

SUSTAINABILITY REPORT

2010



PORTUGAL TELECOM

This Report concerns the Portugal Telecom Group in Portugal. The economic, social and environmental data presented result from the consolidation of the reality of the Group's companies.

Portugal Telecom, SGPS

Public Company

Share capital euro 26,895,375

Registered in the Conservatory

of the Commercial Registry of Lisbon

and Collective Person under n.º 503 215 058

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Revenues

euro **3,742**
million

Net Income

euro **5,672**
million

Clients

85.5
million



EBITDA

euro **1,492**
million

Investment

euro **798**
million

Investment in R&D

euro + **200**
million

-7%

CO₂ Emissions



-31%

Water Consumption

METHODOLOGICAL NOTES

The presentation of this report obeys the following criteria:

Global Reporting Initiative

Portugal Telecom's enterprise sustainability report is elaborated in accordance with the directives from the Global Reporting Initiative, G3, A+ level. The index referring to the GRI indicators is at the end of this report and identifies the fulfilment of the requirements demanded by the level, relative to profile and performance indicators, including also the telecommunications sector indicators.

Period of the published information

This report contains data pertaining to PT's profile throughout 2010. PT publishes the company sustainability report annually together with the Annual Report, the latest edition of which pertains to 2009.

Scope of the report

The information available pertains mainly to PT's activities in Portugal where the Group holds a stake of over 50%.

Structure and information published

The structure and information published in this report represent PT's commitment to transparency and sharing policy to the stakeholders, evidencing the targets achieved and the policies adopted in order to guarantee long term business sustainability. This way, PT aims to respond to the issues raised by the market, especially the financial community (investors and analysts) both at national and international level. The identification of the material issues of PT's sustained management, included in this report, was done in accordance with the analysis of the information received from our stakeholders, through the respective communication channels and a sampling survey.

Auditing and truthfulness of the presented data

This report is subject to a verification process of all the information contained therein, aligned with the GRI directives in what pertains to contents credibility and quality and auditing guidance by an external independent entity.

Criteria used in the presentation of the economic, social and environmental data

The data presented is based on the information systems of the Group and is based on the International Financial Reporting Standards – IFRS, fiscal system, labour and environment legislation, the principles of conduct adopted by the Group, the 10 principles of the Global Compact of the United Nations as well as the GRI directives.

As a result of the acquisition of PT's stake in Brasilcel by Telefónica on 27 September 2010 and the adoption of IFRIC12, PT adjusted its financial statements of previous periods in order to recognize Vivo as a discontinued operation and to reflect the impact of the new accounting rule.

There are changes in the measurement techniques of eco-efficiency data, in comparison to the calculations from previous years, as the values of another PT subsidiary – PT Sistemas de Informação have been included. There are therefore increases in these values when comparing with previous years.

Suggestions for improvement

This report incorporates the suggestions for improvement, which are transmitted through the channel open for this purpose at www.telecom.pt. Contribute yourself as well.

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PORTUGAL TELECOM



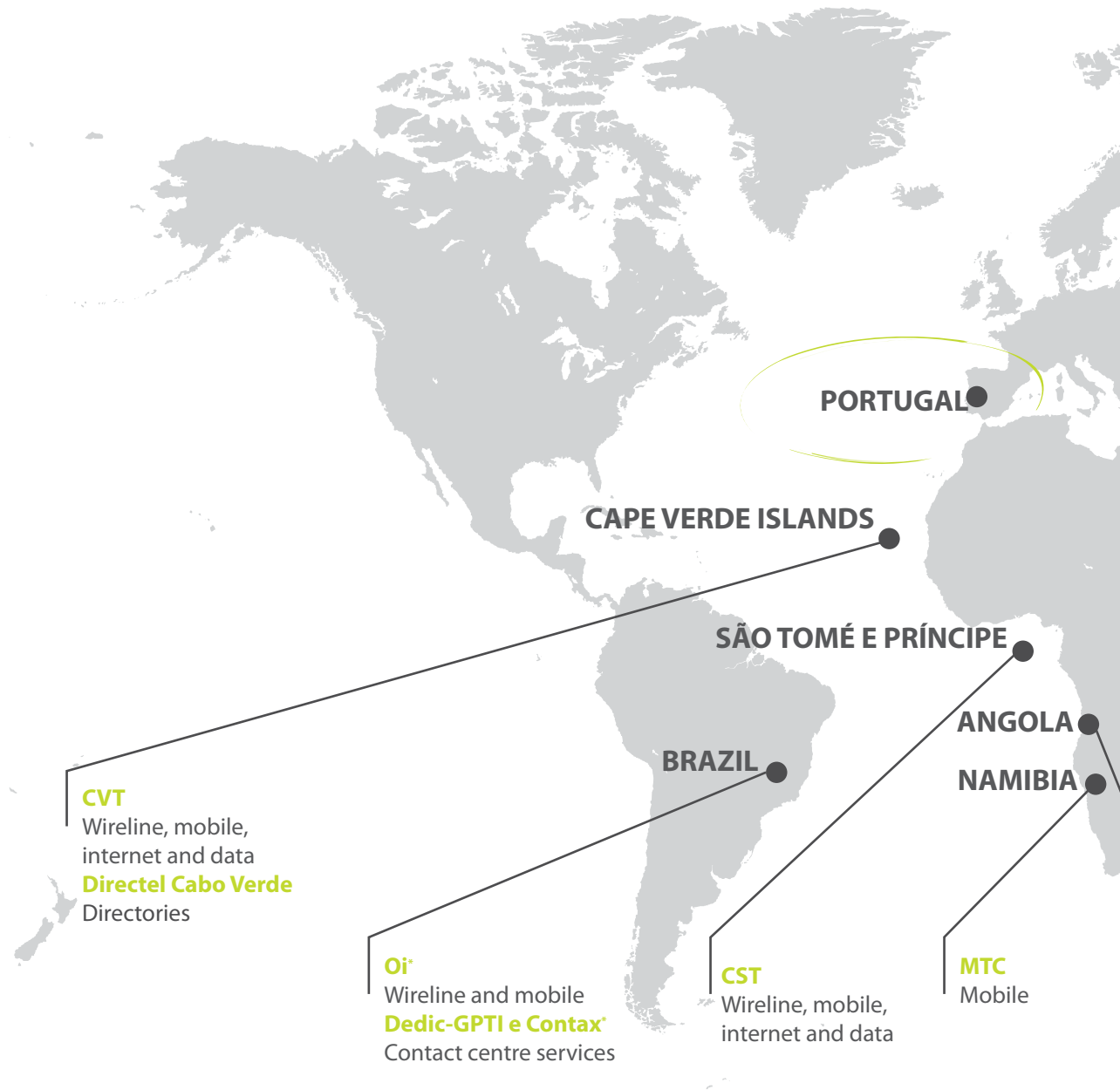
| PORTUGAL | | REVENUES (EURO MILLION) |
|--------------------|--|-------------------------|
| Wireline | Retail, voice and data for large companies, ISP and broadband [PT Comunicações 100%] | |
| Euro 1,929 million | Voice and data for SMEs [PT Prime 100%] | |
| Mobile | TMN 100% | |
| Euro 1,387 million | | |

| MAIN INTERNATIONAL ASSETS | | | REVENUES (EURO MILLION) |
|---------------------------|---------------------|------------------|-------------------------|
| Unitel 25% (*) | Angola | Mobile | 1,133 |
| CTM 28% | Macao | Wireline, mobile | 260 |
| MTC 34% (*) | Namibia | Mobile | 149 |
| CVT 40% (*) | Cape Verde | Wireline, mobile | 84 |
| Timor Telecom 41.12% | Timor | Wireline, mobile | 43 |
| CST 51% (*) | São Tomé e Príncipe | Wireline, mobile | 13 |

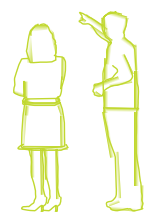
(*) These stakes are held by Africatel, which is controlled 75% by PT.

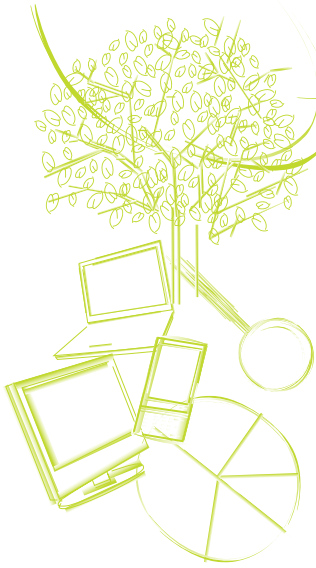
| SUPPORT COMPANIES |
|---|
| Systems and IT [PT Sistemas de Informação 100%]; Innovation, research and development [PT Inovação 100%]; |
| Backoffice and shared services [PT PRO 100%]; Procurement [PT Compras 100%]; |
| Call centres and telemarketing services [PT Contact 100%]; Pension funds management [Previsão 82.05%] |

PORTUGAL TELECOM



*To be concluded in 2011





Dear readers,

This year we have good news and renovated purposes to celebrate with you.

Notwithstanding the context we live in, full of challenges in the sector and economy in general, we maintain our goal of serving current and future generations knowing that we will be laying every day the foundations for our way of living, working and communicating over the next 100 years.

PT is now included in the Dow Jones Sustainability Index

This year was particularly gratifying for PT, as after a detailed and profound assessment carried out by the SAM Group, PT's activity in the domain of sustainability was recognized so that we are now included in the most prominent sustainability index at international level, the Dow Jones Sustainability Index (DJSI).

With this recognition, PT became the only Portuguese company simultaneously included in the two main international Indexes of sustainable development, the DJSI e o FTSE4Good.

Apart from being a strong motive of pride for all of us, it is also a new incentive to reinforce our commitment towards the sustainability strategy that we have assumed and incorporated in the company's management.

Strategy and commitments to all stakeholders

We pursued our five strategic goals, one of which is to become a reference in the domain of sustainability. This year, we gave priority to issues related to digital literacy and inclusion, security, unemployment, poverty and climate change.

We defined our Sustainability and Social Responsibility Policy, a complement to the Code of Ethics that we readjusted, and we are extending it progressively to all our supply chain. This policy is part of the ten principles enounced in the United Nations Global Compact, principles of the International Labour Organisation, including the Universal Declaration of Human Rights, the Rio Declaration on Environment and Development, apart from the principles agreed in the ETNO (European Telecommunications Network Operators) Sustainability Charter.

We face climate changes

Energy efficiency and the mitigation of the carbon footprint upstream and downstream across our supply chain continue to be our main focus of combat against climate change.

Therefore, naturally, we were founding members and participate actively on the Green Touch Initiative composed of a consortium of leading industry partners, research institutions and non-governmental organisations whose aim is to develop solutions to reduce by 1,000 times ICT energy consumption and the respective carbon footprint.

We are designing a new Data Centre, which besides being one of the largest in Europe, will also be a sustainability example, located in a remote zone of the country where it will create new jobs, and where cooling and energy will be essentially of photo-voltaic and wind origin.

Investment in Research & Development as an essential pillar in sustainability

Our Research & Development culture leveraged by the partnerships established with entities associated with scientific knowledge has a fundamental role in re-creating technological and organisational solutions capable of ensuring improved social, economic and environmental solutions with positive impact for everyone.

We planned and we are implementing a new FTTH (Fibre to the Home) network, which will serve current and future generations. This network received the Innovation Award in the Deployment and Operation of FTTH Networks category, which stands for the most innovative fibre optic network in Europe and will leverage services and functionalities that will contribute to making customers benefit from an extensive offering, based on increased cost and energy consumption rationalization.

Importance of secure ICT use

Questions relative to personal and business data security and protection, were also worthy of special increased attention over last year.

We prepared, adopted and are progressively extending to our supply chain an Information Security Policy suited to all information and communication systems and technologies. Safe and adequate information technology use by the younger generation were also a priority. We prepared a national awareness program – Security Communications – that we have divulged and implemented for the Portuguese school community.

Concern with Responsible Marketing and Consumption

In the current market context, brands and companies use more and more aggressive marketing campaigns whose impact and return on the population are worthy of our consideration. We are therefore focused on a kind of communication that, although very much sales-oriented, includes respect for the values and beliefs of our customers and promotes enlightened product and service use together with improved environmental preservation. This goal will be pursued for years to come.

Digital inclusion and literacy as strategic areas

We all recognise that digital inclusion and literacy have shown to be fundamental pillars in stimulating new social and professional opportunities and consequently in promoting economy and a more responsible citizenship.

The generalised use of information technologies, the growing diversity in the offer of broadband solutions and services as well as community support programs, namely groups of citizens with special needs, continue to remain at the epicentre of the social responsibility initiatives in which we are involved.

Promotion of social well-being

Taking into account the economic conjuncture, we are concerned about creating solutions and services suited to families whose income has decreased.

We have always privileged solutions that best serve the needs and aspirations of the entire population: finding communication solutions suited to the characteristics and needs of every citizen, including those with disabilities.

The recognition that we receive

We feel very pleased and with a deeper responsibility when we see our commitment and results deserve recognition from different national and international external entities.

Therefore, I would like to stress that we remain listed in the FTSE4Good index, we achieved the No.1 position, in this sector at national level, at the Companies and Organisations Citizenship Award and we are one of the Top 3 of the Engagement Rating Portugal 2010.

The assessment carried out by the SAM Group led to our inclusion in the Dow Jones Sustainability Index, Europe and World, while the evaluation of the PT brand kept us as one of the Top 500 most valuable brands in the world.

Our commitment and recognition

This report, in its seventh edition already, aims to be a space of reflection, transparency and sharing of the impacts of our activity on the economy, environment and society. We carry the ambition of improving it each year.

I would like to express my gratitude to everyone and share with you the achievements and challenges that we face as well as the results that we achieved over last year by publishing this report, drawn up in compliance with the most demanding level of requirements of the Global Reporting Initiative and AA 1000.

Count on us, we shall continue to count on you.



Zeinal Bava
Chief Executive Officer

HIGHLIGHTS

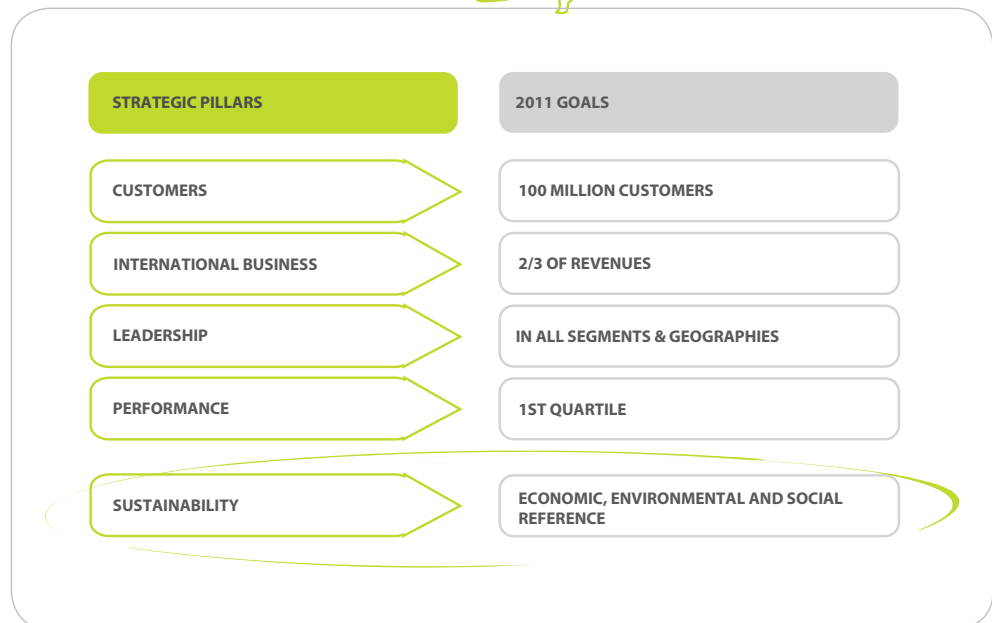
Management policies, the strategic decisions taken, the achievement of the goals of the year and their impact on society are the pillars of PT's long-term sustainability.

Therefore, this report is an act of sharing with all stakeholders, aiming to represent a balance of the company's performance throughout 2010.

The strategic pillars defined by PT's management over a 3-year period contain ambitious goals in counter-cycle with the conjuncture that society is going through.

Sustainability is one of such defined pillars and is underlying to all activities of the company.

STRATEGIC PILLARS



HIGHLIGHTS OF THE YEAR

ECONOMIC IMPACTS

We maintained our presence in 12 countries and 4 continents

85.5 million customers – We grew by 18.7% (excluding VIVO and including Oi)

Our contribution to the nation's investment is 2.17%

Our contribution to national investment is 2.44%

Our contribution to sector investment is 59.4%

Our contribution to the nation's employment is 0.22%

Our R&D investment topped euro 200 million

We were included in the Dow Jones Sustainability Index

We were the only Portuguese company included in the two top world sustainability indices: DJSI and FTSE4Good

We were awarded Silver class in the Telecommunications sector at world level in the FTTH (Fiber to the Home) Council & Eurostat Study



ENVIRONMENTAL IMPACTS

We reduced our CO₂ emissions by 7%

Our energy consumption incorporated 42% of renewable energies

We reduced water consumption by 31%

We reduced administrative paper consumption by 10%

We helped organisations of support for victims of natural disasters at world level

We were category winners in European Green Mobile Phone at EISA Awards



SOCIAL IMPACTS

We contributed with 0.72% of our 2010 income from operations to social responsibility and community support initiatives

We implemented a Sustainability and Social Responsibility Policy

We implemented an Information Security Policy

We disseminated Minor Protection guidelines in ICT use

We increased customer satisfaction level by 0.3%

We reduced average service installation time by 19%

We reduced the average number of complaints by 16%

We improved average employee satisfaction level by 4%

We verified the alignment level of 41% of our suppliers and carried out random presentational audits to 2.5% of same

We consulted with stakeholders, identified new risks and adjusted our action plans

We were awarded prizes and honours at both national and international level

We updated and disseminated our Code of Ethics



ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACTS

PERFORMANCE AND IMPACTS ON SOCIETY

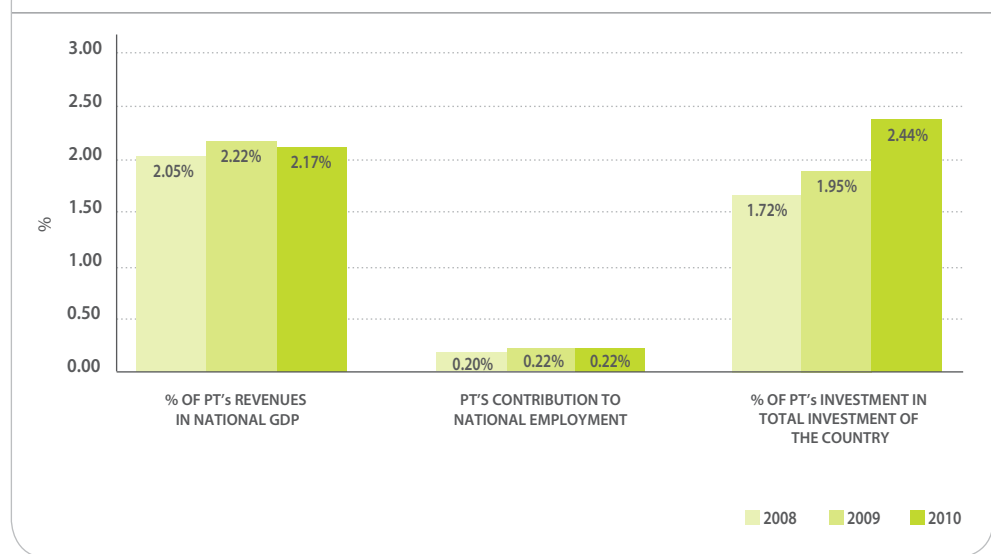
For an improved framework and monitoring of its impact at national level and in the electronic communications sector, PT has identified and developed a number of indicators over the years that enable the assessment of the company in the economic, social and environmental domains. This way, it is possible for PT to incorporate the impacts derived from the activities carried out in the course of its organisational strategy, proactively contributing to the sustainable management of its organisation.

