application	81 080	
Others	127 779	153 799
	<u>612 675</u>	<u>644 482</u>

9 Customers

As on December 31 of 2010 and 2009, the breakdown of 'Customers' is as follows:

Table no. 6.10 - Customers

	2010	2009
	Current	Current
Customers	3 498 856	4 339 042
Customers - doubtful debts	3 036 341	3 207 009
	6 535 197	7 546 051
Impairment losses (Note 12)	-3 168 465	-3 282 867
	<u>3 366 732</u>	<u>4 263 184</u>

For the periods presented, no differences are reported between book value and fair value.

10 Other receivables

As on December 31 of 2010 and 2009, the breakdown of 'Other receivables' is as follows:

Table no. 6.11 - Other receivables

	2010			2009		
	Current	Non-current	Total	Current	Non-current	Total
Accrued Income						
Receivable interest	519 868	0	519 868	353 441	0	353 441
Amounts to invoice	245 925	0	245 925	189 534	0	189 534
Others	1 907	0	1 907	10 244	0	10 244
	<u>767 700</u>	<u>0</u>	<u>767 700</u>	<u>553 219</u>	<u>0</u>	<u>553 219</u>
Other amounts due						
Pension fund surplus	0	2 821 846	2 821 846	0	320 039	320 039
Values to be settled	95 531	0	95 531	60 672	0	60 672
Others	133 697	3 869	137 566	74 919	3 869	78 788
	<u>229 228</u>	<u>2 825 715</u>	<u>3 054 943</u>	<u>135 591</u>	<u>323 908</u>	<u>459 499</u>
Total	<u>996 928</u>	<u>2 825 715</u>	<u>3 822 643</u>	<u>688 810</u>	<u>323 908</u>	<u>1 012 718</u>

The heading 'Amounts to invoice' refers principally to fees for use of frequencies and numbering, charged to electronic communications operators but which will only be invoiced in the following year.

11 Deferrals

As on December 31 of 2010 and 2009, ICP-ANACOM reported the balance of deferrals as follows:

Table no. 6.12 - Deferrals

	2010	2009
Expenses to be recognised		
Meal allowances	98 389	112 800
Rents and leases	158 379	150 032
Insurance premiums	529 783	301 547
Insurance premiums	21 089	50 823
Subscriptions	1 009 533	905 885
Publications	147 510	94 016
Maintenance of HP servers	194 493	0
Maintenance of Indra servers	55 231	73 879
Maintenance of SwissQual Diversity systems	84 255	0
FTTH Council	0	299 500
Microsoft Maintenance	0	267 348
Other services	327 623	756 958
	<u>2 626 285</u>	<u>3 012 788</u>

'Meal allowances' reflects the anticipated allowance made in December but with reference to the following year. The heading 'Rents and leases' includes rental values for 2011, paid in 2010.

Insurance is also invoiced and paid in advance, with the heading divided as on December 31 of 2010 and 2009, as follows:

Table no. 6.13 - Insurance premiums

	2010	2009
Vehicles	46 313	3 245
Travel insurance	10 000	7 755
Property	45 018	45 021
Accidents at work	24 645	26 497
Health	386 340	207 851
Others	17 467	11 178
	529 783	301 547

Under the 'Subscriptions' heading, values are recorded, as on the 31st of December of 2010 and 2009, with reference to contributions paid or invoiced in the financial period but referring to the following period, broken down as follows:

Table no. 6.14 - Subscriptions

	2010	2009
International Telecommunication Union (ITU)	459 986	420 824
Universal Postal Union (UPU)	280 347	247 921
European Radiocommunications Office (ERO)	87 652	86 422
Postal Union of the Americas, Spain and Portugal (UPAEP)	97 307	85 228
International Union of Radio Science (URSI)	2 030	2 030
European Telecommunications Standards Institute (ETSI)	63 460	63 460
Others	18 751	-
	1 009 533	905 885

'Maintenance of HP' and 'Maintenance of Indra servers' report expenditures arising under multi-year maintenance contracts agreed with these companies, allocated to the following years, with a view to ensuring the operational status of the equipment covered by the contract.

The heading of 'Maintenance of SwissQual Diversity systems' refers to expenses related to the maintenance of these software systems, used for quality evaluation of cellular networks, in terms of version upgrades, replacement and repair of the system components and parts provided, with the amount related to 2011 deferred.

12 Impairments

The variation reported during the years 2010 and 2009 in the balances of impairment losses are detailed as follows:

Table no. 6.15 - Impairments

	Customers (Note 9)
As on 1 January 2009	4 935 735
Increases	0
Reversals	-1 652 868
As on 31 December 2009	3 282 867
Increases	0
Usage	-5 616
Reversals	-108 786
As on 31 December 2010	3 168 465

13 Reserves and other equity headings

As on December 31 of 2010 and 2009, the details of the balances of the equity headings are reported as follows:

Table no. 6.16 - Reserves and other equity headings

	2010	2009
Other reserves		
Investment reserves	30 304 103	28 114 464
Other reserves	<u>1 741 928</u>	<u>1 741 928</u>
	32 046 031	29 856 392
Transferred results		
Staff benefits (Note 15)	562 714	0
Others	<u>3 035 015</u>	<u>3 035 015</u>
	3 597 729	3 035 015
Other changes in equity		
Reserve - philatelic property	6 249 143	6 249 143
Subsidies	<u>132 970</u>	<u>136 860</u>
	6 382 113	6 386 003
Net result for period	36 355 122	14 597 596
Total	<u><u>78 380 995</u></u>	<u><u>53 875 006</u></u>

Under the terms of article 8 of Law no. 12-A/2010 of June 30, the results from the previous year were applied in the 2010 financial year, according to the proposal set out in the report and accounts, whereby the net results carried from 2009 were transferred as revenues of the State, to the amount of 12,407,957 euros. The remaining 2,189,639 euros was transferred to the 'Investment reserves' heading.