IMPACTS ON THE COUNTRY ⁽¹⁾

In 2010, the weight of PT's revenues on the nation's GDP increased slightly – 0.02% - although income from operations grew by 0.2% compared to 2009. This trend reversal is due to the fact that Portugal's GDP grew by circa 1.4%, opposed to the 2.5% decrease observed in 2009. Therefore, PT continues to contribute positively to the increase of the wealth of the country, also maintaining its contribution to national employment.

On the other hand, in counter-cycle with the nation's economic and financial conjuncture, PT continued with its investment strategy, which although with a slight decrease in comparison to 2009, continued to represent an important part of the country's total investment, having its contribution increased by 0.49%.

PT'S IMPACT ON THE COUNTRY



GDP used in previous editions was reassessed to final values as preliminary estimates were being used.

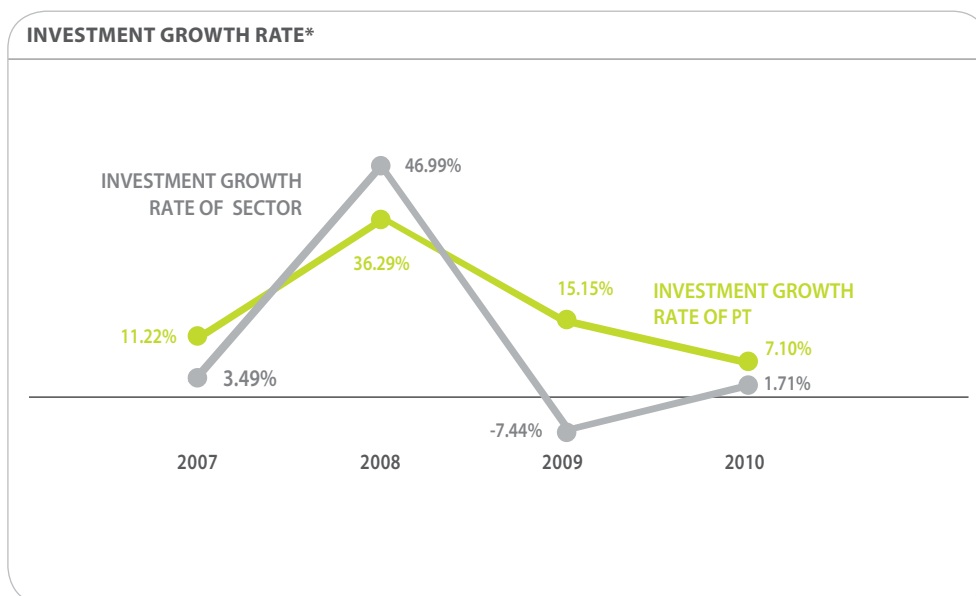
(1) National GDP and investment data pertain to 2007, 2008 and 2009. Its source is INE/PORDATA. GDP uses constant prices.

IMPACTS ON THE SECTOR ⁽²⁾

At national level, PT continues to have a positive and growing impact in the telecommunications sector and employment, reassessing its leadership and prominence in the development of the sector.

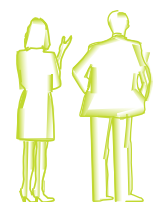
PT also continues to be the main national investor in the electronic communications sector, representing 59.4% of total investment in this sector.

It is worth highlighting that most of the investment on Next Generation Networks, namely FTTH (Fibre to the home) was made in 2009, having achieved the coverage of 1 million homes.



*This chart was corrected due to printing errors in 2009.

(2) Sector data pertain to 2007, 2008 and 2009 and its source is ANACOM. Some ANACOM values have changed *vis-à-vis* the information published in previous editions, as a result of corrections in previous years made by some service providers.



MAIN ECONOMIC INDICATORS

PT's activity is significant in Portugal's economy and in the economy of the countries where it operates. The following table identifies the main indicators that characterize their economic impact.

| MAIN ECONOMIC INDICATORS | |
|--|----------------------|
| Taxes paid | Euro 77.5 million |
| Subsidies received | Euro 1.77 million |
| Payments related to post-retirement benefits | Euro 38.2 million |
| Customer Satisfaction Index (scale 1 to 10) | 7.8 |
| Total Revenues of the Group | Euro 3,742.3 million |
| Revenues in Portugal | Euro 3,200.8 million |
| Research & Development over income from operations | 28.8% |
| Global distribution of wealth to suppliers in Portugal | 20% increase |
| Global distribution of wealth to suppliers | 19% reduction |

CREATION OF SHAREHOLDER VALUE

PT's commitment to its shareholders is value creation. Therefore in 2010, operating revenues increased by 0.2% y.o.y. to euro 3,742 million, partially driven by revenue growth in international operations. Net income increased to euro 5,672 million. This growth is due to capital gains obtained with the sale of VIVO in the third quarter of 2010, which was recognized as a discontinued operation. EBITDA (Earnings before interest, taxes, depreciation and amortization) decreased by 4.2% y.o.y. to euro 1,492 million, partly justified by domestic revenue decline. Still in 2010, PT paid a total dividend per share of euro 1.575, as euro 0.575 corresponds to the 2009 exercise and euro 1 corresponds to part of the exceptional dividend of euro 1.65 per share announced after Vivo's disposal.

| CREATION OF SHAREHOLDER VALUE ⁽³⁾ | |
|--|----------------------|
| Operating revenues | Euro 3,742.3 million |
| Revenue variation | 0.24% |
| Net income | Euro 5,672.2 million |
| Net income variation | 728% * |
| EBITDA | Euro 1,491.7 million |
| EBITDA variation | -4.2% |
| Operating costs | Euro 2,250.6 million |
| Operating cost variation | 3.4% |
| Distribution of dividends to shareholders | Euro 1.575 per share |

* Income derived from VIVO alienation

RESEARCH AND DEVELOPMENT

Research & Development is an essential foundation in PT's activity as it is an innovation catalyser and driver, contributing to the development of products and services capable of creative positive impacts on stakeholders. Therefore, PT continues to invest heavily in this area: in 2010, Capex (investment in capital equity) was directed mostly to investment in the implementation of new technologies and services, namely the fibre optic network, the TV service and to investments in 3 and 3.5 G technologies.

(3) Economic values pertaining to 2009 have been adjusted in order to recognise Vivo as a discontinued operation and to reflect the impacts of adopting IFRIC12.



APPLIED RESEARCH & DEVELOPMENT (R&D) AND RENEWAL OF SERVICES OFFERING

| | |
|----------------------------------|----------------------------|
| Investment in Portugal (Capex) | Euro 680.3 million |
| Total investment (Capex) | 798.4 million |
| Capex as % of operating revenues | 21% |
| R&D | More than Euro 200 million |

CONTRIBUTIONS TO SOCIETY

In the scope of its responsibility towards society, namely the State, ex-employees with post-retirement benefits, suppliers, the media, among others, PT identifies and reports data and indicators that translate the company's transversal and diversified impact in the milieu where it operates.

CONTRIBUTIONS TO SOCIETY

| | |
|--|-----------------------|
| Taxes paid | Euro 77.5 million |
| Payments related to post-retirement benefits | Euro 38.2 million |
| Distribution of wealth to suppliers in Portugal | 20% increase |
| Total number of news pieces in the media | 52,538 |
| Number of news pieces relative to sustainability | 510 |
| Contribution to employment in Portugal | 0.22% |
| Contribution of operating income used in the community | 0.72% |
| Percentage of PT broadband users | 46.8% |
| Lowest wage paid by PT | national minimum wage |

ECO-EFFICIENCY

PT is becoming more and more efficient in terms of resource use. Except for energy consumption, due to reasons explained later, the company showed significant decreases in CO₂ emissions, water and materials consumption, and in waste production.



ECO-EFFICIENCY ⁽⁴⁾

For each million euros of operating revenues PT shows:

| | |
|---------------------------|--|
| CO ₂ emissions | 44.26 tons of CO ₂ 7% reduction y.o.y. (Reasons due to the consumption rationalisation policy and simultaneously to the fact that the electric energy sources used incorporate a significant portion of renewable energies). |
| Energy consumption | 485.33 GJ of direct energy 7% increase y.o.y. (Reasons due to the increase of storage needs for television contents and the new Cloud Computing service) |
| Water consumption | 76.41 m ³ of water 31% reduction y.o.y. (Reasons due to rationalisation projects that contributed to water consumption reduction at PT) |
| Waste production | 0.88 tons of waste 10% reduction y.o.y. (reasons due to less waste production namely battery, paper and wood waste) |
| Consumption of materials | 7.37 tons of materials (Aggregated data are not comparable to last year, nevertheless an analysis on the consumption of administrative material, leads to a 10% reduction, due to increased consumption rationalisation) |

(4) There are changes in the measurement techniques of eco-efficiency data in comparison to previous years as the values of another PT subsidiary – PT Sistemas de Informação - have been included. Therefore, the values show increases relative to previous years.

CUSTOMERS AT THE CENTRE OF THE ORGANISATION

The average customer satisfaction index above 7 (scale 1 to 10), the 30% and 20% reductions in the average time to solve complaints and to repair faults respectively, are some of the goals set for the triennium. This year, we were not aligned in terms of the goal set for the average fault repair time, but there were improvements in the average services installation time, with a 19.4% reduction and highlight should go to the 16% decline in the average number of complaints per 1000 inhabitants. The remaining times are significantly different from the values of the previous year.

| CUSTOMERS AT THE CENTRE OF THE ORGANISATION | |
|---|---------------------------------------|
| Customer base | 85.5 million 18,75% increase y.o.y |
| Average number of complaints per 1,000 customers | 26.6 16% decrease y.o.y |
| Average time to solve a complaint | 4.1 days 5% increase y.o.y |
| Average fault repair time | 1.7 days 6% increase y.o.y |
| Average service installation time | 8.3 days 19% decrease y.o.y |
| Average customer satisfaction index (scale 1 to 10) | 7.8 0.3% increase y.o.y |

TALENT CAPTURE AND RETENTION

Talent capture and retention assume a paramount importance for PT as the quality and satisfaction of its employees is a competitive and decisive factor in the success of the company. PT recruited 104 new trainees, increased the number of training actions and saw the average employee satisfaction level increase by 4%.

| TALENT CAPTURE AND RETENTION | |
|---|--|
| Costs & investments with employees | Euro 637.1 million |
| Costs & investments with employees as a percentage of operating revenues | 17% |
| Trainees incorporated in 2010 – trainees from the management and technological areas in the program | 104 |
| Training | 6,077 training actions 41 hours training per employee Euro 3.2 million in training actions |
| Employee satisfaction index (scale 0 to 100%) | 73% 4% increase y.o.y |

OCCUPATIONAL SAFETY AND HEALTH

PT ensures and actively promotes occupational safety and health for its employees via its Occupational Safety and Health Management Model, thus contributing to an improved quality of life of its human resources, to the reduction and prevention of accidents and to increased productivity and cost rationalization. There no deaths caused by labour accidents in 2010.

| OCCUPATIONAL SAFETY AND HEALTH | |
|---|-------------|
| Beneficiaries of the occupational health and safety program | 51,064 |
| Labour accidents | 289 |
| Assessment of working conditions | 125 |
| O&SH training actions | 54 programs |

SUPPORT FOR SOCIETY

PT set up its commitment to contribute to a more inclusive and balanced society through *ad hoc* interventions for underprivileged communities via different initiatives from which we highlight the programs of support for inclusion and digital education, and the promotion of knowledge, health, security, culture and environment. This year, the social and cultural support granted to society through the commercial brands of the PT Group and its Foundation amounted to euro 5 million, which represents 0.72% of its operating revenues.

| SUPPORT FOR SOCIETY | |
|---|-----------------------|
| Social & cultural support of commercial brands | Euro 1 million |
| Distribution of the amount per area supported: | |
| Culture | Euro 0.16 million |
| Health | Euro 0.22 million |
| Social Solidarity | Euro 0.6 million |
| Education | Euro 0.01 million |
| Environment | Euro 0.01 million |
| PT Foundation initiatives | Euro 4 million |
| Distribution of the amount per area supported: | |
| Digital Inclusion | Euro 1.24 million |
| Volunteering | Euro 0.36 million |
| Education | Euro 0.29 million |
| Health | Euro 0.12 million |
| Arts / Culture | Euro 1.49 million |
| Environment | Euro 0.19 million |
| Other | Euro 0.3 million |
| TOTAL | Euro 5 million |

PROJECTS WORTH HIGHLIGHTING IN SUPPORT FOR SOCIETY

Solutions for low-income markets

The offering of PT services contemplates all need profiles, providing an integrated offer for low-income consumers.

Contingency plans to ensure the continuity of services delivery

In situations of absence of service due to acts of vandalism, natural catastrophes or other situations, PT has available a number of contingency plans that can be activated, ensuring service resumption under acceptable conditions as shortly as possible.

Special solutions PT and TMN for citizens with special needs

In 2010, circa 3,809 people with special needs (namely people with disabilities for whom PT adapts communication solutions) and social, school or hospital support organisations benefited from solutions made available by PT and subsidized by the PT Foundation.

Volunteering

The Portuguese community counted on the voluntary collaboration of circa 862 PT volunteers and at least 1,550 hours of service delivered.





Promotion of social, school and professional inclusion

Star Project – oriented to cerebral palsy

In 2010, the Portuguese Association of Cerebral Palsy from Porto, Lousada delegation was included in the Star Project, having been installed a new nucleus for augmentative communication and Internet access.

Uranus Project – oriented to intellectual impairment

In 2010, a new nucleus in the Association for the Education of Unadapted Children of Mafra was added and the software in 10 of the first phase was upgraded.

Astro Project – oriented to students with educational needs

During the 2009/2010 school year, the 27 existing nuclei benefited 1,072 students who were assessed and/or trained in the use of special technologies. Additionally, 17 students benefited from PT Tele-Classroom solution during their hospital stay and/or during convalescence, or due to severe impairment.

John Paul II Project – adapted to neural-motor disability

In 2010, the John Paul II Centre received MyTobii equipment. It is a highly sophisticated eye-controlled system to evaluate cases of neural-motor disability with associated visual impairment, experimentation and training, thus enabling its configuration as an excellence centre for such assessment in central Portugal.

St. Nicholas Project – adapted to lonely senior citizens

In 2010, the area of the project was extended to cover the entire city of Lisbon, being noteworthy the inclusion of the Campo Grande parish. This project currently includes 71 senior citizens.

Sunflower Project – donation of technological equipment

In 2010, youngsters and adults from several institutions were supported, namely from the Education Centre for Citizens with Disabilities (CERCI of Mira-Sintra), Unit of Augmentative Techniques and Communication Alternatives (UTAAC) of the Calouste Gulbenkian Centre for Cerebral Palsy and “Inválidos do Comércio” institution. Two other projects for school inclusion of University students with special needs were also supported, namely:

- A Computer Engineering student from the University of Porto with Duchenne muscular dystrophy;
- A Sociology student from ISCTE Faculty who benefits from a PT Tele-Classroom system in the scope of UR Project.

Snowball Project - digital inclusion of people with impairments or disabilities

In 2010, the last 19 of the 23 nuclei of the project were installed, in accordance with the priorities defined by the General Directorate for Health.

Light and Moon Projects – creation of 14 nuclei for people with mental impairment com or multiple disabilities

In 2010, 3 of the 8 project nuclei were installed.

Healthcare projects

Baby Care – Remote follow-up of newborns

During 2010, an extensive maintenance action on the equipment installed at the Dr. Alfredo da Costa Maternity was carried out, having 92 families benefited from this technology. At Júlio Dinis Maternity, 125 families benefited from this technology throughout the year. Baby Care’s relevance to humanize healthcare services justified its installation at the Bragança maternity, which now possesses equipment for 6 incubators since mid-December 2010.

Telemedicine – Consultations and scheduling

In December 2010, a protocol with Marquês de Valle Flôr Institute (IMVF) establishes the support of the PT Foundation through the donation and respective installation of two Medigraf systems (one in Lisbon at IMVF headquarters, and another one in São Tomé e Príncipe at Dr. Ayres de Menezes Central Hospital, thus enabling tele-consultations between both countries.

My Sapó Health – Personalized management of health information

Kicked off in May 2010, this system enables the user to manage different kinds of health information, such as for example personal parameters (weight, blood pressure, heart rate, glycemic index, etc.) and register important information such as allergies, food habits, treatments, medication and scheduling of consultations, etc. There are currently 1,355 registered users.

Skill training and acquisition by underprivileged population

A computer, an opportunity – recycling and access to new technologies

In 2010, 306 computers were donated to 40 Portuguese institutions throughout the country, and 1,248 equipments went to Portuguese-speaking countries.

Communicating with Security – Sharing knowledge to ensure the responsible use of equipment, contents and functionalities

Over the 2009/2010 school year, 'Communicating with Security' sessions were held in 40 schools for 6,058 students all over the country, involving 67 PT volunteers.

Culture and Historic Heritage

Publication of Book: History of Telecommunications in Portugal

The abovementioned work was the Grand Prize winner of the Portuguese Business Communication Association (APCE) 2010 Award in the Historic Responsibility and Business Memory category.

Museum of Vilar

In 2010, the museum was visited by 714 people, mostly school groups from different school levels.

Environment

RITF Project

Contribution to the implementation of a recovery plan for the Funchal Municipality after the winter catastrophe (floods and devastation caused by the water flow) in Madeira Island in the beginning of 2010.

Funchal Ecological Park

Contribution to soil cleaning, removal of burnt trees and eradication of infesting species, in order to regenerate the forest, devastated during a summer fire that affected more than 90% of the park.

International Year of Forests

The Portuguese community counted on the voluntary collaboration of circa 862 PT volunteers and at least 1,550 hours of service delivered.

CONTRIBUTION OF THE SUBSIDIARIES TO THE ECONOMIC DEVELOPMENT OF THE RESPECTIVE COUNTRY

The increase and consolidation of PT's international footprint brings significant economic, environmental and social impacts to the sphere of responsibilities of the Group. Notwithstanding the heterogeneity of the markets where the PT subsidiaries operate, it is important to measure the contribution of each one to the sustainable development of its country. Therefore, the following table shows the contribution of each company to the creation of wealth in the respective countries.

COMPANY REVENUES / GROSS DOMESTIC PRODUCT OF THE COUNTRY ⁽⁵⁾

| | |
|---------------------------|-------|
| Unitel - Angola | 1.14% |
| MTC - Namibia | 1.13% |
| CVT - Cape Verde | 3.34% |
| CTM - Macao | 0.70% |
| CST - São Tomé e Príncipe | 2.06% |
| Timor Telecom | 5.70% |



(5) The source of the GDP data is the World Bank, pertaining to 2008. The values were translated to euros using an average exchange rate for the reported period. The exchange rate used was a simple arithmetic average of the exchange rates prevailing at market opening and closing over the 12 months of 2009. Company revenues pertain to 2010.

AWARDS AND HONOURS

1. SUSTAINABILITY

Dow Jones Sustainability World Index (DJSI)

PT is included in the DJSI, becoming one of the world's telecommunications companies with the best sustainability practices, thus being included in the two top indices in terms of sustainability: FTSE4Good and DJSI.

FTSE4Good

PT kept its recognition and remained listed in the FTSE4Good

Sustainability Yearbook

PT was honoured internationally with Gold Class in the Sustainability Yearbook 2011 and Silver Class in the Sustainability Yearbook 2010, by the SAM Group (Sustainable Asset Management), being thus present in the list of the world's sustainability leaders.

Companies and Organisations Citizenship Awards

PT was the sector winner at the Companies and Organisations Citizenship Awards, in Technology, Information, Communication and Entertainment, organised by the Leadership and Business School and PriceWaterhouseCoopers.

The New Economy 2010 Carbon Leadership Awards

PT was the category winner in Best Carbon Reporting Award.

Ethibel Excellence Investment Register

PT is identified in this index that highlights the best companies in the respective sectors in terms of sustainability and corporate responsibility, in different areas and regions.

Engagement Rating Portugal 2010

PT was awarded the 2nd position in the "Sair da Casca" survey, based on the Accountability Rating methodology, to evaluate business sustainability practices and their impact on economy, society and environment.

Ranking of the portuguese companies that invest most in R&D

PT was listed as the company that invested most in R&D in 2008.

Grand Prize APCE 2010

PT was awarded an Honourable Mention in the Sustainability Report category. The Grand Prize of the Portuguese Association of Business Communication (APCE) aims to honour excellence in business communication strategy.

Autonomic Cord for Good Services

PT was awarded an Honourable Mention in the Sustainability Report category.



2. CUSTOMERS

Call Centre Awards 2010

PT was the winner of the Social Responsibility at the Call/Contact Centre award.

European Business Awards

PT was one of the 10 category winners in Customer Focus at the European Business Awards, an independent initiative that honours excellence, best practices and innovation in the business European community and the major business groups of member states.

European Imaging and Sound Association (EISA) Awards 2010 – 2011

TMN was the category winner in European Green Mobile Phone.

Estudo FTTH (Fiber to the Home) Council & Eurostat

PT was awarded Silver class at world level in the Telecommunications sector.



3. HUMAN RESOURCES

Most Family Resonible Company

Differentiating and innovative initiative conducted by AESE (Business School) and Deloitte

World Awards 2010 - PT was awarded:

Top Performers Gold in Best Recruitment Campaign

Top Performers Silver in Best Incentive Scheme

Top Performers Bronze in Best Community Spirit



4. BRAND

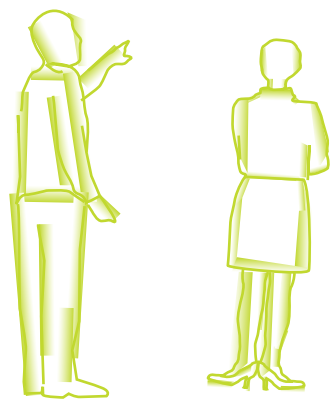
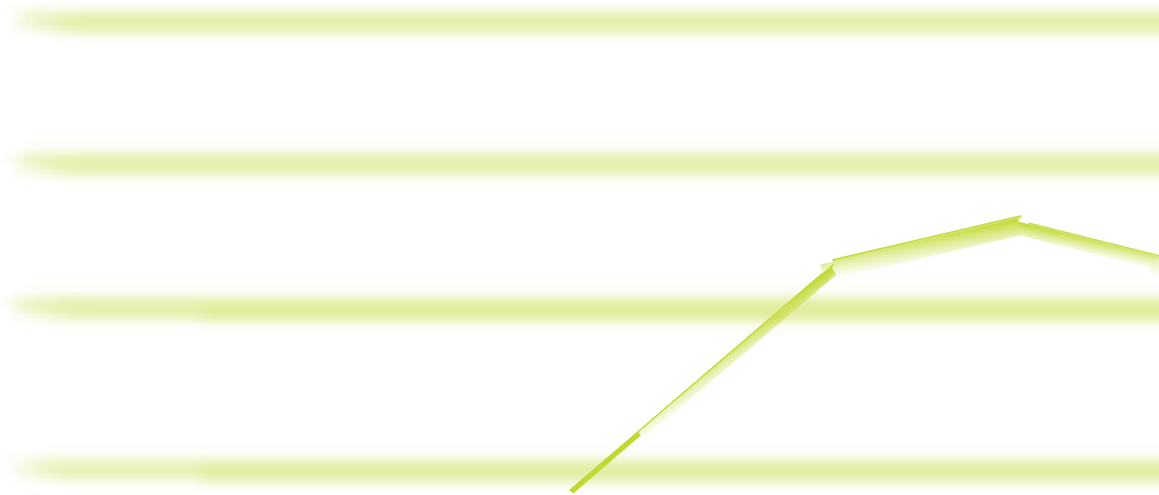
Brand Finance - 'World's Most Valuable Brands' Survey

PT holds position n.º 373 in the ranking of the Top 500 most valuable brands in the world.

Trusted Brands 2010

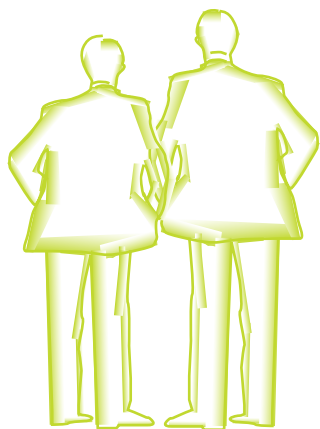
Two PT brands, Sapo ADSL and TMN, are elected the most Trusted Brands in the respective sectors in Portugal.





01

MANAGING WITH ETHICS AND RESPONSIBILITY



MANAGING WITH ETHICS AND RESPONSIBILITY

SUSTAINABILITY STRATEGY

1.1. ETHICS AND RESPONSIBILITY IN SHAREHOLDER VALUE CREATION

Transparency, information accuracy and confidence levels in organisation and brand management are, more and more, critical factors in decision processes of citizens, customers or investors relative to their options and capital allocation.

PT committed itself to its shareholders to create value ensuring good economic and financial performance now and in the future. Therefore, top management will continue to maintain a voluntary and determined attitude that aims to achieve the possible balance between the legitimate will to generate profit and ethics and respect for environmental preservation and the community where it operates. The level of fulfillment of this balance is a fundamental pillar in the company's robustness and in the value shared with shareholders and remaining stakeholders.

Business ethics and shareholder value creation incorporate the following pillars:



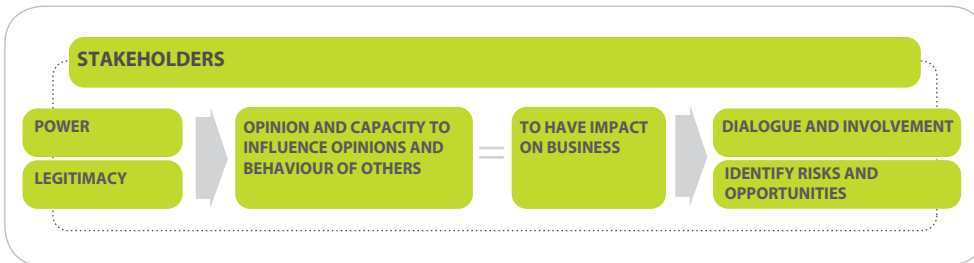
Communication and information technologies are a powerful resource to bring people closer together, dematerialise day-to-day life and contribute to improving everyone's life. Therefore, PT believes that its activity contributes to benefiting society, enabling value sharing with the community, environment and shareholders.

1.2. STAKEHOLDER DIALOGUE AND IDENTIFICATION OF MATERIAL ISSUES

Being aware that stakeholder options strongly condition the Group's performance, PT has been promoting dialogue mechanisms with each one, leveraging the necessary information exchange for the adoption of management policies suited to the expectations of all interested parties and particularly the commitments assumed with the shareholders.



PT identifies stakeholders with potential impact on its businesses taking into consideration the following assumptions:



The methodology of stakeholder involvement and identification of relevant issues in their relationship with PT uses complementary means and approaches that aim to incorporate market perceptions and trends as well as the probable impact of same on the activity of the company.

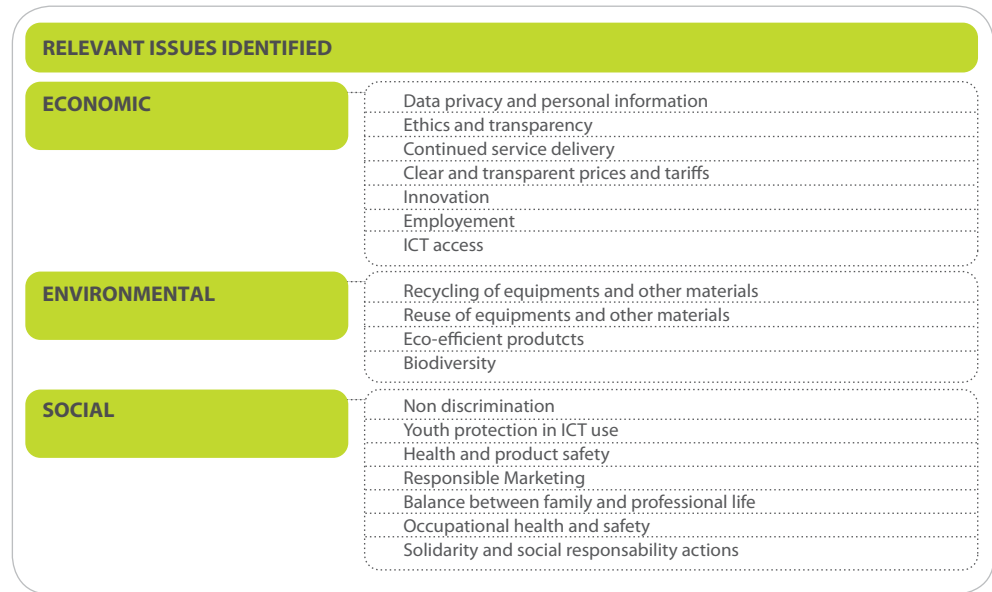
The communication channels made available by the company are and will continue to be the privileged means of dialogue and involvement with each public. The relationship of proximity built by PT through these channels has allowed anticipating solutions as it contributes in each moment to generate ideas, identify weaknesses and define improvement plans which meet the interests of all parties. The communication channels provided are described below, most of them are available 24 hours a day, 365 days a year.

| INTERESTED PARTIES | MEANS OF RELATIONSHIP |
|-------------------------------|---|
| ANALYSTS | <ul style="list-style-type: none"> General Shareholder Meeting Quarterly and annual reports Face-to-face meetings Participation in consultations |
| CUSTOMERS | <ul style="list-style-type: none"> Call Centres Customer Portal Network of own stores and agents, and sales managers Market surveys Marketing Campaigns Bill and electronic bill |
| EMPLOYEES | <ul style="list-style-type: none"> Employee Portal Organizational Climate Survey Company Agreement Whistleblowing channels Corporate Intranet Performance assessment and feedback |
| SUPPLIERS | <ul style="list-style-type: none"> Supplier Assessment and feedback meetings Specialized dialogue team |
| REGULATORY AUTHORITIES | <ul style="list-style-type: none"> Specialized dialogue team Directives issued by the authorities |
| SOCIETY AT LARGE | <ul style="list-style-type: none"> Opinion surveys Statistics and assessment Participation in work groups |

WEBSITE
www.telecom.pt

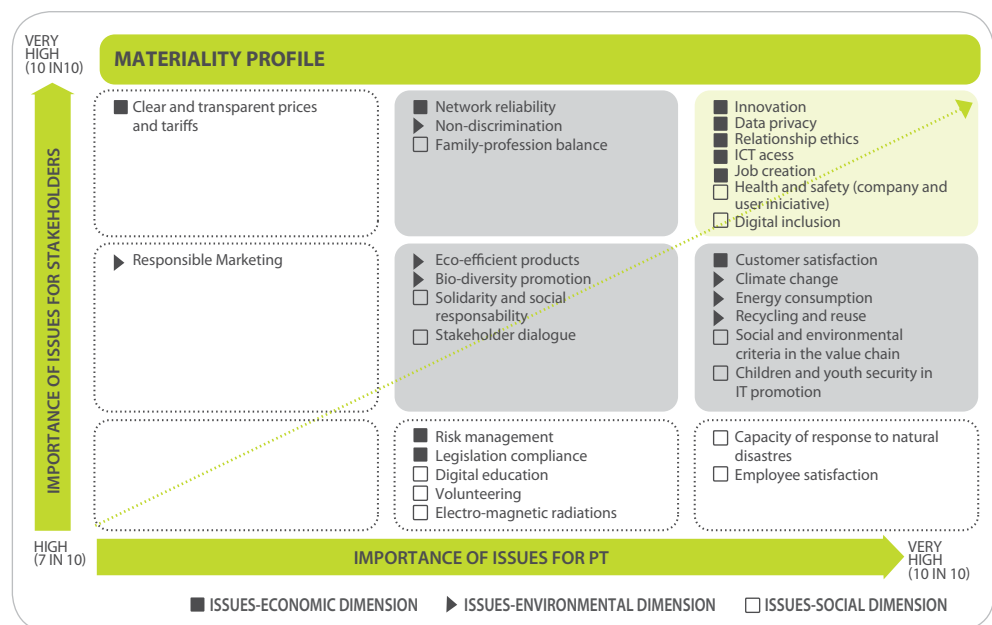
SPECIFIC CONSULTATION

The relationship maintained throughout 2010 with the different stakeholder groups allowed registering the concerns and expectations of each one, aggregating the different forms of expressing each type of concern and lastly listing and selecting the following relevant issues with probable impact on the activity of the company.



Being sustainability one of PT's five strategic goals, it was essential to adjust the alignment between the activity of the company and stakeholder expectations, being therefore necessary to know the relative importance assigned to each one of the identified issues and, based upon that, find the materiality profile of each subject and define the improvement opportunities of each group.

The matrix shown below is the result of the intersection of the survey conducted by sampling on stakeholders, with studies and analyses published by non-governmental organisations and international analysts.



PT's sustainability strategy was defined taking into account national, European and North-American legislation, the guidelines from national and international organisations with which it identifies itself, surveys on the different publics with which it interacts and regular benchmarks. The strategic activity guidelines aim to consolidate domestic competitiveness and promote an international growth agenda, always taking into consideration the possible balance among the interests of all interested parties.

 **Adopted sustainability strategy**

Low value-chain carbon

To promote the **reduction of direct CO₂** emissions of PT through a number of initiatives from the promotion of the use of renewable energies to the reduction of energy needs through the certification of its buildings and cooling of its spaces using freecooling systems.

Promote, through the penetration of its products and services, a reduction of the impact of other sectors at environmental level. In fact, the proliferation of information and communication technologies will through the dematerialisation of day-to-day activities, for example through virtual collaboration, and efficiency and productivity maximisation, enabled by the access to new telematics and machine communication solutions, allowing a significant reduction of the carbon footprint of other sectors.

Focus on social well-being of its employees and society

Internally, PT tries to provide its employees and respective families with training programs (more than 350 scholarships for low-income employees), access to internal libraries without access costs (more than 8,000 titles borrowed) or access to volunteer work initiatives (more than 400 employees already involved) among others.