The 'Investment reserves' heading reflects the accumulated amount of the distribution of non-applied net results, calculated over the years.

The 'Transferred results' heading reflects the accounting movements performed for the adoption of the SNC and the option of recognition in equity of actuarial gains and losses recorded in the actuarial studies in respect of the pension fund and healthcare.

The heading 'Other changes in equity' refers to non-refundable investment subsidies in respect of tangible fixed assets (note 3.11) and to the philatelic property from the former Portuguese overseas colonies (*Ultramar*), included in the assets of ICP-ANACOM under the 'Tangible fixed assets' heading, see description in note 7. The change concerning the investment subsidies that occurred during the 2010 and 2009 financial years are detailed below:

Table no. 6.17 - Investment subsidy

As on 1 January 2009	140 750
Increases	0
Recognition in results	-3 890
As on 31 December 2009	136 860
Increases	0
Recognition in results	-3 890
As on 31 December 2010	132 970

The subsidies are recognized as income under the heading 'Other income and earnings'.

14 Provisions

The evolution reported under the 'Provisions' heading in the financial years of 2010 and 2009 was as follows:

Table no. 6.18 - Provisions

	<u>Provisions for legal proceedings</u>
As on 1 January 2009	48 982 950
Constitution	337 213
Reduction	0
As on 31 December 2009	49 320 163
Constitution	0
Reduction	-4 392 499
As on 31 December 2010	44 927 664

The provision corresponds to the estimated liability arising from the risk inherent in litigation procedures brought by various entities against ICP-ANACOM (note 3.10). On December 31 of 2010 there were 50 court proceedings on going with the majority referring to actions brought against ICP-ANACOM, challenging acts undertaken as part of the regulatory activity in the area of electronic communications and acts of fee settlement. These processes include 16 claims for compensation.

The variations reported in the 2010 financial year are due to:

- i. the instigation of 10 new cases involving fundamental disagreement with the acts of settlement of fees, in respect of the electronic communications activity, issued by ICP-ANACOM in 2010;
- ii. conclusion of 6 cases, most notably that brought by Radiomóvel following an alleged delay by ICP-ANACOM in issuing the declaration for provision of electronic communications services, which involved a claim for damages of 69,329,356 euros. The termination of these proceedings was key in the overall reduction in the provision for on going legal cases, to the sum of 4,392,500 euros.

15 Retirement and health care benefit obligations

Currently, as mentioned in note 3.9, ICP-ANACOM has assumed liabilities in respect of a retirement and survival pension plan provided to staff transferred from ex-CTT and in respect of a healthcare plan for employees not covered by Social Security, with both plans being defined benefit plans. In addition to the plans mentioned above, a defined contribution pension plan is in force.

On December 31 of 2010 and 2009 and in the years ended on those dates, the balances and expenses and income in respect of these plans in the financial statements are the following:

Table no. 6.19 - Liabilities in balance (+ or -)

	2010	2009
Defined benefit pension plan	-2 821 846	-320 039
Defined benefit healthcare plan	2 963 000	2 445 000
	141 154	2 124 961

Table no. 6.20 - Expenses / (Income) in income statement

	2010	2009
Defined benefit pension plan	-1 512 093	-68 290
Defined contribution pension plan	291 497	282 384
Defined benefit healthcare plan	170 876	121 057
	-1 049 720	335 151

Table no. 6.21 - Actuarial gains and losses recognised in equity

	<u>2010</u>	<u>2009</u>
Defined benefit pension plan	989 714	0
Defined benefit healthcare plan	<u>-427 000</u>	<u>0</u>
Total	<u>562 714</u>	<u>0</u>

On December 31 of 2010, since a surplus was reported in the value of the fund in respect of the liabilities of the defined benefit pension plan calculated in the actuarial study reported on December 31, the respective balance is shown under the heading of 'Other receivables' (note 10) Table 6.11

15.1 Defined benefit pension plan

Staff of ICP-ANACOM transferred from the former CTT was covered at the date of their transfer by the Retirement and Survival Pension Plan in force at that company, and still enjoy this right in accordance with article 28 of Decree-Law no. 283/89 of August 23. As such, ICP-ANACOM assumed responsibility for the payment of retirement pensions regarding the personnel transferred from the former CTT, most of whom joined its workforce in August 1991. On October 1 of 1996, ICP-ANACOM established an autonomous Pension Fund to cover and fund liabilities for pension payments.