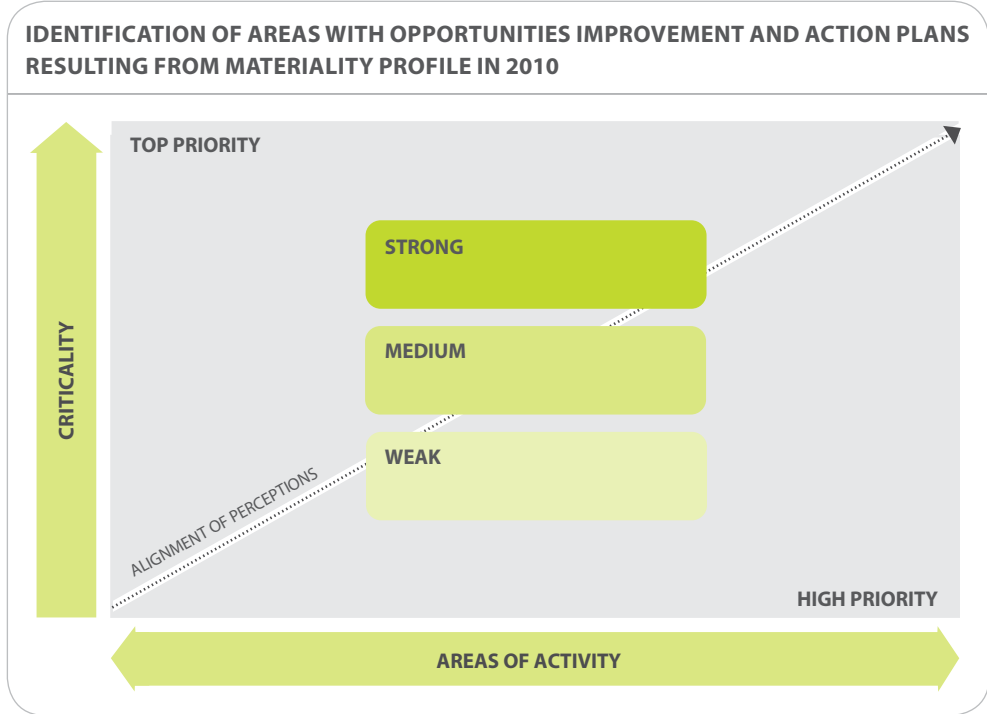
Externally, for the society at large, PT hopes to contribute through a change of how we live by acting in isolation or through protocols with the government and other economic agents. This triennium will reflect to a great extent PT's three priorities:

- Change of the **education** system in Portugal, providing it with capacities to improve school success;
- Infra-structuring of the **healthcare** services, trying to improve its quality of service and transparency to its users;
- Revolution at **home**, with innovative remote control and security services to simplify day-to-day life.

STRATEGIC GOALS FOR THE TRIENNIUM

| | |
|-----------------------|--|
| CUSTOMERS | 100 MILLION CUSTOMERS |
| INTERNATIONAL | 2/3 TOTAL REVENUES ORIGINATED IN INTERNATIONAL OPERATIONS |
| LEADERSHIP | LEADERSHIP IN ALL SEGMENTS AND GEOGRAPHIES |
| PERFORMANCE | 1 ST QUARTILE IN SHAREHOLDER RETURN AND IN OPERATING AND FINANCIAL REVENUES |
| SUSTAINABILITY | ECONOMIC, ENVIRONMENTAL AND SOCIAL REFERENCE IN ITS SECTOR |





Based on the materiality profile found, PT enriched the strategic axes defined for the triennium, reinforcing and aggregating new guidelines in compliance with the matrix drawn up.

STRATEGIC OPPORTUNITIES IN 2010 RESULTING FROM STAKEHOLDERS CONSULTATIONS

| | |
|----------------------|--|
| ECONOMIC | <ul style="list-style-type: none"> Innovation: To continue the innovation program in the technological, environmental and social domains Data privacy: To prepare the data and systems security policy and draw up a Guide of Good practices for distribution to customers Employment: To maintain the talent recruitment and retention program Transparent prices and tariffs: To clarify prices of services of services online ICT access: To maintain and develop plans for services adjusted to different income levels and to ensure continuity in service delivery |
| ENVIRONMENTAL | <ul style="list-style-type: none"> Eco-efficient products: To reinforce our commercial offering with less energy, dependent equipments and reusable packages Biodiversity: To continue to support protection programs for species Eco-efficiency: To maintain the rationalisation program for energy consumption and carbon dioxide; to opt for less energy-dependent lighting equipment and cooling systems Environmental impacts: To manage and segment greenhouse gas emissions |
| SOCIAL | <ul style="list-style-type: none"> Responsible marketing: To draw up a Responsible Communication guide to be adopted by the company and suppliers, in this scope Non-Discrimination: To subscribe and adopt the European Code of Best Practices for women and ICT Digital Literacy: To reinforce school volunteering program - Communicating with Security program Protection of Minors: To publish online tools and guides secure ICT use Extensions of good practices to the value chain: To align and verify suppliers complying with PT's sustainability and social responsibility policy |

→ Identified goals and opportunities for the triennium

PT's positioning in the domestic and international marketplace, the feedback from the identified stakeholders and the trends of the international conjuncture induce a number of opportunities and subsequent goals established pursuant to the strategic profile for the current triennium.

Environmental sustainability, customer relationship and satisfaction, innovation, social responsibility both internal and external in terms of education, healthcare, and safety, and establishment of synergies and sharing of best practices with the PT subsidiaries internationally are included among the main goals with defined objectives selected for the triennium together with the business growth targets.

Therefore, the following **opportunities and goals** have been identified **for the following triennium**.

→ In terms of environmental sustainability

ICT impact on CO₂ emissions at national level is approximately 1%.

According to the Smart 2020 Study, the direct impact of the sector may be significantly reduced until 2020.

| Direct impact of the sector | | |
|------------------------------|--|-------------------------------|
| | ICT weight on CO ₂ emissions until 2020 | Estimated reduction potential |
| Officeware efficiency | 57% | 60% |
| Servers | 18% | 39% |
| Telecommunications equipment | 25% | 27% |

→ Opportunities and goals highlighted

| Areas of energy consumption of PT | Goals 2020 | Efficiency actions for 2011 – estimated reduction |
|---|---|---|
| Lighting, equipment administrative and comfort cooling | 10% | . Implementation of energy efficient bulbs . Replacement of PCs and displays . Set points for cooling |
| Cooling of exchanges and data centres | 27% | . Free cooling . Alternative energies |
| Telecommunications and information technology equipment | 63% | . Installation of smart meters |
| Energy certification of buildings* | 20 high energy consuming buildings until 2010 | Submit buildings to energy certification and prepare improvement plans |
| Car fleet – CO ₂ emissions | 20% reduction | |
| Site noise and vibration monitoring | 200 sites | |
| Water consumption | 2% reduction | |
| Paper consumption | 25% reduction | |

→ In terms of customer satisfaction


| | |
|-------------------------------------|---|
| Average customer satisfaction level | Maintain satisfaction level reached in 2008 – 7.3 (on a scale of 0 to 10) |
| N.º of complaints per customer | Average 30% reduction |
| N.º of faults per customer | Average 20% reduction |



In terms of innovation and R&D




| | |
|--------------------------|--|
| Technological innovation | New generation networks and inherent functionalities |
| Operational Efficiency | Energy rationalisation solutions – use of alternative energies Self service and self care solutions |
| Web-based solutions | Web 2.0 functionalities |
| Society and environment | Security solutions Healthcare solutions |




In terms of education

| | | |
|--|---|--|
| Collaborative education ICT solutions in classrooms | 300,000 laptops with broadband distributed at 25% of market value | Another 200,000 in the next 2 years – in project |
| Collaborative education High speed networks | Connection of 6,000 schools at 100 Mbps – 100 already concluded | Underway |
| Online platforms | In project | Underway |




In terms of suppliers

| | |
|---|--|
| Audit to suppliers in ethical, environmental and labour criteria. | Add + 10 % of suppliers to verification processes |
| Inclusion of energy-efficiency in equipment selection and hiring | To be initiated in the acquisitions throughout the year. |



In terms of Social Responsibility



| | |
|--|--|
| Safeguard Human and Labour Rights and promote a more inclusive society. | Prepare PT's candidacy to certification according to international standard in terms of Social Responsibility – SA 8000. |
| Prepare PT's candidacy to certification according to international standard in terms of Social Responsibility – SA 8000. | Obtain certification of the main PT subsidiaries in accordance with this international standard. |

1.3. MANAGEMENT OF RISKS AND OPPORTUNITIES

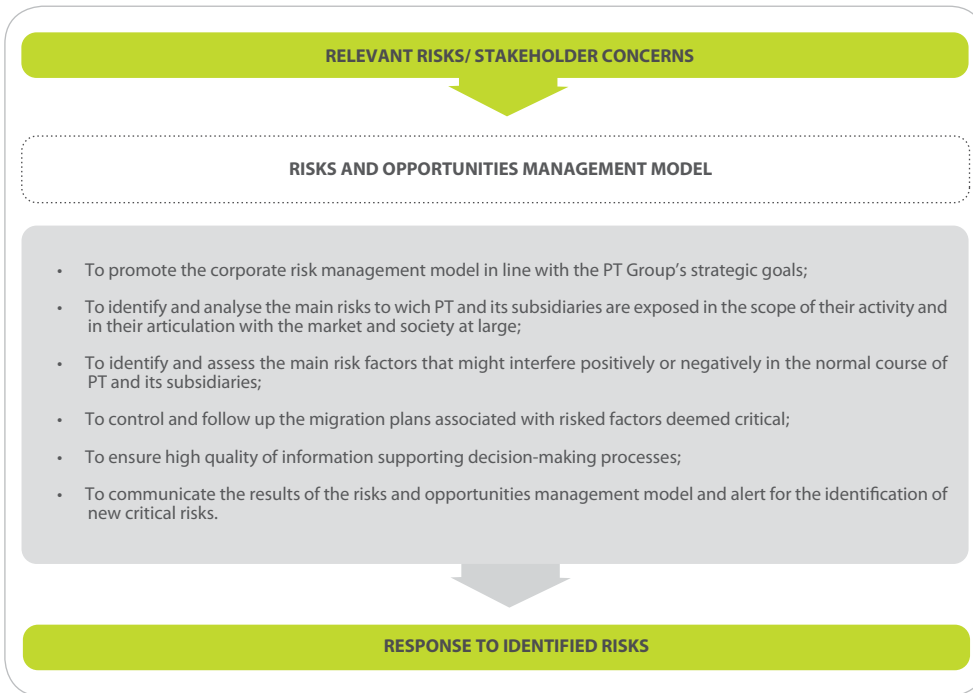
PT has defined, as a priority commitment, the implementation of a process to evaluate and manage the risks that might affect its operations and the execution of the plan and strategic goals defined.

Such mechanisms are based on an integrated transversal risk management model, which seeks to ensure, *inter alia*, implementation of good Corporate Governance practices and transparency in communication to the market and shareholders.

As a structured and systematized approach, risk management is integrated in the Company's strategic planning and operational management procedures, and relies on the commitment of all employees to adopt risk management as an integral part of their duties, notably by identifying, reporting and implementing risk mitigation measures and behaviours.

Risk Management is sponsored by the Executive Committee in articulation with the management teams for the various businesses, at national and international level, in such a way as to identify, assess and manage uncertainties and threats that might affect the pursuance of the plan and strategic goals.

The Internal Audit and Risk Management functions, with hierarchical reporting to the CEO and CFO and functional reporting to the Audit Committee, support the Company's Executive Committee in implementing the risk management system and permanently assessing risk management procedures in place.



In order to ensure improved transparency and independence of the entire evaluation and control process, it should also be mentioned that the whole process is monitored by the Audit Committee, an independent supervisory body composed by non-executive board members.



The Risk Management procedure implemented in PT is based on an internationally acknowledged methodology – COSO II, developed by the Committee of Sponsorship Organisations of the Treadway Commission. This approach is based on the identification and analysis of key value drivers and uncertainty factors that might affect value generation and compliance with the plan and strategic goals, being in the scope of the corporative sustainability goals identified as strategic for the PT Group.

The risk management process is based on the following tools:

- **Risk Dictionary** to ensure the description, in a clear objective manner, of a common risk language to be used both internally and in the various disclosures made to the market on this matter;
- **Environment risks:** These correspond to risks that depend on external factors that might affect its performance, strategy, operations and organisation. Due to their nature, the origin of environment risks implies that their associated impact must be appropriately anticipated and the materialization of their associated risk factors and mitigation strategy in the event of a crisis must be timely identified
- **Risks related to business processes** inside the PT Group. Process risks result from and are inherent to business activities and internal processes, and Management may ensure their control at their origin, in a preventive manner.
- **Decision-taking information risks** is related to information available and produced by the company that is the basis for management's decision making process. These risks are divided in operational, financial and strategic decision making. The risks regarding information for decision making are related with the way the organisation produces and manages the information needed to manage their business report to its shareholders, investors and other stakeholders.

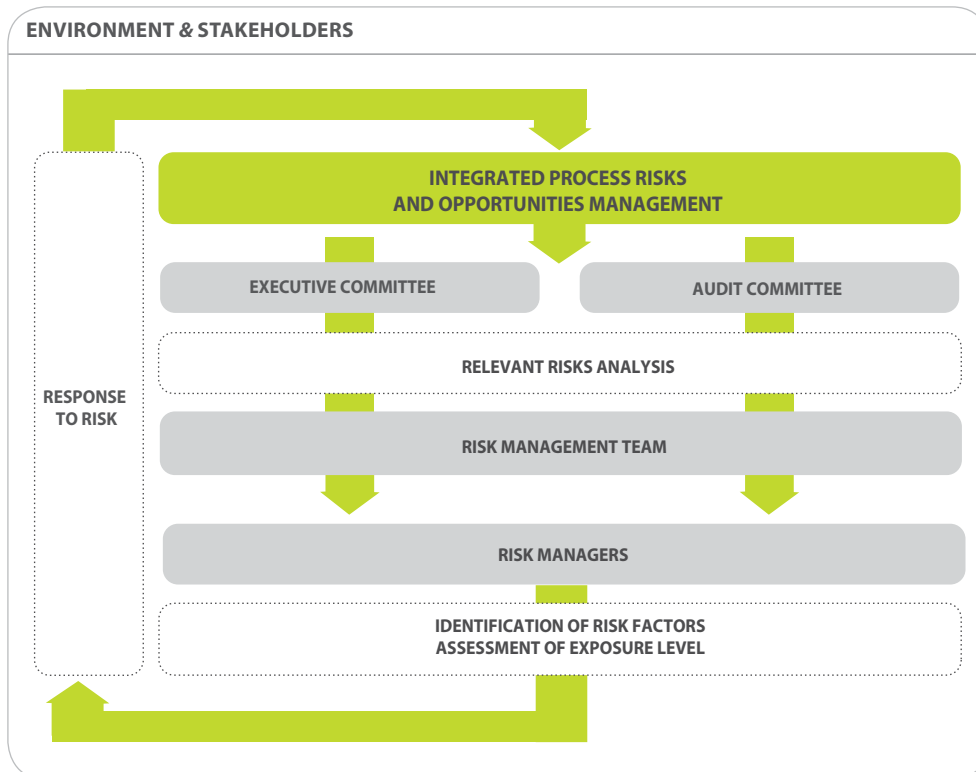
- **Risk Management Methodology** to formalize processes and procedures for identification, analysis, mitigation and reporting of relevant risks. This tool identifies:
 - The intervenients responsible for the evaluation and approval of risks and risk factors that affect the business of the PT Group;
 - The persons responsible for the management of identified risks and the manner in which such risk should be analyzed and mitigated;
 - Monitoring procedures for mitigation actions for each risk, according to the risk management strategy adopted by the Executive Committee and supervised by the Audit Committee;
 - Disclosure and reporting procedures for information issued from the risk management procedure.
- **Centralised Risk Record** of all information associated to each relevant risk, which simplifies the analysis of the correlation between the various risk factors recorded, as well as the ranking the priority of each risk response and the identification of synergies between the various risk mitigation actions.

Risk recording as currently implemented associates to each risk:

- Risk factors that, in case they materialize, might relevantly affect the PT Group;
- Potentially affected strategic goals;
- Existing control structures, procedures and indicators to monitor and mitigate risk factors;
- Qualitative evaluation of control and residual risk associated to each risk factor;
- Quantitative evaluation of impact, probability of occurrence and speed at which the risk factor might materialize;
- Improvement or critical risks response plans.

Operational implementation of the risk management methodology is an interactive cyclical process that may be summarised by the following table:

| RISK MANAGEMENT METHODOLOGY | |
|--|--|
| EXECUTIVE COMMITTEE | <ul style="list-style-type: none"> Identifies main risks affecting the PT Group Defines Risk Managers Decides action on and prioritization of mitigation actions |
| AUDIT COMMITTEE | <ul style="list-style-type: none"> Evaluates risk management model Proposes improvements and changes to model Reviews the main risks |
| RISK MANAGEMENT FUNCTION | <ul style="list-style-type: none"> Supports the definition and implementation of a risk management model in line with best practices Monitoring risk management model and ensuring that the information from different PT Group companies is correctly integrated Defining, in articulation with Executive Committee and Audit Committee, materially relevant risks Follow up action plans required to guarantee correct treatment of identified risks |
| BUSINESS MANAGEMENT RISK MANAGERS | <ul style="list-style-type: none"> Materially relevant risk management Implement actions required to ensure appropriate control Evaluate and quantify residual risk to which the company is exposed Identify critical areas of risk exposure and propose mitigation actions Realignment of the Risk Management Model, and warn about exposure situations or control environment degradation |
| INTERNAL AUDIT FUNCTION | <ul style="list-style-type: none"> Evaluates the effectiveness of control mechanisms at reliability and integrity level of financial and operational, efficiency of operations and compliance with laws and regulations. |



From a perspective of continued evolution of the risk management processes, in order to further improve the risk management process, the PT Group plans to implement a new online Risk recording tool in 2011 that will enable to increase the scope of the assessment and streamline the process of identifying, assessing and evaluating risk.

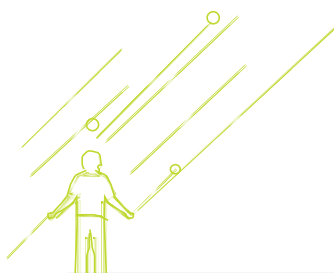
During the 2010 financial year, a re-evaluation was carried out on the risk areas that might affect, in a more significant manner, PT Group's capacity to achieve its strategic goals.

Following this re-evaluation, relevant risks were ranked for analysis and detailed assessment, which involved 30 departments/operational areas charged with the management of such risks, in order to identify events and factors that might affect the PT Group's operations and activities, as well as the control procedures and mechanisms associated thereto.

The impact and probability of occurrence was measured for all of the 224 identified risk factors, and, according to the level of exposure or residual risk, a risk response strategy was defined, notably:

- i) **To reduce the risk** through the implementation of controls reducing the probability of risk occurrence or its impact in case the risk materializes;
- ii) **To accept the risk** in situations where the residual risk is deemed acceptable and the cost of implementation of additional controls exceeds the expected benefits;
- iii) **To share the risk**, by reducing the exposure of the PT Group through the total or partial transfer to other entities, resorting to insurance, derivatives or joint-ventures; or
- iv) **To avoid the risk**, by abandoning the business or procedures generating such risk (e.g.: abandoning a geographical area or a business).

All identified risks are detailed in the Annual Report and in the Governance Report. We will highlight here non-financial risks associated with corporative sustainability, which are subject to monitoring.



| RISK | RISK FACTORS | RISK MANAGEMENT |
|---|---|---|
| <p>Innovation & Technology</p> | <p>In view of the background of quick technological changes in the business sector of the Group, PT is subject to the risk of failing to leverage technological advances and developments in its business model, in order to obtain or maintain competitive advantages.</p> <p>Main risk factors associated with innovation:</p> <ul style="list-style-type: none"> • Incorrect identification of new technologies • Unsuitability of time to market in adoption of new technologies • Lack of maturity of adopted technical solutions • Levels of quality of service delivered not suitable to market expectations • Adoption of non-interoperable solutions • Insufficient information about market trends • Non-identification of opportunities to increase operational efficiency • Non-incorporation of market trends in business plan | <p>The PT Group is historically one of the Portuguese companies with a larger volume of investment in Research and Development (R&D). In this field, the PT Group holds strategic assets that allow it to ensure the implementation of innovative projects, including:</p> <ul style="list-style-type: none"> • PT Inovação: a company aimed at the technological development of the Group's businesses, in terms of applied research, engineering services and development of innovative solutions and services, both in the domestic and the international market. • OPEN development and innovation programme: having as its purpose the implementation of systematized research practices and information processing, involving the whole organisation, for the materialization of innovative projects. • Strategic planning of network infrastructures and rollout of new technologies, which implies the preparation of reports and periodic analysis on the evolution, standardization and adoption of new technologies by the sector, including the carrying out of international benchmarks. • Strategic partnerships with technological, equipment and content suppliers and service providers. |

RISK

RISK FACTORS

RISK MANAGEMENT

Infrastructure capacity for continued services delivery

The capacity and availability of network infrastructures are essential features for the PT Group to ensure continued critical operations within high quality parameters aimed not only at customer satisfaction, but also in compliance with regulatory requirements.

In this way, the PT Group has strongly emphasized the management of this risk, not only at infrastructure availability level, but also in the increase of infrastructure capacity, in such a way as to support new product and service offers to its customers, and contribute to the evolution of the Information Society in Portugal and in the countries where it operates.

In this scope, the following risk factors are worth highlighting:

- Absence of response plans to catastrophes or crises
- Inexistence of risk charts or weaknesses in the identification of unique failure points
- Absence of redundancy in critical infrastructure components
- Saturation of available infrastructure due to absence of evolution or upgrade plans
- Unsuitable planning, management and monitoring of available capacity
- Infrastructure obsolescence or weaknesses in maintenance procedures

Within this scope, follow-up and risk mitigation actions are carried out as follows:

- Securing the telecommunications core network;
 - Preparation of risk diagnoses for the various technological platforms, identifying dependencies and single failure points;
 - Definition and implementation of disaster recovery plans;
- Implementation of systems and procedures aimed at ensuring determined QoS (Quality of Service) and QoE (Quality of End user Experience) levels;
- Investment in new generation networks and preventive maintenance actions;
 - Investment in information systems to support the activity of technical teams.

In February 2010, following the storm that occurred in the Madeira island, the resiliency of the PT Group's infrastructure network and its capacity to respond to natural disasters was put to the test. It should be stressed that torrential rain, floods and landslides debilitated or destroyed a significant portion of critical infrastructure in the island, including the telecommunications infrastructure. The PT Group kept a close follow-up of this situation from the first instant and technical means and additional resources were made available in order to swiftly normalize wireline, mobile, satellite and submarine communications in the Madeira Autonomous Region.

The creation of a multidiscipline task force to respond to the emergency, involving all the company's technical areas in Madeira and Continental Portugal, permitted a quick recovery of 85% of the island's mobile and wireline communications. The Group's prompt action further permitted a more effective intervention by the authorities in their response to this catastrophe, and avoided the isolation of the population in some parts of the island.

Environment

Pursuing an appropriate environmental policy has been a concern for Portugal Telecom, in order to reduce the Company's exposure to environmental damages that might consist in: (i) liability towards third parties for any material damage caused; (ii) liability towards governments or third parties for the cost of waste removal, added by possible compensations.

Main factors associated with environmental risk management:

- Rationalisation of energy consumption and greenhouse gas emissions
- Unsuitable waste control
- Unsuitable control of electromagnetic radiations and noise
- Unsuitable internal awareness actions in terms of resource consumption rationalisation
- Incorrect evaluation of negative landscape impacts
- Acquisition of products outside the European Union (in countries that do not respect EU environment rules)
- Incompliance with applicable legislation.

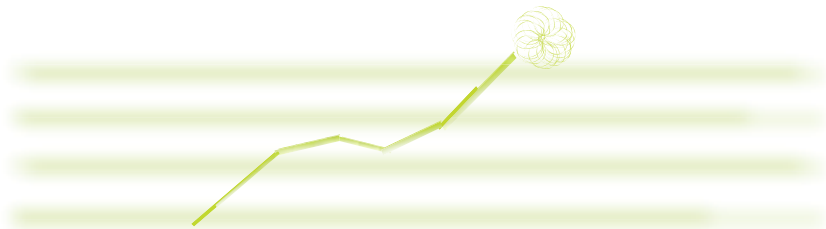
In this domain, the PT Group has reinforced its environmental management principles and actions, thus ensuring the certification of associated systems according to the ISO 14001 standard and an offering which is progressively more suited to the market.

Environmental management policies and systems cover the following areas of intervention:

- Resource consumption;
- Resources used;
- Waste production and routing;
- Atmospheric emissions;
- Noise and electromagnetic fields;
- Supplier selection and hiring sustainable model;
- Acquisition of less energy-dependent equipments;
- Use of alternative energies.

Furthermore, it should be stressed that the management models are subject to periodic audits, both internal and external, and a continuous assessment of any impacts and improvements to be implemented is also carried out.

| RISK | RISK FACTORS | RISK MANAGEMENT |
|--|--|---|
| <p>Relationship with Stakeholders</p> | <p>The risk of occurrence of breach of confidence by stakeholders due to lack of fulfillment of expectations created, with the inherent impacts in their relationship with PT:</p> <ul style="list-style-type: none"> • Customers • Suppliers • Employees • Analysts • Society | <p>In this scope, PT carries out actions with a view to involve its stakeholders, namely:</p> <ul style="list-style-type: none"> . Consultations with stakeholders; . In this scope, PT carries out actions with a view to involve its stakeholders, namely: . Consultations with stakeholders; . Communication channels available 24 hours a day; . Customers: monitoring of customer satisfaction level and customer contact performance, respect for customer privacy, content security and protection; . Suppliers: ethical principles and social responsibility practices in supplier selection and hiring; . Employees: talent attraction and retention; occupational safety and health policies; internal social responsibility programs; . Analysts: Assurance of adequate market communication; . Society: actions to promote inclusion and digital literacy; development of telemedicine solutions; support for sponsorship and promotion of volunteer work. |
| <p>Ethics in business and relationships</p> | <p>The Code of Ethics of PT together with the Portuguese, European and American legislation are the main guidelines of conduct at PT, whose identified risk factors are related to:</p> <ul style="list-style-type: none"> • Incompliance with one or more aspects included in the Code of Ethics, internal policies and/or regulations; • The reputation and/or activity of the company is affected by violations to the Code of Ethics or adopted regulations. | <p>Ethics in PT is monitored through:</p> <ul style="list-style-type: none"> . Internal instruments for employee and supplier assessment; . Whistleblowing channels; . Dialogue with stakeholders for identification of weaknesses; . Internal and external audits to published information for increased accuracy and transparency assurance. |



1.4. TRANSPARENCY AND COMPLIANCE

The recommendations from international organisations, national, European and North-American legislation, in what concerns listed companies are carefully observed by PT and whenever differences exist, PT expresses its views to these entities by means of its representatives so as to guarantee the assessment of its viewpoints.

The compliance with the diversity of recommendations followed by PT, mainly in the areas of governance is evidenced in the respective Governance Report and in Form 20F.

We shall mention the following:

→ Entities regulation and supervising PT at national level

PT, besides the rigorous compliance with the legal framework in force, maintains an attitude of dialogue and proactivity with the regulatory bodies, by participating at the meetings to which it is invited, cooperating with duly grounded opinions and suggestions and complying with the determinations issued.

PT has corporative organic units whose goal is to interpret the recommendations and determinations of the Regulatory Bodies, as well as stimulate the dialogue among all. The Group has kept an attitude of dialogue and cooperation with these entities, participating actively in their various initiatives.

In Portugal, the electronic communications sector has been completely liberalised since 2000. Therefore, the legal framework applicable to the sector is oriented to a free competition environment, which along 2008 was accrued with a new operator on the Portuguese market.

In 2002, a new regulatory framework applicable to the electronic communications networks and services constituted by a set of European directives that affect the telecommunications sector was adopted. These directives were transposed to the national legal system through law 5/2004, of 10th of February (Law of Electronic Communications).

It is a regulatory framework that uses the analysis methods associated with the principles of defence of the competition, applied to a certain set of relevant markets, in order to determinate the entities with dominant position and to adopt a set of ex-ante obligations.

Due to technological evolution and the integrating characteristics of the new generation networks, the European Commission initiated, in 2005, the regulatory framework revision process - designated Revision 2006, seeking to change the current Directives and the Relevant Markets Recommendation. Therefore, in December 2009, a new regulatory framework for electronic communications in the European Union was published, which includes among others Directive 2009/140/CE (Better Regulation Directive) and Directive 2009/136/CE (Citizen Rights Directive)*.

Entities regulating markets and commercial relations in the electronic communications sector, in Portugal:

- National Communications Authority - ANACOM – whose regulatory function has the following objectives: promotion of competition in the offer of electronic communications networks and services; contribution to the development of the domestic European Union market and, also, the defence of citizens' interests.

*For further information on European Directives for electronic communications check the following link:
http://www.anacom.pt/streaming/quadro_regulamentar_comunicacoes_electronicasUE.pdf?contentId=1045301&field=ATTACHED_FILE

- Competition Authority – AdC - whose main objective is to ensure the respect for competition rules towards an efficient market, the efficient distribution of resources and consumers' interests.
- Media Regulatory Entity – ERC – whose scope of intervention and regulation is the supervision of all entities pursuing social communication activities in Portugal.
- National Data Protection Committee – CNPD – whose main goal is data protection and privacy.

→ **Issues handled with impact on the activity of the company**

- Next Generation Networks
- Digital Terrestrial Television
- Network Hosting Infrastructures
- Relevant Broadband Markets
- Retail Offers and Tariffs
- Radio-electric Spectrum
- Numbering and portability
- Wholesale reference offers
- Digital Dividend
- Roaming Regulation
- Universal service

→ **Litigation issues**

With ANACOM, the following issues, still unresolved, were subject to litigation:

- Undue suspension of telephony service, undue activation of Price Plans and non-sending of detailed bill to customers
- Non-sending of information requested by ICP-ANACOM on traffic indicators
- Seduction of customers in a situation of pre-selection and disrespect for the guard period
- Telephone Directories
- Lack of compliance with ORALL wholesale deliberations – resolution decided in favour of PT
- ADSL offers
- Refusal of portability
- Lack of compliance with deliberation on performance and Universal Service QoS goals
- ITED – Irregularity in the installation of certified infra-structure as it is not in compliance with applicable technical prescriptions and specifications – resolution in favour of PT

With CNPD, the following issue under litigation is still pending, awaiting the respective conclusion:

- Direct Marketing Messages received without previous customer consent

With the remaining entities, there were no additional conflict situations besides eventually any still pending from the past that are still unresolved.

Final decisions on conflict situations are fully accepted by the company.

Principles subscribed by PT in national and international Organisations*

10 Principles of the United Nations Global Compact – As a company signatory of these principles that include the Universal Declaration of Human Rights, the fundamental principles of the International Labour Organisation, The Rio Declaration on Environment and Development and the Convention Anti-corruption of the United Nations, PT submits each year the Declaration of Progress required by these relative to the compliance with the principles mentioned above.

International Report Guidelines of the Global Reporting Initiative – (GRI) – PT presents its Sustainability Report according to the guidelines of the GRI that include independent verification of the information therein, by an external and independent entity.

ETNO – European Telecommunications Network Operators - PT is signatory of ETNO's Sustainability Charter, collaborates actively in the Sustainability Working Group and presents annually the evolution of its performance.

Business Council of Sustainable Development (BCSD Portugal) – PT is a member and collaborates actively in the Workgroups related to Sustainability and ICT Sustainability. BCSD Portugal publishes PT's Sustainability Report on its website.

London Benchmark Group – PT is a member, uses the LBG methodology and participates actively in the respective workgroups relative to the assessment of the impact of the social responsibility initiatives.

Fines and provisioned resources for eventual non-compliance

In 2010, PT paid a fine due to legal environmental non-compliance - € 11,250.00

PT also made provisions, in accordance with legal advice, to deal with a probable loss of resources, the following amounts:

- Civil liability – € 18,117,450.00
- Labour liability – € 4,230,646.00
- Other liabilities – € 4,915,363.00



* The remaining organisations of which PT is a member are published on the company's website.

PRINCIPLES, CODES OF CONDUCT AND POLICIES

2.1. PRINCIPLES AND INTERNATIONAL ORGANISATIONS

PT subscribes, applies within the company and actively participates in the promotion of the sustainability and corporative social responsibility defended by national organisations with which the company management identifies itself.

These principles are relative to business ethics, environmental respect and preservation, human and labour rights, anti-corruption and social inclusion instruments. The adoption of these principles is a permanent challenge, demanding a systematic identification of improvement areas in the Group's business and its relationship with society, promotion and adoption of enhancements and subsequent monitoring.

| CHARTERS SUBSCRIBED AND/OR PRINCIPLES FOLLOWED | | |
|--|--|---|
| International | European | National |
| 10 Principles of the Global Compact of the United Nations; | Environmental and Sustainability Charter of the European Telecommunications Network Operators; | Recommendations of Portugal's Business Council for Sustainable Development; |
| Universal Declaration of Human Rights; | Lisbon Strategy | Code of Good Practices of Commercial Communication for Minors (APAN) |
| Recommendations of the International Labour Organisation; | European Road Safety Charter | |
| Social Responsibility Charter of the Union Network International | Code of conduct of energy efficiency | |
| | European Code of Best Practices for Women and ICT | |

The issues on the agenda of these organisations are worthy of PT's active participation in its discussion, study and promotion, apart from being evaluated and interpreted by the company's Sustainability Committee. Relevant conclusions for the company's activity and its relationship with society are adopted, being subject to deliberation by the Executive Committee of the holding company and the different Executive Committees of the Group's business units.

2.2. CODES OF CONDUCT AND POLICIES ADOPTED

The codes of conduct and regulations adopted at PT are meant to guide employee attitude towards the organisation, and their relationship with shareholders, regulatory bodies, competitors, customers, suppliers, and society at large.

Rigour, honesty, integrity, transparency, information accuracy, anti-corruption, equality of opportunities, environmental preservation and social responsibility are the main guidelines that characterise PT's activity towards society, apart from full alignment with the legislation applicable, in force at national, European and North-American level.

The policies adopted aim to guide the attitude and conduct of the entire supply chain, leveraging everyone's mobilisation beyond what is defined in the Codes of Conduct and established contractual terms.

The Codes of Conduct and policies that orient PT's activity are published and may be consulted on its website and corporate intranet, and all employees and suppliers are subject to training and/or awareness actions on their contents and impacts.

| CODES OF CONDUCT | POLICIES ADOPTED |
|--|---|
| Code of Ethics of Portugal Telecom | Sustainability and Social Responsibility Policy |
| Code of Ethics for Senior Financial Officers | Integrated Quality, Environment and Occupational Health and Safety Policy |
| Code of Conduct for Procurement | Information Security and ICT Systems Policy |
| Company Agreement | |
| Internal Regulation on Transactions by Group Officers* | |
| Regulation on Transactions with Related Parties** | |
| Code of Conduct for Social Networks | |
| Responsible Communication Guide *** | |

*Regulates matters pertaining to market abuse and transactions on financial instruments emitted by the Group's companies and defines relevant concepts of "privileged information", "market manipulation" and "relevant transactions", among others. This regulation complements the governance rules and the good practices of conduct already implemented at PT to reinforce the prevention of market abuse.

** Defines a set of procedures to ensure the correct identification of related party transactions and define relevant concepts of "transaction" and "related parties".

*** in preparation

PT's operation observes a culture based on the identification, assessment and control of all risks deemed critical for the sustainability of the Group's business.

The Sustainability Committee as part of the Governance Model promotes the adoption of the principles, Codes of Conduct and the use of communication channels in intra-employee relations and between these and the remaining stakeholders, underpinning a dialogue culture, avoiding conflicts of interest and using anti-corruption mechanisms. Therefore, PT does not carry out any lobbying activity and/or contributes monetarily to organisations that do not fit into its commercial management or sponsorship, philanthropy or patronage philosophy.

2.3. RECORDING, WHISTLEBLOWING AND ALIGNMENT MONITORING SYSTEMS

For better identification and alignment monitoring with all its principles and inclusively definition of improvement actions for eventual weaknesses identified, the PT subsidiaries have available certified information and management systems in compliance with international standards ISO 9001(quality), ISO 14001 (environment), OHSAS 18001 (occupational health and safety) and initiated the certification process to comply with SA 8000 (social responsibility).

All employees are trained about the codes of conduct and policies adopted, particularly the Code of Ethics, which includes issues related to non-discrimination and anti-corruption. All Codes, policies and associated procedures are available on the corporate intranet and on the company's website.

Any violation to the codes of conduct, internal regulations or legislation in force, identified and confirmed, is liable to an investigation to ascertain the responsibility of eventual infractors according to the legal terms and rules applicable to the situation.