Under this plan, the staff who is covered is entitled to a pension determined under the Social Security rules for the period after December 31 of 2005 and, for the previous period, according to the rules of the Statute of the CGA, embodied in a formula that takes into consideration the average earnings for the last three years. The plan includes the following conditions:

- normal retirement age – 65 years;
- maximum pensionable time of service – 40 years;
- pensionable salary – monthly average of remuneration subject to discount earned over the last three years, discounted from the percentage of the share for the purposes of retirement and survival;
- retirement pension – $P = TS/\min(40, TST) \times SP + PSS$, where:

P = monthly retirement pension;

PS = pensionable salary of 2005 re-valued under the terms of paragraph 1 of Article 27 of Decree-Law no. 187/2007 of May 10, with the maximum limit corresponding to 12 times the IAS - Indexante de Apoios Sociais (Social Support Index);

TS = number of years of effective service in addition to service recognised up to 31.12.2005;

TST = number of years for maximum benefit (from 2013, 40 years);

PSS = pension reckoned according to the rules of the General Social Security Scheme, considering the time after 31.12.2005 until retirement;

- number of payments – pensions are paid 14 times per year;

The liabilities in respect of defined benefit liabilities and the corresponding annual costs were determined through actuarial calculations, using the projected credit unit method, carried out by independent actuaries based on assumptions that reflect the demographic conditions of the population covered by the plan and the economic and financial conditions prevailing at time of calculation.

According to the actuarial study conducted by the company managing this pension fund – BPI-Pensões, the present value of liabilities for past service of active and retired staff, transferred from former CTT and recruited into ICP-ANACOM was estimated at 21,550,017 euros.

The actuarial study was based on the following assumptions:

Table no. 6.22 - Assumptions in actuarial study

	2010	2009
Annual discount rate	4.75%	5.50%
Salary growth rate	3.0%	3.75%
Pension growth rate	Pension <1,5 x IAS, 2,25%; 1,5 x IAS <= Pension < 6 x IAS, 1,75%; Pension >= 6 x IAS, 1,5%	Pension <1,5 x IAS, 3%; 1,5 x IAS <= Pension < 6 x IAS, 2,5%; Pension >= 6 x IAS, 2,25%
IAS - Indexante de Apoios Sociais (Social Support Index) growth rate	2.4% (considering a 2 % GDP growth rate)	
Salary revaluation rate	2.0%	
Sustainability factor	Average life expectancy was considered as 65 years in 2006, equal to 18 years and an average annual increase of 10 % in average life expectancy to 65 years.	
Growth rate of wages for purposes of calculating Social Security benefit	3.0%	
Seniority bonuses	Projected for the normal retirement age.	
Staff turnover rate	In the absence of any reliable statistics, and with a prudent stance, a 0 % turnover rate was considered.	
Decrements in active life	Due to death or disability	
Decrements in active life	Swiss EKV80 Table	
Mortality table	French TV 88/90 Table	

The verified effect on liabilities of the changes in the assumptions in 2010 was as follows:

- alteration to discount rate: +604,122 euros;
- alteration of the calculation methodology: -1,561,109 euros;
- alteration of the *estatuto de aposentação* (retirement statute): -1,827,872 euros.

On December 31 of 2010 and 2009, the sum of recognised liabilities on the balance sheet is determined as follows:

Table no. 6.23 - Recognised liabilities

	2010	2009
Present value of liabilities	21 550 017	24 217 110
Fair value of fund assets	24 371 863	24 537 149
Surplus	2 821 846	320 039

Movement occurring in the years 2010 and 2009 in the current value of liabilities in respect of the pension plan was as follows:

Table no. 6.24 - Current value of liabilities

	2010	2009
As on 1 January	24 217 110	23 063 198
Cost of current services	412 345	399 799
Cost of interest	1 333 872	1 270 184
Payment of benefits	-754 483	-736 081
Alterations in assumptions	604 122	0
Alteration of plan - acquired benefits	-1 827 872	0
Other actuarial (gains)/losses	-2 435 077	220 010
As on 31 December	21 550 017	24 217 110

In the years 2010 and 2009, the evolution in the value of the fund associated with this plan was as follows:

Table no. 6.25 - Value of fund

	2010	2009
On 1 January	24 537 149	23 314 947
ICP-ANACOM contributions	0	0
Employee contributions	149 963	153 686
Benefits paid	-754 483	-736 081
Real return on fund assets	474 241	1 804 597
Other actuarial gains/(losses)	-35 007	0
31 December	24 371 863	24 537 149

From the above tables, it can be highlighted that the Fund had a positive real return, about 3 per cent below that specified in the actuarial study, which was 5.5 per cent. This fact, together with the reduction in the discount rate, was offset by a decrease in liabilities arising from changes in the Retirement Statute and the calculation methodology. Beyond these facts, the other impacts arising from differences between the initial estimates of the study

compared to actual results determined that the financing surplus increased from 320,039 euros to 2,821,846 euros.

The effect on the income statements for the years 2010 and 2009 stemming from this plan amounted to 1,512,093 euros and 246,113 euros respectively, and is detailed as follows:

Table no. 6.26 - Effect on the income statement

	2010	2009
Cost of current services	-412 345	-399 799
Cost of interest	-1 333 872	-1 270 184
Staff contributions	149 963	153 686
Alteration of plan - acquired benefits	1 827 872	0
Expected return on fund assets	1 280 475	1 270 184
Others	0	314 403
Total included in other income and gains	1 512 093	68 290

The effects of actuarial gains and losses recorded directly in equity for the years 2010 and 2009 are as follows:

Table no. 6.27 - Effect on equity

	2010	2009
As on 1 January	0	0
Alteration in assumptions	604 122	0
Difference between real and estimated return on fund assets	806 234	0
Other actuarial (gains)/losses	-2 400 070	0
As on 31 December	-989 714	0

On December 31 of 2010 and 2009, the detail by type of assets held by the Fund's pension plan was as follows:

Table no. 6.28 - Assets by type

	2010	2009
Bonds	48.1%	47.3%
Cash	11.8%	13.0%
Equities	34.7%	34.3%
Investment funds	5.4%	5.4%
	100%	100%

15.1 Defined contribution plan

As mentioned in note 3.9, all staff on permanent contracts is covered by a retirement plan with defined contributions; in this context a fund was established, with the fund's management entrusted to Banif Açor Pensões – Pension Fund Management Company.

Under the conditions of the Plan, ICP-ANACOM is committed to making contributions ranging from 1 per cent (fixed monthly contribution) and 2 per cent of payroll, depending on whether the staff member also contributes at least 1 per cent.

Upon the occurrence of any contractual release of obligations, the contributions made by each employee until such date revert in their favour, in addition to the respective return in each year. However, Participation Shares that were acquired with contributions from ICP-ANACOM are only reimbursed to employees depending on their active service time and according to six seniority levels.

In 2010 and 2009, the value of defined contribution made by ICP-ANACOM to the Retirement Plan amounted to 291,497 euros and 282,384 euros respectively, and is recorded in 'Personnel costs'.

15.2 Defined benefit health care plan

As on December 31 of 2010, there were 90 ICP-ANACOM staff who were not covered by the Social Security healthcare or benefits schemes; these are instead insured by IOS - Instituto de Obras Sociais dos CTT (IOS/CTT) (Institute for Social Works of CTT) including for medical care, medication, hospital admissions, auxiliary means of diagnosis and nursing services, besides other social benefits, under an agreement between IOS/CTT and ICP-ANACOM. Two members of staff are covered by the assistance of PT-ACS.

The defined benefit liabilities and the corresponding annual costs were determined through actuarial calculations, using the projected credit unit method, carried out by independent actuaries based on assumptions that reflect the demographic conditions of the population covered by the plan and the economic and financial conditions prevailing at the time of calculation.

According to the actuarial study prepared by the consultant Towers Watson, the present sum of liabilities in respect of health care, as at December 31 of 2010, was 2,963,000 euros.

The principal actuarial assumptions used in the calculation are as below:

Table no. 6.29 - Actuarial assumptions

	2010	2009
Annual discount rate	4.75%	5.50%
Inflation rate		2.00%
Annual growth in healthcare costs		4.50%
Disability table	50% EKV 80	
Mortality table	TV 88/90	
Retirement age	65 years	

Additionally, the following assumptions were considered:

- percentage of married employees – at the date of retirement, disability or death, it is assumed that 55 per cent of male participants and 15 per cent of female participants will include their respective spouse in the programme. It was also assumed that male spouses are on average three years older than their female partners;
- number of children – at the date of retirement, disability or death, an average of 1.5 children per married participant is assumed, and that each child is 30 years younger than the respective participant.

In the present financial year the discount rate used was amended from 5.5 per cent to 4.75 per cent, resulting in an increase in liabilities of 317,000 euros.

On December 31 of 2010 and 2009, the sum of liabilities recognised on the balance sheet is determined as follows:

Table no. 6.30 - Recognised liabilities

	2010	2009
Present value of liabilities		
Assets	1 373 000	1 136 000
Retired	1 590 000	1 309 000
	2 963 000	2 445 000

Movement occurring in the 2010 and 2009 financial years in the present value of liabilities in respect of the healthcare plan was as follows:

Table no. 6.31 - Current value of liabilities

	2010	2009
On 1 January	2 445 000	2 401 000
Cost of current services	39 000	39 000
Cost of interest	132 000	130 000
Payment of benefits by ICP-ANACOM	-80 000	-77 000
Alteration in assumptions	317 000	0
Other actuarial (gains)/losses	110 000	-48 000
On 31 December	2 963 000	2 445 000

The effect on the income statements for the 2010 and 2009 financial years stemming from this plan were as follows:

Table no. 6.32 - Effect on the income statement

	2010	2009
Cost of current services	39 000	39 000
Cost of interest	132 000	130 000
Alteration in assumptions	0	0
Others	0	-48 000
Total included in Personnel costs	171 000	121 000

The impacts on the income statement for the 2010 and 2009 financial years amounted to 171,000 euros and 121,000 euros respectively.

The effects of actuarial gains and losses recorded directly in equity for the 2010 and 2009 financial years are as follows:

Table no. 6.33 - Effect on equity

	2010	2009
As on 1 January	0	0
Alteration in assumptions	317 000	0
Other actuarial (gains)/losses	110 000	0
As on 31 December	427 000	0

16 State and Other Public Entities

As on December 31 2009 and 2008, the balance with the State and other public entities had the following composition:

Table no. 6.34 - State and other Public Entities

	2010	2009
Income tax on natural persons - withheld at source	341 500	304 797
Social security	358 044	333 147
Value added tax		
Total	29 269	64 618
	728 813	702 562

17 Other payables

As on December 31 of 2010 and 2009, the detail of the heading 'Other payables' is as follows:

Table no. 6.35 - Other payables

	2010	2009
	Current	Current
Investment suppliers		
General suppliers	1 212 090	933 200
Cost additions		
Remunerations	2 686 371	3 684 112
Insurance payable	156 534	130 965
Others	17 060	149 047
Other creditors		
Misc. Creditors	2 696 775	30 088
	6 768 830	4 927 412

'Investment Suppliers' refers mainly to the amounts billed for the purchase of equipment and materials incorporated in tangible fixed assets in progress.