Such situations may be identified in the scope of the daily operation of the company or through denunciation via especially created online channels. These are confidential communication channels and, if the author of the denunciation so wishes, they are also anonymous.

VIOLATIONS TO THE CODE OF ETHICS

4 violations identified and treated

So, for any person who believes that there is evidence of any type of irregularity relative to the codes and principles defined, PT provides denunciation instruments that ensure the confidentiality of its content and the anonymity of the author.

Reinforcing management transparency, ensured by the different internal control systems – which are on their turn audited by external and independent companies and organisations – a System for Qualified Participation of Undue Practices (SQPUP) designated internationally as Whistleblowing has been created, whose master guidelines and procedures are as follows:

To communicate by electronic message, via an encrypted channel, an occurrence or suspicion justified by verification of the facts by who knows or has consistent reasons to believe that there are evidences of the following situations:

- Violation of a law, rule or regulation;
- Bad management;
- Abuse of authority; or
- Large fund squandering.

Within this System, an “undue practice” means any matter concerning Accounting, financial reports or Auditing, or other relevant related matters, and it can be communicated by anyone – outside PT (shareholder, customer or supplier) or an employee – who directly or indirectly becomes aware of it.

This channel is available on the intranet and on the corporative website of the PT Group.

QUALIFIED PARTICIPATION OF UNDUE PRACTICES – WHISTLEBLOWING

| | 2008 | 2009 | 2010 |
|-------------------------------|------|------|------|
| Received participations | 44 | 31 | 20 |
| Participations already solved | 40 | 21 | 18 |
| Participations under analysis | 4 | 10 | 2 |

Simultaneously, another denunciation channel was made available to employees in 2010, also confidential and anonymous, but more suited to matters pertaining ethics in terms of relations, environmental sustainability and social responsibility.

PARTICIPATION OF OCCURRENCES ABOUT RELATIONS, ENVIRONMENT AND SOCIAL RESPONSIBILITY

| | 2010 |
|--------------------------------|------|
| Environmental conditions | 0 |
| Occupational Health and Safety | 1 |
| Discrimination | 1 |

Denunciations are analysed and subject to corrective improvement plans whose results are later assessed and monitored. In some cases, there is a reinforced approach observing more demanding procedures.

Child labour was identified as a possible risk, although Portuguese Law prohibits it and **PT deems it totally unsuitable**. Considering that business and supply chain globalization is more and more a reality as well as asymmetries in terms of culture and labour practices adopted in each country, we started to consider the probability of child labour in our supply chain.

Therefore, there were procedures defined in order to mitigate the impacts of such situations that eventually might be identified in the supply chain of the Group. Specifically, if any PT employee and/or auditor identifies the existence of child labour situations in PT's supply chain, he/she should denounce them in order to initiate the set of procedures defined for child support:

- Analysis of the child's situation and its condition in terms of family;
- Exceptionally, if the child's age allows the continuity of the work, the number of hours in terms of transport, school and work should not exceed 10 hours per day;
- Attendance/conclusion of minimum compulsory education;
- Its subsistence, providing conditions for its normal physical and psychological development;
- All company employees and partners are made aware of the practices to be followed;
- Definition of persons responsible for the implementation of aforesaid actions an respective duration;
- The effectiveness of implemented actions is assessed and evolution records are kept.

In 2010, there were no child labour situations detected in PT's supply chain.

In parallel, there is an additional set of procedures relative to the Group's supplier chain. The Supplier Control Group defines goals and the supplier sample that each year will be subject to:

- Commitment to the Code of Conduct (extension of the universe of covered parties);
- Auditing;
- Sustainability Questionnaire;
- Interview.

Suppliers covered by each one of the actions described are defined by the Supplier Control Group, based on the following criticality criteria:

- Delivery of services on behalf of the Group;
- Delivery of services in the premises of the Group's companies;
- Delivery of products for direct integration in the supply chain;
- Those with negative control evaluations;
- Those who were subject of complaints or denunciations;
- Other criteria deemed relevant.

The evaluation made to the supplier chain is presented in the area of involvement and management of stakeholder relations.

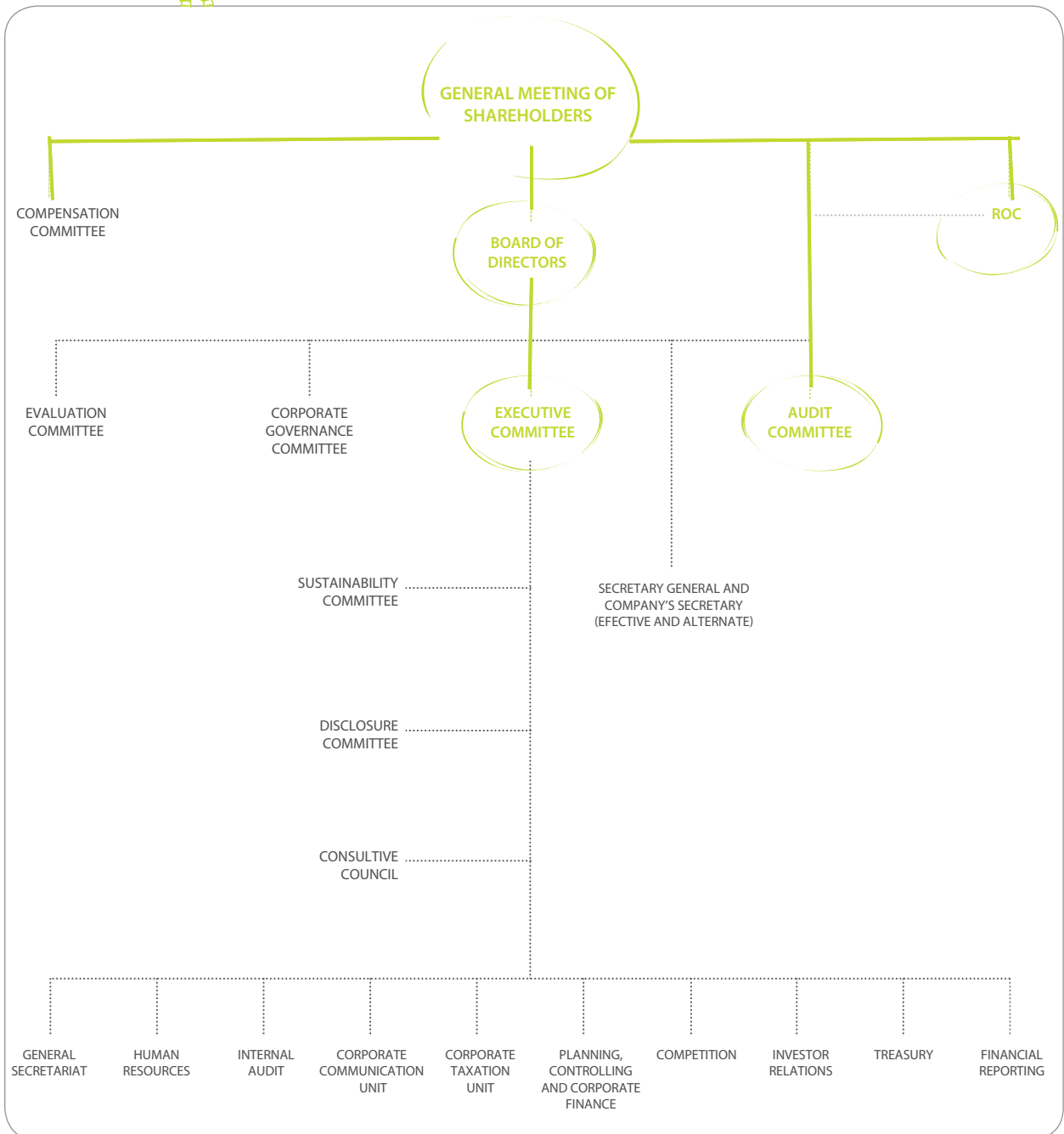
GOVERNANCE MODEL

3.1. ORGANISATION STRUCTURE



PT follows the Anglo-Saxon governance model, which is based on the existence of a Board of Directors, an Audit Committee composed of non-executive directors specifically appointed by the General Meeting of Shareholders and a Chartered Accountant ("ROC") elected by the General Meeting of Shareholders upon a proposal by the Audit Committee.

PT's governance model may be schematized as follows:

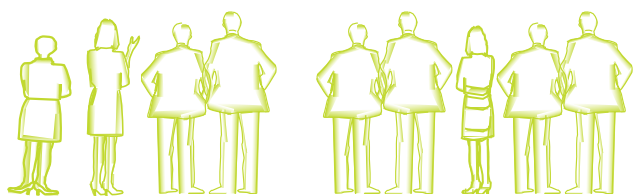
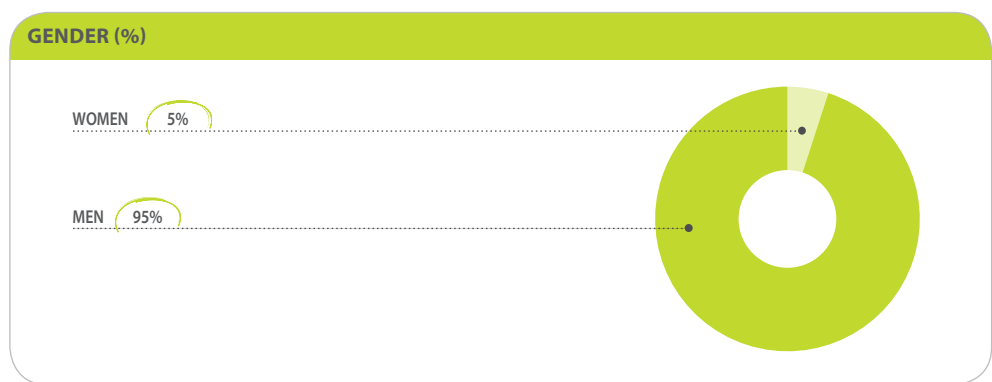
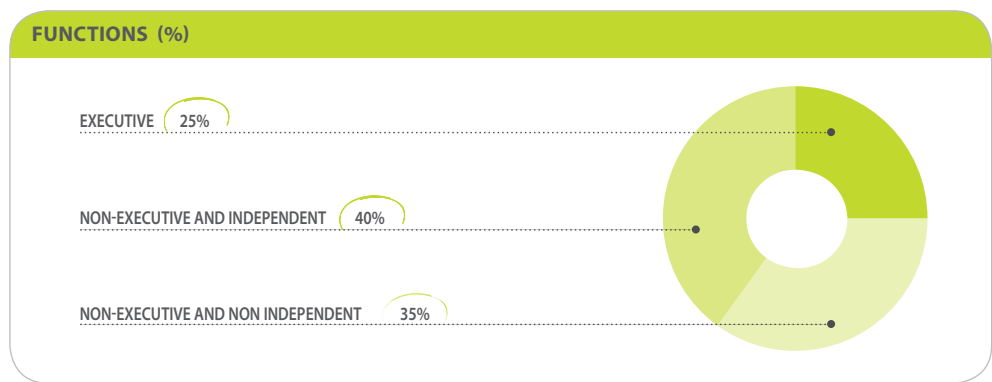


PT's organisation structure further includes a Compensation Committee elected by the General Meeting of Shareholders, which is responsible for determining the remunerations of the members of corporate bodies.

The members of the corporate bodies and of the Board of the General Meeting of Shareholders are elected for a three-year term of office, and they may be re-elected once or more times within the limits of the law.

The adopted governance model maintains a power separation, as the members of the Board of Directors delegate their powers of current management on an Executive Committee.

The Board of Directors of PT is composed of a minimum of 15 and a maximum of 25 members. Among the elected, there are executive Directors, independent non-executive Directors and non-executive and non-independent Directors.



3.2. FUNCTIONS

| Composition | | | | | | | |
|--|-----------------------|------------------------|--------------------|--------------------------------------|-------------------------|---------------------|---------------|
| Members (date of first appointment) | Board of Directors | Executive Committee | Audit Committee | Corporate Governance Committee | Evaluation Committee | Independence (4) | N.º of shares |
| Henrique Granadeiro (2003) | Chairman | | | | Chairman (1) | Yes | 150 |
| Zeinal Bava (2000) | Member | Chairman (CEO) | | | Member (2) | | 63,161 |
| Luís Pacheco de Melo (2006) | Member | Member (CFO) | | | | | 45 |
| Carlos Alves Duarte (2009) | Member | Member | | | | | 40 |
| Manuel Rosa da Silva (2009) | Member | Member | | | | | 90 |
| Shakhaf Wine (2009) | Member | Member | | | | | - |
| João de Mello Franco (1998) | Member | | Chairman | Member | Member (3) | Yes | 13,308 (5) |
| José Xavier de Basto (2007) | Member | | Member | | | Yes | - |
| Mário João de Matos Gomes (2009) | Member | | Member | | | Yes | - |
| Francisco Bandeira (2008) | Member | | | | | | 483 |
| Joaquim Goes (2000) | Member | | | Member | Member | | 2,437 |
| Gerald S. McGowan (2003) | Member | | | | | Yes | - |
| Rafael Mora Funes (2007) | Member | | | | Member | | 501 (6) |
| Maria Helena Nazaré (2009) | Member | | | | | Yes | - |
| Amílcar de Moraes Pires (2006) | Member | | | | | | 2,146 |
| Francisco Soares (2006) | Member | | | Member | Member | Yes | - |
| Jorge Tomé (2002) | Member | | | Member | Member | | - |
| Paulo Varela (2009) | Member | | | Member | | | 7,134 |
| Milton Silva Vargas (2009) | Member | | | | | Yes | - |
| Nuno de Almeida e Vasconcellos (2006) | Member | | | Chairman | | | 11,190 |

(1) Inherently in his office as Chairman of the Board of Directors.

(2) Inherently in his office as CEO.

(3) Inherently in his office as Audit Committee Chairman.

(4) According to the rules described in Chapter II.15. below.

(5) 322 of which are held by his spouse.

(6) 100% held by his spouse.

From the beginning of the current term of office (2009-2011), resignation from the office of member of PT Board of Directors was submitted by Executive Director Rui Pedro Soares (17 February 2010), Executive Director Fernando Soares Carneiro (22 February 2010), Non-Executive Director António Palma Ramalho (25 March 2010) and Non-Executive Directors José Maria Alvarez-Pallete Lopéz and Santiago Fernández Valbuena (27 September 2010).

| Executive Committee | Corporate Assignments | Executive Assignments |
|------------------------------------|--|---|
| Zeinal Bava CEO | <ul style="list-style-type: none"> • Strategy • Investor Relations • Communication & Corporate Image • Internal Audit • Regulation & Competition • Institutional & International Relations • Sustainability | <ul style="list-style-type: none"> • PT Portugal • PT Investimentos Internacionais • PT Inovação • Fundação PT |
| Luís Pacheco de Melo CFO | <ul style="list-style-type: none"> • Human Resources • Management Planning & Control • Financial Reporting • Corporate Finance • Financial Operations & Treasury • Taxation • Internal Control & Risk Management • Service Hiring Strategy • Real Estate • Pension Funds | <ul style="list-style-type: none"> • PT Centro Corporativo • PT Compras • PT Imobiliária • PT ACS • Previsão |
| Carlos Alves Duarte | <ul style="list-style-type: none"> • Prime Segment • Information Systems | <ul style="list-style-type: none"> • PT SI |
| Manuel Rosa da Silva | <ul style="list-style-type: none"> • Physical Security of Buildings, Networks & Systems • Quality & Customer Satisfaction • Field Force • Standing Transversal Improvement • Home Networking | |
| Shakhaf Wine | <ul style="list-style-type: none"> • Holdings in Brasil | <ul style="list-style-type: none"> • PT Brasil • PT Inovação Brasil |



3.3. EVALUATION AND REMUNERATION

➔ Evaluation Committee

In line with the best national and international practices in the matter of corporate governance, as well as with the recommendations issued by CMVM within this framework and with the Final Rules approved by the New York Stock Exchange on corporate governance following the Sarbanes-Oxley Act, PT's Board of Directors resolved, on 15 October 2008, to delegate to an Evaluation Committee the powers required for the evaluation of the executive members of the management body and of the Board of Directors as a whole.

To evaluate the executive members, the Evaluation Committee proposes the establishment of the relevant criteria and goals in terms of remuneration annually in each term of office to the Remuneration Committee, taking into consideration the plans approved by the Board of Directors. It also has consulting functions regarding the selection of the members of the management bodies of the most relevant companies within the PT Group.

As provided for under the corresponding delegation of powers, the Evaluation Committee is composed of the Chairman of the Board of Directors, the Chief Executive Officer, the Chairman of the Audit Committee and four non-executive directors, including at least one independent director, and their term of office shall be the same as the term of office of the Board of Directors. The Chairman of the Board of Directors of the Company shall be the Chairman of the Evaluation Committee, unless he is also the Chief Executive Officer, in which case one of the non-executive members designated for such purpose by the Board of Directors shall be the Chairman of this Committee.

| Composition | |
|-------------------------------------|----------|
| Henrique Granadeiro ⁽¹⁾ | Chairman |
| Zeinal Bava ⁽²⁾ | Member |
| João de Mello Franco ⁽³⁾ | Member |
| Joaquim Goes | Member |
| Rafael Mora Funes | Member |
| Francisco Soares | Member |
| Jorge Tomé | Member |

(1) Inherently in his office as Chairman of the Board of Directors.
 (2) Inherently in his office as CEO.
 (3) Inherently in his office as Chairman of the Audit Committee.

➔ Compensation Committee

The Compensation Committee is elected by the shareholders at a General Meeting, composed of members external to the Board of Directors, serves the purpose of defining the remuneration policy of the members of the corporate bodies, determining the remunerations applicable taking into consideration the performance (notably taking into account the evaluation made by the Evaluation Committee) and the economic position of the Company.

In the case of the executive members of the Board of Directors, the Compensation Committee determines their remunerations on the basis of objective criteria approved by this Committee and the evaluation of their performance by the Evaluation Committee, in the scope of their specific duties and consulting with the Chief Executive Officer.