'Remunerations' includes the liabilities assumed by ICP-ANACOM with respect to holiday pay and holiday bonuses, which were calculated based on the remuneration due to employees.

'Other creditors' includes an amount of 2,219,100 euros returned to operators of electronic communications. In fact, since the amount of provisions of the financial period is a component used in calculating the costs of regulation of electronic communications, which forms the basis of charged activity fees, there were two situations involving the return of sums to operators of electronic communication:

i. conclusion of legal proceedings brought by the company Radiomóvel (note 14) amounting to 1,504,784 euros; and rectification of the value of provisions of 2006, wrongly considered as costs of regulation, in respect of the compensation sought in the context of the judicial appeal lodged by Vodafone regarding the settlement of fees for the use of radio spectrum with reference to the second half of 2005, amounting to 714,316 euros.

18 Expenses/reversals of depreciation and amortization

In the years 2010 and 2009, this heading is broken down as follows (note 7 and 8):

Table no- 6.36 - Depreciation and amortization costs

	2010	2009
Depreciation of tangible fixed assets		
Buildings and other constructions	307 826	390 637
Basic equipment	1 045 032	1 229 946
Transport equipment	19 590	16 349
Administrative equipment	449 400	718 936
Other tangible fixed assets	62 826	94 416
	1 884 674	2 450 284
Amortizations of intangible assets		
Software	1 333 290	1 363 097
	3 217 964	3 813 381

19 Interest and similar income

In the years 2010 and 2009, this heading is broken down as follows:

Table no. 6.37 - Interest and similar income

	2010	2009
Demand deposit interest	4 911	8 375
Term deposit interest	1 137 522	1 305 371
Late payment interest	249 167	1 186 114
	<u>1 391 600</u>	<u>2 499 860</u>

20 Commitments

Commitments regarding the purchase of intangible assets

On 31 December 2010 contracts were entered into worth approximately 1,084,636.14 euros, including VAT, for the acquisition of intangible assets, of which 514,850.84 euros have been paid.

Commitments regarding leases

As on 31 December 2010 and 2009, the minimum value of future leases payable under non-cancellable operating leases is reported as follows:

Table no. 6.38 - Leasing commitments

	2010	2009
Up to 1 year	280 750	202 794
Between 1 and 5 years	511 531	307 140
More than 5 years	-	-
	<u>792 281</u>	<u>509 934</u>

These sums refer to the leasing of 58 vehicles, under operational leasing contract for periods ranging between 48 and 54 months, with maintenance management included. This does not include tyre management, vehicle replacement, insurance and option to purchase.

In the 2010 and 2009 financial year, Supplies and external services reports expenses incurred through operating leases amounting to 257,439 euros and 203,973 euros respectively.

Special projects and protocols in the context of the information society

Following Government guidance, ICP-ANACOM takes part in the funding of two special projects within the scope of the information society:

- i. the Telecommunications Programme of the European Space Agency (ESA), executed in the period 2001-2006 (countersigned by Ministers for Environment, Spatial Planning and Regional Development and of Science and Technology, pursuant to joint order no. 215/2002 of 28 February and extended until 2011 pursuant to joint order no. 21229/2007 of 13 September;
- ii. public transport accessibility programme for visually impaired people, pursuant to order published in the *Diário da República* (the official journal) in December 2001, and in respect of which no payment has been made, whereby it will be deactivated pending official confirmation to this effect.

With respect to the ESA project, the dates of payments are uncertain, whereby the financing amounts are recognized as expenses in the statements of results for the periods in which payments are made.

The cumulative amount for the two projects mentioned above, as on 31 December 2010 amounted to 13,673,387 euros, with the balance to be allocated of 631,193 euros, whose detail is as follows:

Table no. 6.39 - Special projects

Projects	Financing allocated in			Total financing allocated	Outstanding allocation
	2010	2009	prior years		
ESA - European Space Agency	0	3 039 071	10 003 123	13 500 000	457 806
MES - Public transport accessibility project for people with visual disabilities	0	0	0	173 387	173 387
	0	3 039 071	10 003 123	13 673 387	631 193

The amount of 631,193 euros will be recognized as expenditure in the financial periods in which payments of the respective projects are requested. In 2010, no expenses were recognized in respect of these projects, and, in 2009, ICP-ANACOM recognized an expense of 3,039,071 euros under the sub-heading 'Participations', under 'Other costs and losses'.

21 Contingencies

21.1 Guarantees

ICP-ANACOM has no bank guarantees issued in favour of third parties.

21.2 Contingent liabilities

Legal proceedings

On December 31 of 2010, ICP-ANACOM faced legal proceedings brought by operators in the context of its regulatory activity against which the Management Board did not consider it necessary to constitute provision, since, in the actions brought, the values sought were not indicated and there were no credible estimates which gave basis to such constitution.

21.3 Contingent assets

On December 31 of 2010, the assessment being carried out by the insurance company in respect of the incident affecting the philatelic property, mentioned in note 7, was on going. ICP-ANACOM estimates that the value of compensation will be around 377,273 euros, although as on the date of the balance sheet there is still no confirmation that ICP-ANACOM will receive this value.

22 Related parties

22.1 Board remuneration

In accordance with NCRF 5, the members of ICP-ANACOM's Management Board are related parties by virtue of their role in its management.

During the 2010 and 2009 financial years, the remuneration awarded to the members of the Management Board and the Audit Committee was as follows:

Table no. 6.40 - Board remuneration

	<u>2010</u>	<u>2009</u>
Management Board	981 144	1 051 940
Audit Committee	49 188	49 107
	<u>1 030 332</u>	<u>1 101 047</u>

The monthly remunerations of members of the Management Board were set by Joint Order of the Ministers of State and of Finance and of Economics of August 2003, and as on December 31 of 2010, are as follows:

- Chairman of the MB 15,868,89 euros
- Vice President and Members of the MB 13,488,56 euros

In 2011, salaries will be reduced by 10 per cent in accordance with article 19 of Law no. 55-A/2010 of December 31 (State Budget Law).

The monthly remunerations of members of the Audit Committee are:

- Chairman of the Audit Committee 1,365 euros
- Member of the Audit Committee 1,092 euros
- Member (Chartered Accountant) 1,365 euros

No retirement pension liability is incurred for members of the above boards.

23 Other relevant information

23.1 Logistical support for the Comissão de Planeamento de Emergência das Comunicações (CPEC) (Emergency Communications Planning Committee)

CPEC was established by Decree-Law no. 153/91 of April 23, as amended by Decree-Law no. 128/2002 of May 11. Under article 11 of this Decree-Law, ICP-ANACOM is charged with

providing necessary technical and administrative support so that, since 1994, ICP-ANACOM has guaranteed payments arising from the operating expenses of this committee.

The amounts recorded as expenses in the income statement for the 2010 and 2009 financial years are as follows:

Table no. 6.41 - CPEC - Costs

	2010	2009
Personnel costs	216 363	227 258
Travel, accommodation, representation expenses	16 411	19 438
Travel, accommodation, representation expenses	70 654	69 335
Other supplies and services	18 505	30 954
Total CPEC costs	321 933	346 985

23.2 Fundação Portuguesa das Comunicações (FPC) (Portuguese Communications Foundation)

On October 6 of 1997, ICP-ANACOM, Portugal Telecom, S. A., and CTT – Correios de Portugal, S. A., founded FPC whose aim is to promote the study, conservation and dissemination of the historic, scientific and technological heritage in the communications area. It also carries out activities involving research, co-operation and image, spreading information on the sector's historic evolution and new technologies, and contributing to the socio-economic development of the country and community.

Following the appointment of the board members of FPC and the beginning of its activities, ICP-ANACOM, as a founding member, registered the following amounts in the statements of results for the financial years ending December 2010 and 2009, under the other operating costs and losses category:

Table no. 6.42 - FPC costs

	2010	2009
Funding	491 803	620 000
Personnel costs	301 842	420 945
Other supplies and services	1 618	4 704
Total FPC costs	795 263	1 045 649

23.3 Autoridade da Concorrência (AdC) (Competition Authority)

The publication of Decree-Law no. 30/2004 of 6 February established that several regulatory entities should contribute to the operating budget of AdC (Competition Authority).

Administrative Rule no. 505/2010 of July 12 determined that 6.25 per cent of the fees charged by ICP-ANACOM in the last financial year should revert to that Authority.

In consequence of this measure, ICP-ANACOM reported the amount of 4,535,004 euros (2009: 4,425,648 euros), which was transferred to the Competition Authority on a monthly basis, as operating costs for the financial period

24 Information required by legislation

Under paragraph 1 of article 21 of Decree-Law no. 411/91 of 17 October, ICP-ANACOM confirms that it is not liable for any overdue contributions to Social Security and that it has no liability for any debt before the National Treasury.

The Financial and Administrative Director

Fernando Carreiras

The Management Board

José Amado da Silva

Alberto Souto de Miranda

José Ferrari Careto

Eduardo Cardadeiro

Filipe da Boa Baptista

Audit Comittee Report

7 Audit Committee Report

1. Summary of activities undertaken

Under the terms of the legal and statutory provisions, specifically as set out in point d) of article 33 of the Statutes of ICP - Autoridade Nacional de Comunicações (ICP-ANACOM), as approved by Decree-Law no. 309/2001 of 7 December, it is incumbent upon this Committee to present a report on our inspection of, and to issue our opinion on, the Report and Accounts of ICP-ANACOM for the financial period ended 31 December 2010.

The Audit Committee has held meetings and oversaw the most relevant aspects of the management of this Authority, and:

- examined, on a sample basis, the available financial information, with favourable outcome;
- was informed of the External Audit Report, performed by the company PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., responsible for auditing the accounts of ICP-ANACOM in the 2010 financial year, which entity cooperated with the Chartered Accountant in the exercise of their specific functions.

We examined the Report and Accounts of ICP-ANACOM, presented by the Management Board, and we verified their clarity and detail in respect of their characterization of the activity carried out during the 2010 financial year.