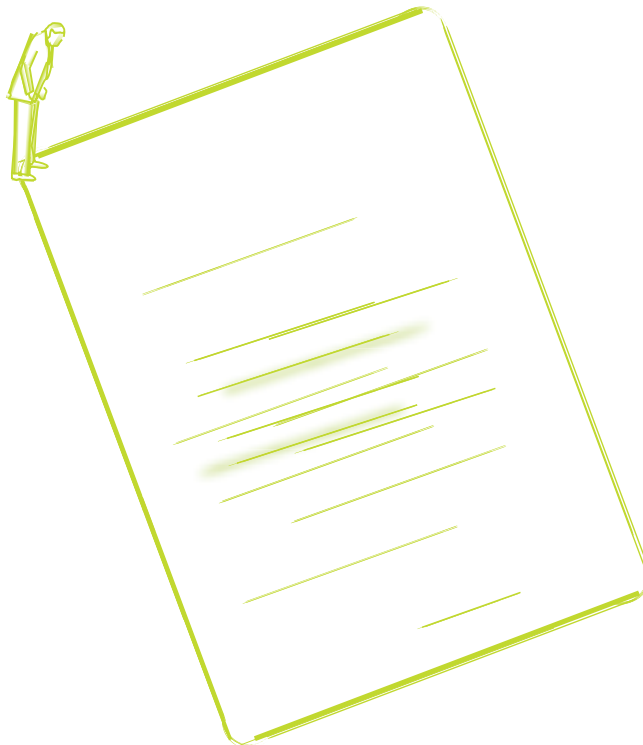
The current members of the Compensation Committee were elected on 27 March 2009 for the 2009-2011 three-year term of office, which will end on 31 December 2011.

Composition

| | |
|-------------------------------|----------|
| Álvaro Pinto Correia | Chairman |
| Francisco Esteves de Carvalho | Member |
| Francisco Barros Lacerda | Member |

Independence of the members of the Compensation Committee

Notwithstanding the necessary articulation of this Committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body. No member of the Compensation Committee is a member of any corporate body or committee within the Company, and no member of the Compensation Committee has any family connection to any member of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree.



REMUNERATIONS EARNED IN 2010

| | 2010 FISCAL YEAR | | | Notes | COMMITTEES AS OF 31 DECEMBER 2010 | | |
|---|------------------|--------------------|------------------|-------|-----------------------------------|----------------------|------------|
| | Fixed | Variable (FY 2009) | Total | | Audit | Corporate Governance | Evaluation |
| Executive Committee | | | | | | | |
| Zeinal Abedin Mahomed Bava | 695,038 | 721,921 | 1,416,959 | | | | Member |
| Luis Miguel da Fonseca Pacheco de Melo | 486,526 | 505,344 | 991,870 | | | | |
| Carlos António Alves Duarte | 486,526 | 459,404 | 945,930 | | | | |
| Manuel Francisco Rosa da Silva | 486,526 | 459,404 | 945,930 | | | | |
| Shakhaf Wine | 486,526 | 459,404 | 945,930 | (a) | | | |
| | 2,641,142 | 2,605,477 | 5,246,619 | | | | |
| Rui Pedro Oliveira Barroso Soares | 104,256 | 459,404 | 563,660 | (b) | | | |
| Fernando Henrique Viana Soares Carneiro | 201,403 | 459,404 | 660,807 | (c) | | | |
| | 2,946,800 | 3,524,285 | 6,471,085 | | | | |
| Audit Committee | | | | | | | |
| João Manuel de Mello Franco | 271,404 | - | 271,404 | | Chairman | Member | Member |
| José Guilherme Xavier de Basto | 126,574 | - | 126,574 | | Member | | |
| Mário João de Matos Gomes | 183,736 | - | 183,736 | (d) | Member | | |
| | 581,714 | - | 581,714 | | | | |
| Other members of the Board of Directors | | | | | | | |
| Henrique Manuel Fusco Granadeiro | 617,812 | - | 617,812 | | | | Chairman |
| Francisco Manuel Marques Bandeira | - | - | - | (e) | | | |
| Rafael Luis Mora Funes | 85,316 | - | 85,316 | | | | Member |
| Joaquim Aníbal Brito Freixial de Goes | 85,316 | - | 85,316 | | | Member | Member |
| José Maria Alvarez-Pallete Lopéz | 31,470 | - | 31,470 | (f) | | | |
| Gerald Stephen McGowan | 44,058 | - | 44,058 | | | | |
| Maria Helena Nazaré | - | - | - | (e) | | | |
| Amílcar Carlos Ferreira de Morais Pires | 44,058 | - | 44,058 | | | | |
| António Manuel Palma Ramalho | 24,376 | - | 24,376 | (g) | | | |
| Francisco Teixeira Pereira Soares | 132,174 | - | 132,174 | | | Member | Member |
| Jorge Humberto Correia Tomé | - | - | - | (e) | | Member | Member |
| Santiago Javier Fernández Valbuena | 31,470 | - | 31,470 | (f) | | | |
| Paulo José Lopes Varela | 85,316 | - | 85,316 | | | Member | |
| Milton Almicar Silva Vargas | 44,058 | - | 44,058 | | | | |
| Nuno Rocha dos Santos de Almeida e Vasconcellos | 132,174 | - | 132,174 | | | Chairman | |
| | 1,357,598 | - | 1,357,598 | | | | |
| | 4,886,112 | 3,524,285 | 8,410,397 | | | | |

(a) This Director's remuneration is paid by a Company's subsidiary

(b) Director Rui Pedro Soares resigned to his office on 17 February 2010. In addition to the fixed and variable remuneration in the table above, during 2010 fiscal year Rui Pedro Soares was also paid the amounts described in paragraph I) of Chapter II.3. below.

(c) Director Fernando Soares Carneiro resigned to his office on 22 February 2010. In addition to the fixed and variable remuneration mentioned in the table above, during 2010 fiscal year Fernando Soares Carneiro was also paid amounts described in paragraph I) of Chapter II.33. below.

(d) In addition to the amount specified in the table above paid by PT, Director Mário Matos Gomes was also paid euro 7, 838, 40 by Previsão - Sociedade Gestora de Fundos de pensões, S.A. (a PT Group company) for the office of Chairman of the Supervisory Board the performs therein.

(e) Non-executive directors that have waived their remuneration due to incompatibility with other professional duties.

(f) Directors José Maria Alvarez-Pallete Lopéz and Santiago Javier Fernández Valbuena resigned to their offices on 27 September 2010.

(g) Director António Palma Ramalho resigned to his office on 25 March 2010.

The remuneration policies of executive and non-executive Directors and of the Chartered Accountant are defined in accordance with the following criteria:

I. Remuneration policy for non-executive Directors, including the members of the Audit Committee:

The compensation of non-executive members of the Board of Directors, including the members of the Audit Committee, is determined on the basis of a fixed model of an annual compensation established by the Compensation Committee (to be paid 14 times/year), without attendance tickets.

This fixed compensation takes into account the fact that some Directors also perform functions in any of the internal committees assisting the Board of Directors in its supervisory functions and/or the fact that some of those are deemed as independent Directors under the terms and for the purposes of article 414(5) of the Portuguese Companies Code. In particular, the Chairman of any internal committee of the Board (who does not also discharge the functions of Chairman of the Board of Directors, of Executive Committee or of Audit Committee), as well as the independent members who are part of more than one internal committee, receive a supplement corresponding to twice the remuneration of a non-executive Member.

Accordingly, this fixed remuneration considers the performance of functions as a member of the supervisory body, in particular, as Chairman or as financial expert member of the Audit Committee, taking into consideration that the discharge of functions in this corporate body implies the compliance with both the Portuguese rules and the mandatory rules applicable to the Company as foreign private issuer with securities admitted to trading in the New York Stock Exchange (NYSE), notably those set forth in the Sarbanes-Oxley Act and the regulations of the Securities Exchange Commission and of the NYSE.

The remuneration of the Chairman of the Board of Directors of PT SGPS corresponds to an annual fixed amount indexed to the annual fixed remuneration of the Chief Executive Officer and does not include a variable component. This fact does not preclude, however, the capacity recognized to the Evaluation Committee of the Board of Directors to propose to the Compensation Committee the granting of a bonus to the Chairman of the Board of Directors at the end of the term of office, taking into account the performance evaluation of his functions.

In line with CMVM Recommendation II.1.5.1, although this remuneration policy is drawn up in view of allowing an alignment with the Company's interests and a remuneration level promoting a suitable performance, no variable remuneration is foreseen for the non-executive members of the managing body nor for the members of the supervisory body (without prejudice to the possibility of granting a bonus to the Chairman of the Board of Directors, in the terms described in the previous paragraph).

II. Remuneration policy of executive Directors:

The remuneration of executive Directors takes into account the short and medium term performance of PT SGPS, as well as such performance when compared to other companies of a similar dimension and business.

The remuneration of executive Directors is composed of a fixed and of a variable portion as described hereinafter. The variable portion: (i) it is only due when a goal achievement average of 85% is reached; and in the case of annual variable remuneration, in the event of a 100% pre-determined goal achievement, may amount to 90% of the fixed remuneration, and (ii) in the case of the multi-annual variable remuneration, in the event of a 100% pre-determined goal achievement, may reach 70% of the fixed remuneration in accordance with the criteria identified below. The goals for this annual remuneration are set at the beginning of each year; those for the multi-annual remuneration are set at start of office term.

➔ **Fixed remuneration:**

The value of the fixed remuneration of executive Directors was determined on the basis of a benchmark study. In this study, companies integrating the PSI20, IBEX35, CAC40, DJ Eurostoxx 50 were considered, as well as European telecommunications companies comparable to PT SGPS.

In addition, the determination of the fixed component of the remuneration of executive Directors for the current term of office has taken into account the acceptance of the Chief Executive Officer's initiative to reduce his own fixed remuneration in 10%, as compared to the one established for the previous term of office, in order to mobilize all Group sectors for the accrued effort that the global crisis context means to the pursuance of PT SGPS' Strategic Plan. Such reduction is applicable to all the members of the Executive Committee.

➔ **Variable remuneration:**

The variable remuneration policy at PT SGPS is governed by the following principles aiming to ensure a clear alignment between executive Directors' interests and Company's interests, in accordance with CMVM Recommendation II.1.5.1:

- Pursuing and achievement of goals through the quality, work capacity, dedication and business know-how;
- The PT SGPS' incentive and compensation policy allowing to capture, motivate and retain the "best professionals" within the market as well as the executive team stability;
- Implementing a professionalized management approach based upon the definition and control of the pursuance of ambitious (although achievable) and measurable goals on a yearly and multi-annual (term of office) basis, thus considering the evolution on the performance of the company and of the Group;
- Developing a market oriented culture in line with its best practices, measured to the extent possible by a comparison of the company's performance towards its goals *vis-à-vis* a benchmarking of its (national and international) reference market;
- Pursuing excellence in management, through a set of entrepreneurial reference practices allowing the company's business sustainability. For this purpose, a management philosophy with economic, environmental and social dimensions shall be implemented.

This variable remuneration includes neither share allotment nor stock option plans.

➔ **Annual Variable Remuneration (AVR)**

Taking into consideration PT SGPS' practices and model in the last decade, the assessment of the performance of the Group's executive Directors was indexed, on a yearly basis, to the achievement of goals at a Group level.

The determination of the AVR to be granted as a result of the performance in the 2009 financial year is determined on the basis of a percentage of the annual fixed remuneration, calculated through the weighted average of the level of achievement of any of the following indicators (with each one of such indicators being considered achieved only if at least 85% of the goals established for such indicator are reached), and if the company maintains the investment grade qualification at the end of each year (except if the loss of such qualification is a consequence of a strategic decision of the Board of Directors):

- Total shareholder return ("TSR") ratio of PT SGPS as compared with the sector DJ Stoxx Telecom Europe (1st quartile), where the TSR is understood as the sum of the share price variation and the value of the dividend per share.

- Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;
- Earnings per share (EPS) growth delta as compared to the budget;
- Revenues growth delta *vis-à-vis* a group of comparable companies;
- EBITDA growth delta *vis-à-vis* the same group of comparable companies;
- EBITDA growth delta minus CAPEX as compared to the budget.

After determining the AVR in accordance with this methodology, the Compensation Committee may increase or reduce the variable remuneration of the Chief Executive Officer and of the other executive Directors, upon a proposal, respectively, of the Evaluation Committee of the Board of Directors and of the Chief Executive Officer. In any case and depending on the level of achievement of the pre-established goals, the AVR will not exceed the fixed remuneration in more than 110%.

→ Multi-annual Variable Remuneration (MVR):

The determination of the multi-annual variable remuneration is calculated on a yearly basis in a cumulative way throughout the term of office, paid at its end to Executive Committee members remaining at PT SGPS until the end (this requirement is not mandatory if the Executive Committee member is not at PT SGPS at the end of the term of office for reasons not imputable to him), if the weighted average of all indicators throughout the term of office reaches 85% of the established goals.

This annual cumulative calculation is made as a function of the weighted average of the level of achievement of the following quantitative and qualitative indicators:

- Evolution of total shareholder return (TSR) as compared with the sector DJ Stoxx Telecom Europe (1.st quartile);
- Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;
- Earnings per share (EPS) growth delta;
- EBITDA growth delta *vis-à-vis* the values prescribed in the Strategic Plan;
- Evolution of PT SGPS' Sustainability Index according to the DJSI methodology;
- Fulfilment of national and international strategic goals.

The methodology of annual calculation of multi-annual goals was favoured to the detriment of the calculation of indicator values exclusively at termination of office in order to render more effective the control of the implementation result of the corporate strategy throughout the triennium.

If during any annual exercise the amount equals zero, the amounts due from previous exercises will not be lost, if at termination of office, the result obtained from the evaluation of the multi-annual indicators achieves at least 85% of the established goals. Otherwise, the accumulated amounts will be lost.

After the determination of the MVR in accordance with this methodology, the Compensation Committee may increase or reduce the variable remuneration of the Chief Executive Officer and of the other executive Directors, upon proposal of the Evaluation Committee of the Board of Directors and of the Chief Executive Officer, respectively. In any case and depending on the level of achievement of the pre-established goals, the MVR will not exceed the fixed remuneration in more than 88%.

➔ **Alignment of Directors' interests with the Company's interests**

As results from all the above, the AVR and the MVR of PT SGPS' executive Directors in office in 2009 is subject to their performance, as well as to its sustainability and ability to achieve certain strategic goals of the Group, seeking in this way to contribute to long-term performance maximisation and the pursuance of the Group's strategic goals and to the alignment of management interests with the Company's and its Shareholders' interests.

➔ **Remuneration policy of the Chartered Accountant**

During the 2009 exercise, the Chartered Accountant of the Society was remunerated in accordance with the usual remuneratory practices and conditions for similar services, further to its services agreement and the proposal of the Company's Audit Committee.

3.4. SUSTAINABILITY COMMITTEE

It is the Sustainability Committee's responsibility to ensure that corporate sustainability is a part of and consistent with the Group's strategy and transversal to all its companies.

The Committee has the following main global goals:

- Reinforcing the Group's performance as a sustainable company, and make the Group recognized both internally and externally;
- Ensuring the conditions required in order to include PT in the international sustainability rates, aiming at gaining a leading position;
- Promoting an upgrade in the sustainable performance of the subsidiaries, stimulating the inclusion of this issue in the agenda of the Executive Committees of the same, at least twice each year.

The Sustainability Committee has the following duties:

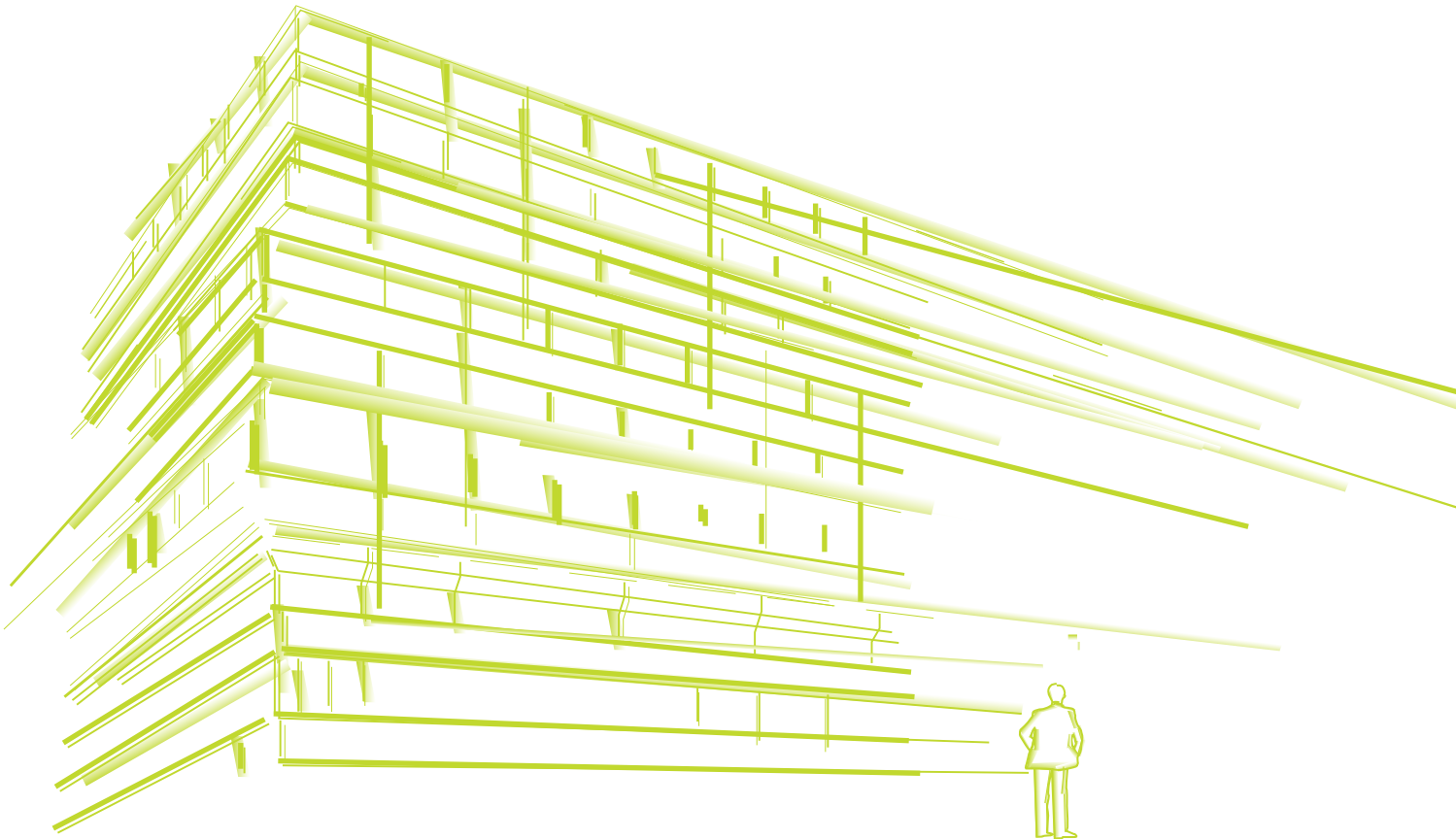
- To approve and develop a transversal corporate sustainability strategy that is integrated and consistent with the Group's strategy;
- To ensure the creation within the PT Group of conditions as required for its sustainable growth, in a three-dimensional perspective, in economic, environmental and social terms, in accordance with international criteria;
- To recommend to the PT Group companies the appointment of a director responsible for the sustainability function to guarantee the operational implementation of the sustainability strategy;
- To guarantee internal and external communication by reinforcing the performance of PT as a sustainable company and making it recognized as such.