2. Activity of ICP-ANACOM

ICP-ANACOM is a legal person governed by public law, endowed with administrative and financial autonomy and its own assets. Its responsibility is to advise the Government in areas of coordination, oversight and planning of the communications sector, and to regulate, supervise and represent the sector under the terms of its Statutes, performing its activity under the tutelage of the Ministry of Public Works, Transport and Communications.

For the financial period being analyzed, the mission of ICP-ANACOM was to "regulate, supervise and monitor the communications market, in order to ensure that all citizens benefit from diversity of choice and universality of access to (electronic and postal)

communications services in a market governed by conditions which are conducive to innovation, investment and the efficient provision of service, guaranteeing to final consumers both quality and affordability, besides its responsibility in contributing to the development of the European Union's (EU) internal market".

Regarding the activity of ICP-ANACOM, we refer to the 2010 Management Report, which summarizes the main occurrences of the financial year under review.

We also highlight the work of the Advisory Council, supporting and participating in the definition of the general guidelines governing ICP-ANACOM's remit.

3. Annual Report and Accounts 2010

The Audit Committee has conducted its activity in order to verify the financial, accounting, administrative and management aspects and subsequently issue an opinion on the Annual Report and Accounts. It is governed in this matter by the provisions of ICP-ANACOM's Statutes, supplemented by those applying to public undertakings.

The 2010 Annual Report and Accounts submitted by the Management Board clearly defines the macro-economic and sectorial framework in which the activity of ICP-ANACOM is undertaken, as well as its activities, the evolution of human and material resources, and the economic and financial situations regarding the financial period ended on 31 December 2010.

The financial statements and accounting systems supporting said statements appear to fulfil the Sistema de Normalização Contabilística (SNC) (Accounting Standardisation System), and adequately and substantively express ICP-ANACOM's assets as on 31 December 2010, as well as the results of its operations and changes in equity occurring during the financial period ending on that date.

3.1. Sistema de Normalização Contabilística (Accounting Standardisation System)

Decree-Law no. 158/2009 of 13 July stipulated implementation of the Sistema de Normalização Contabilística (SNC) (Accounting Standardisation System), with effect for periods beginning on or after 01 January 2010. The SNC revokes the POC - Plano Oficial de Contabilidade (National Accounting Plan) and complementary legislation, and consists of a set of NCFR - Normas Contabilísticas de Relato Financeiro

(Financial Reporting Accounting Standards) and NI - Normas Interpretativas (Interpretative Standards). As such, since 01 January 2010, the accounts of ICP-ANACOM have been presented in accordance with new accounting standards.

The adjustments made to provide for transition to the NCRF are duly disclosed in note 2.4 of the Annex.

3.2. Investment

As detailed in the table below, investment made by ICP-ANACOM in 2010 was reported at 4,023,376 euros, corresponding to an increase of about 57 per cent over the previous financial year.

Investment	2010	2009	Variation	
			Value	%
Budget	4,995,000	4,981,500	13,500	0.27
Execution	4,023,376	2,567,636	1,455,740	56.70
Deviation	(971,624)	(2,413,864)		
Outstanding	(19.45)	(48.46)		

By analyzing the values executed and comparing them with the budgeted amounts, we note that the executed values fell short, with a deviation of about 19 per cent as on 31 December 2010.

With respect to the values executed during the 2010 financial year, the categories of most note are *IT equipment* (3,121,775 euros), and *Basic equipment* (437,229 euros).

3.3. Balance

The base structure of the Balance reported by ICP-ANACOM as on 31 December 2010 is as follows:

Items	2010	2009	Variation	
			Value	%
Assets	135,013,922	112,780,223	22,233,699	19.71
Equity	78,380,995	53,875,006	24,505,989	45.49
Liabilities	56,632,927	58,905,217	(2,272,290)	(3.86)

With respect to the Balance, we note that:

- the variation in ICP-ANACOM's assets is explained primarily by an increase of 20,046,914 euros reported in cash and bank deposits, generated by excess cash;
- in terms of ICP-ANACOM's equity, the variation over the previous financial year results from the following effects: change in net income (21,757,526 euros), the application of a proportion of net income derived in 2009 to special reserves (2,189,639 euros), and other recognized changes in equity in light of the entry into force of the SNC (558,824 euros);
- in terms of ICP-ANACOM's liabilities, we note the reduction reported in respect of provisions made for ongoing litigation, amounting to 4,392,499 euros, resulting in large part from the termination of the proceedings involving Radiomóvel.

The remaining variations are duly explained and reasoned in the 2010 Management Report and in the 2010 Report and Accounts.

3.4. Income Statement

The following table shows the variation observed under the various income headings between 2010 and 2009:

Items	2010	2009	Variation	
			Value	%
Revenues	83,534,450	77,883,099	5,651,351	7.26
Expenditure	47,179,328	63,285,503	(16,106,175)	(25.45)
Net result for period	36,355,122	14,597,596	21,757,526	149.05

The following aspects are noted with regard to the ICP-ANACOM's income statements:

- compared to the previous year, revenues increased by 7 per cent, whereas a decline in expenditure was reported of about 25 per cent. Consequently, the net result in 2010 amounted to 36,355,122 euros, compared to 14,597,596 euros in 2009, providing an increase of 21,757,526 euros (149 per cent);
- with regard to revenues, we note an increase of around 5,651,351 euros, which stemmed in large part from the reversal made with respect to provisions for ongoing litigation (4,392,499 euros) and the receipt of values related to the allocation of rights of use of frequencies for broadband wireless access (BWA auction), which values were not forecast in the budget (3,451,000 euros);

- with respect to expenditure, we note a reduction of about 25 per cent over the same period, as a result of several initiatives which occurred in 2009 and which ICP-ANACOM was bound to undertake by ministerial order or by application of cooperation protocols, including the sponsorship granted to Fundação das Comunicações Móveis (Mobile Communications Foundation) (10 million euros) and fulfilment of the protocol signed with the European Space Agency (3,039,071 euros);
- we note that ICP-ANACOM reported a value of 795,263 euros in this financial period in respect of participations, shares, costs and other expenses, under the terms of the protocol signed by the founders of Fundação Portuguesa das Comunicações (Portuguese Communications Foundation), and about 4,535,004 euros in contribution to the budget of Autoridade da Concorrência (Competition Authority) (See note 23 of the Annex).

The remaining variations are duly explained and reasoned in the 2010 Management Report and in the 2010 Report and Accounts.

4. Other Situations

Delivery to the State

Law no. 12-A/2010, published on 30 June 2010, ordered that delivery be made to the State of 85 per cent of the 2009 net results of ICP-ANACOM, totalling 12,407,957 euros, in accordance with the proposed application of ICP-ANACOM's results.

Pension funds

As mentioned in note 15 of the Annex, ICP-ANACOM constituted a separate pension fund on 1 October 1996 to cover and fund liabilities in respect of the payment of pensions to staff transferred from CTT- Correios e Telecomunicações, E. P.

According to the actuarial study conducted by the company managing the pension fund - BPI - Pensões, on 31 December 2010, the value of total liabilities in respect of active and retired workers transferred from CTT and integrated into ICP-ANACOM was estimated at 21,550,017 euros and is reported to be fully funded.

Ongoing litigation proceedings

In the year under review, the Authority reversed approximately 4,392,499 euros of provisions, which account was reported with a balance of 44,927,664 euros as on 31 December 2010. This provision reflects the estimated liability arising from the risk inherent to litigation brought by various entities against ICP-ANACOM, stemming in the most part from appeals of determinations made in the context of market regulation. In the event that the operators bringing such cases were to prevail, they may be granted entitlement to receive compensation from ICP-ANACOM. Given the great difficulty in determining the amount of potential compensation, but taking into account the need to establish a provision of appropriate value, ICP-ANACOM based the provision on the opinion of the lawyers engaged in handling the cases

5. Opinion

Following the above, it is our opinion that approval should be given to:

- a) the Annual Report and Accounts submitted by the Management Board of ICP-ANACOM for the year ended 31 December 2010; and
- b) the proposed application of the net result from 2010, amounting to 36,355,122 euros, through the transfer of 5,453,268 euros to "Investment Reserves", with the purpose of being used in the constitution of statutory capital, under the terms of Administrative Rule no. 1534-A/2002 of 23 December, and "Delivery to the State" to the amount of 30,901,854 euros, corresponding to 85 per cent of the net results of the financial year.

Finally, the Audit Committee acknowledges and is grateful for all the assistance and cooperation provided by ICP-ANACOM's Management Board and staff.

Lisbon, 7 April 2011

THE AUDIT COMMITTEE

Dr. Henrique Armando Antunes Ferreira, Chairman

OLIVEIRA, REIS & ASSOCIADOS, SROC, LDA.
Represented by

Dr. José Vieira dos Reis, ROC no. 359, Member

Dr. Duarte Nuno de Carvalho Gomes de Castro, Member

Audit Report

8 Audit report

Introduction

1 We have audited the financial statements of ICP - Autoridade Nacional de Comunicações (ICP-ANACOM), comprising the balance sheet as at December 31, 2010 (which shows total assets of euro 135,013,922 and total equity of euro 78,380,995, including a net profit of euro 36,355,122), the statement of income by nature, the statement of changes in equity and the statement of cash flows for the year then ended, and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Board of Directors to prepare financial statements which present fairly, in all material respects, the financial position of ICP - Autoridade Nacional de Comunicações (ICP-ANACOM), the results of its operations, the changes in equity and the cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate system of internal control.

3 Our responsibility is to express an independent and professional opinion on these financial statements based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; and (iv) assessing the overall presentation of the financial statements.

5 We believe that our audit provides a reasonable basis for our opinion.

Opinion

6 In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of ICP - Autoridade Nacional de Comunicações (ICP-ANACOM) as at December 31, 2010, the results of its operations, the changes in equity and the cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal.

Emphasis

7 Without qualifying our opinion expressed above, we draw attention to the fact that as at December 31, 2010, the financial statements include a provision of about euro 45 million, in respect of ongoing judicial proceedings, which was registered following the assessment made by ICP-ANACOM of the risks associated with the said proceedings. Taking into consideration the nature and amounts involved, the resolution of these proceedings involves uncertainties, arising from their complexity and the different interpretations that might be made.

April 20, 2011

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.,
represented by:

Ricardo Filipe de Frias Pinheiro, R.O.C.