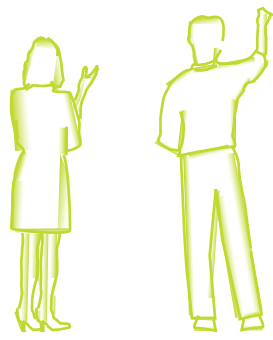
In 2010, the Committee evaluated a number of new improvement opportunities and proposed to the Executive Committee the following intervention areas:

- Approval of the stakeholder consultation and involvement program;
- Approval of relevant issues for stakeholders with probable impact on PT's businesses;
- Approval of action plan to eliminate gaps in terms of stakeholders and benchmarks;
- Approval of action plan for employee involvement in sustainability initiatives;

- Approval of the environment impact - carbon footprint study of the mobile service;
- Preparation, adoption and publication of the Sustainability and Social Responsibility Policy;
- Preparation of Child Protection instruments relative to ICT exposure;
- Internal awareness/training actions in the domain of responsible communication/marketing;
- Identification of opportunities in infrastructure creation and eco-efficient products & services offer;
- Praise to PT's inclusion in the DJSI.

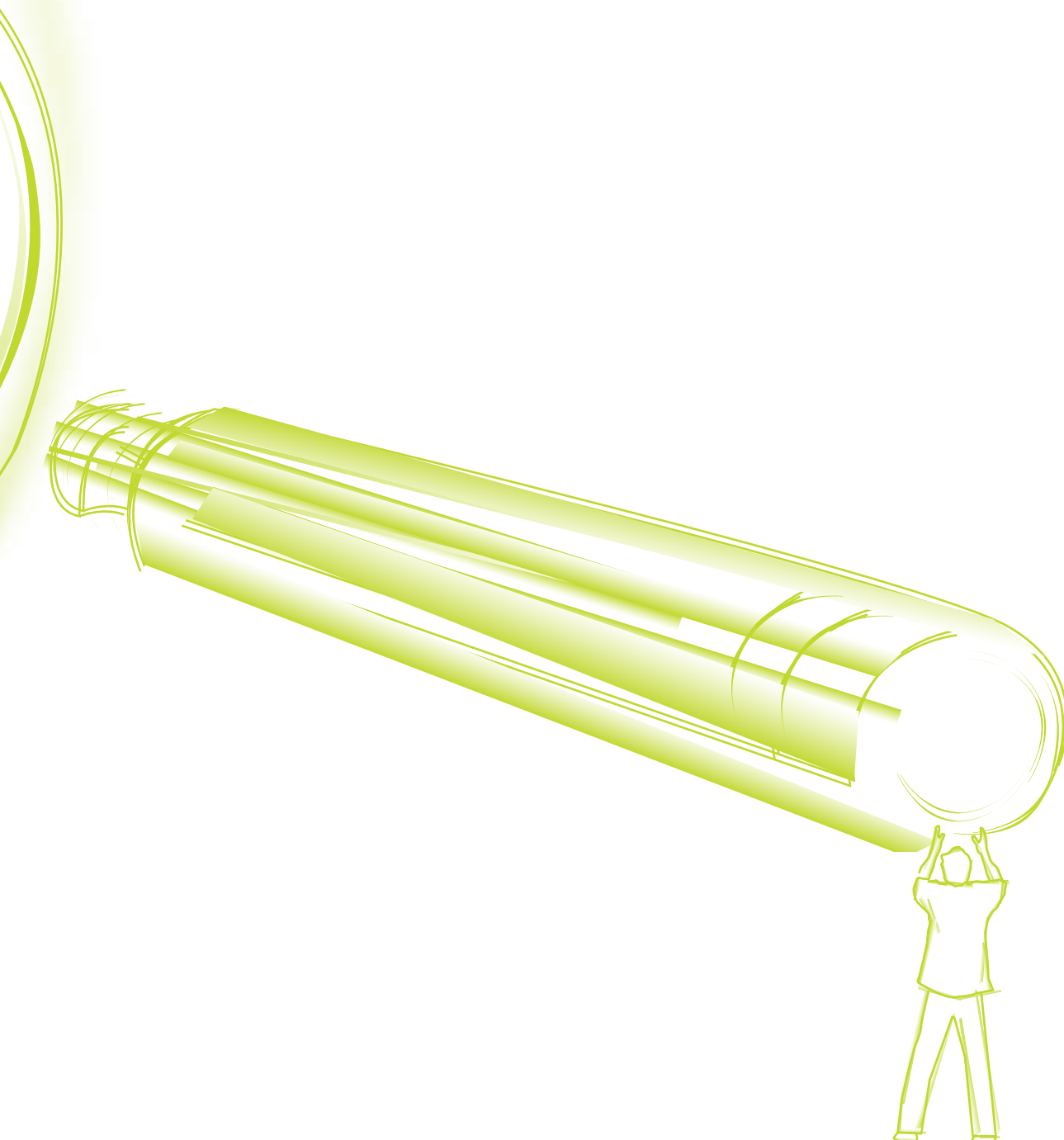
In September 2010, PT was incorporated in the Dow Jones Sustainability World Index in the telecommunications sector. The Dow Jones Sustainability Index is one of the most accredited indices worldwide, which analyses the performance in terms of sustainability of companies listed on the New York Stock Exchange and is considered a reference by analysts and investors. Currently, Portugal Telecom is the sole Portuguese company with a presence in the most important world sustainability indices, i.e. Dow Jones Sustainability Index and FTSE4Good, of which PT is part since 2005.





02

CREATING VALUE FOR BUSINESS



CREATING VALUE FOR BUSINESS

INNOVATION, RESEARCH & DEVELOPMENT

We have invested over
euro 200 million in
IR&D

1.1. FACING CHALLENGES AND CREATING SOLUTIONS

In the competitive context of the telecommunications universe, Research & Development (R&D) and subsequent adopted and implemented solutions have proven to become value creation factors for the Group's companies, creating positive impact on shareholders, customers, employees, suppliers and society at large.

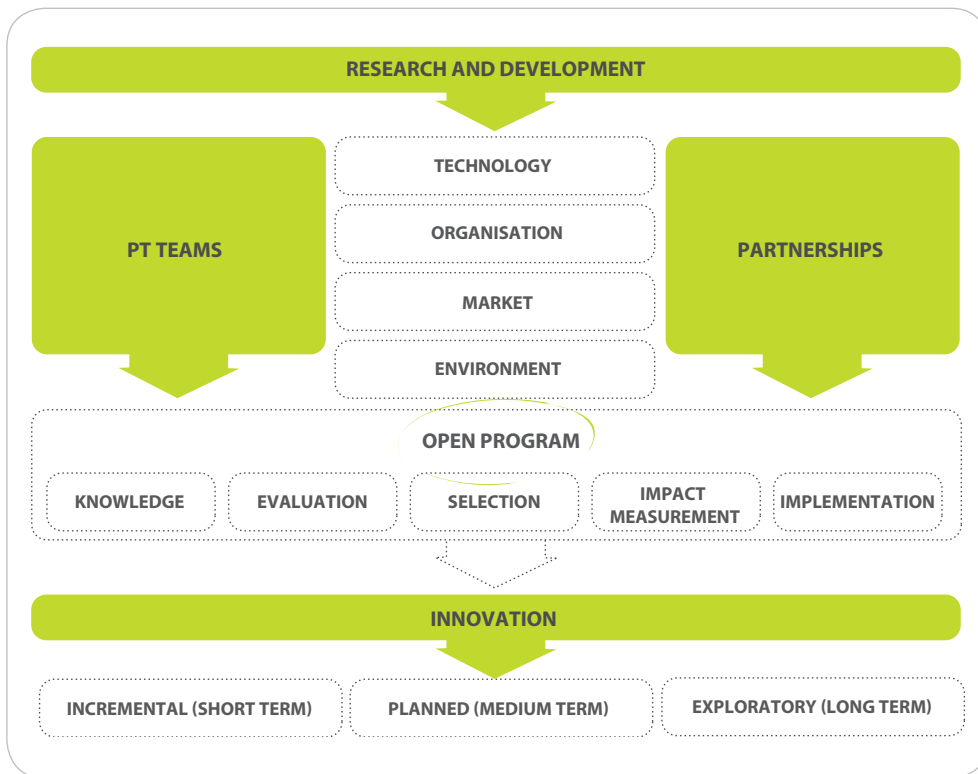
Research & Development, together with the partnerships established with national and international entities associated with science and knowledge, are fundamental pillars for PT in its re-creation of economic, social and environmental conditions capable of ensuring, day after day, a balanced future. In 2010, PT contributed to facing proactively the current social and economic situation by leveraging its competitiveness levels in the offer of products and services to the market, demonstrating an increased efficiency and sustainability in its process of implementation, distribution and use.

Taking into consideration the generalised access of the population to the information and communication technologies, several projects have been launched in order to extend high-speed internet access, improve rapidity and quality of service to customers and make available an each time more extensive set of services that responds to the expectations of each citizen and of the environment. In this context, **it is worth highlighting the kick-off, pioneer worldwide, of the fully ecological SIM Card, entirely made of recyclable, bio-degradable paper.**

This year, PT was once again a reference worldwide in terms of Research & Development (R&D). Its R&D investment in 2010 topped euro 200 million, in line with the rank in terms of value of the previous year.

The R&D model used at PT aims to be innovative and to mobilize the entire organisation. Apart from the structure units dedicated to Research & Development and the areas that implement projects, the genesis of this new model motivates and includes the initiative and participation of all employees:





The OPEN Program, launched in 2009 to institute systematic practices and a culture oriented towards applied research and development, was consolidated in 2010, thus proving the recognition of its merits. Besides contributing to technological innovation of products and services, the program started to leverage other R&D areas, enabling both to identify and implement new ways to work, study and interact with customers, and to aggregate new functionalities and increased environmental sustainability in its market offering.

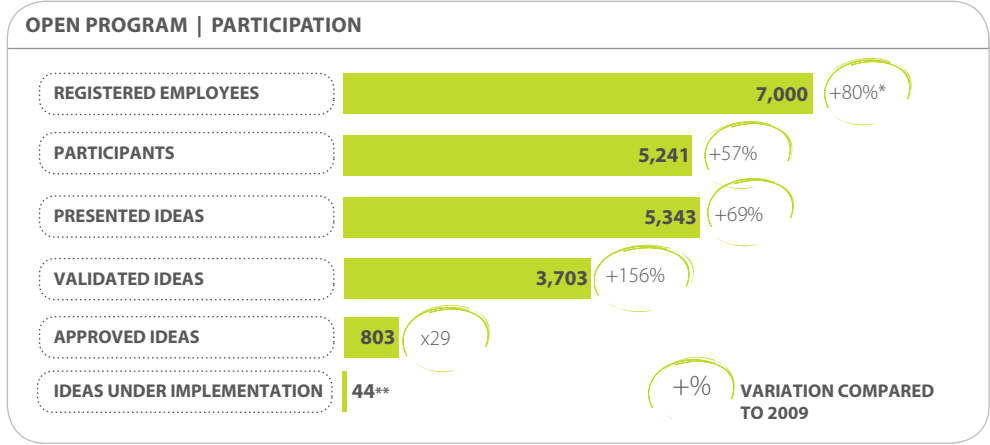
The management of the R&D initiatives is done according to the respective timeframe:

- **Incremental Innovation** – short term measures for continuous improvement
- **Planned Innovation** – medium term developments in the offer of products and services
- **Exploratory Innovation** – analysis of the main technological, eco-efficient and behaviour trends that define long term sector evolution.

INCREMENTAL INNOVATION

One of the main sources of generation of ideas is the contribution of every employee by means of a Market of Ideas. Circa 60% of all PT employees participated actively throughout 2010 by submitting, discussing and voting ideas.





* Excluding duplicated users
 ** Compared to no idea under implementation in 2009

This method, besides generating more than 40 initiatives under implementation, contributed to a strong increase in the involvement, motivation and alignment of all employees with the company’s sustainability strategy. The implemented initiatives allowed achieving significant improvements (such as for example the reevaluation of the technical assistance process of MEO IPTV – a television service that uses the IP protocol to carry contents) as well as the rationalization of the Group’s environmental footprint. The following incremental initiatives already implemented are worth highlighting:

ENVIRONMENTAL EFFICIENCY

Rationalisation of paper consumption:

- . Printer configuration for automatic front/back document printing;
- . ‘Green Toilets’ initiative to promote reduction in paper and water consumption in office toilets;
- . Unification of document dematerialisation platforms: implementation of intelligent routines for information capture and an easier interconnection between the different systems of the Group, causing a reduction in paper consumption and increased process efficiency;

Rationalisation of energy consumption:

- . Cut of overnight energy supply to computers, with significant reduction in the respective energy consumption;
- . Media campaign to induce the use of stairs with significant reduction in lift energy consumption;

Recycling:

- . The ‘Recycling Olympics’ consist of the identification and comparison among buildings, of the degree of waste separation in paper containers.

CUSTOMER SERVICE EFFICIENCY

Faster technical team service:

- . GPS introduction in PT’s field force fleet, the implementation of a new smart task allocation tool and the distribution of professional PDAs to the technical teams contributed to significant improvements in technical customer service and resource consumption;

ETHICS AND EFFICIENCY

Electronic negotiation:

- . Electronic auctions included in procurement procedures: new functionality in procurement information systems with impact on the reduction of acquisition costs, transparency of processes and administrative rapidity;

PLANNED INNOVATION

Portugal Telecom kept developing new medium term innovation solutions, with impact on the improvement in the offer of products and service made available for customers, leveraging next generation networks and promoting growing environmental efficiency.

In this process, PT involved its employees once again through thematic workshops, counting on the participation of multi-disciplinary teams to generate ideas on new and better options to take in each business unit. In 2010, more than 150 employees participated in these brainstorming sessions, having generated circa 400 new ideas, some of them already implemented.

Technology

i. Products and services

New services and functionalities on the MEO IPTV – platform

Widget availability on MEO (for example Facebook, Picasa and Flickr);
Increase in the number of interactive channels (such as Canal Q and Secret Story);
MEO Games kick-off, pioneer solution in the de gaming on demand world;
Free application to provide customers with MEO control through their portable equipment – MEO Remote;
New functionality to view already broadcast programs, even when not recorded on MEO Box – Restart TV;

Multi-platform services

MEO Online kick-off: extends MEO television access to any computer with broadband access.
Music Box kick-off, multi-platform music service (PC, mobile and TV): allows instantaneous unlimited access to an online library with millions of tunes and the offer of 10 mp3 tunes per month for TMN, SAPO and MEO customers.

Eco – efficient equipment

First SIM card in the world with ecologic characteristics;
Commercialization of Samsung Blue Earth, a rechargeable mobile phone through solar panels.

Environmentally and socially responsible services

Cloud computing solutions with strong potential for increase in the productivity and efficiency of customer companies, contributing to significant savings in terms of energy and hardware consumption as a result of its use. PT established a partnership with Cisco for the development of these solutions for the Portuguese market.

Kick-off of the first Portuguese PHR – Personal Health Record – My SAPO Health that provides citizens with online recording and control of their health and well-being records, monitoring of indicators and management of medical agenda, accessible anytime anyplace;

Medigraf Project (solution for remote health services, such as tele-consultation and tele-diagnosis) installed in developing countries such as Angola and Sao Tome, under implementation in Cape Verde and, under study, for Timor;

Training solutions in 3D environment;

Customised commercial offers for SMEs : Office Box Cafés & Restaurants and Office Box Doctors and Clinics;

Fleet management service to locate vehicles through collection of geo-referenced information. This solution has an optional innovative service exclusive on the market that enables fleet managers to extract indicators that enable the implementation of eco-driving actions.

→ **ii. Infrastructures**

Network infrastructure

Connection of 85% of TMN's mobile sites with fibre optic and preparation of plans for next generation LTE network rollout. TMN was the first operator to conduct real-time tests of this technology at PT Inovação premises in Aveiro (including a mobile tele-class session, high-capacity online gaming, tele-medicine in mobility and the first worldwide TV broadcast via LTE);

Network optimisation in terms of quality of service and inter-technology mobility;

Development of authentication, security, identity and privacy solutions for next generation telecommunications networks;

Cloud computing solutions in terms of services (Saas) and platforms (PaaS);

Development of Content Delivery and interactivity solutions for TV platforms.

Sustainable Data Centre – one of the largest in Europe

PT kicked off a project to build a new data centre, one of the largest in Europe, with more than 45,000 m² and an installation capacity of 50,000 servers. This investment will allow positioning the company as an international player in terms of cloud computing, responding to growing customer demand, either in terms of transport and processing capacity for companies, or in new multimedia and info-communication services development.

The new data centre will have a new efficiency level that will create direct and indirect jobs for circa five people, save money in terms of energy and cooling of the space and save 93,000 tons of CO₂, through a 40% reduction in electric consumption:

- Use of renewable energies (data centre with own eolian park and covered by solar panels);
- Free Cooling ventilation system – uses low outside temperatures as an aid to data centre cooling;
- Monitoring of consumption habits allows selecting the most suitable price plan;
- Use of LED lighting.

Market – Relational Efficiency

Several structuring projects were launched to improve the relational efficiency and effectiveness of the organisation. Some of these projects have already produced significant results during 2010. In this domain, it is worth highlighting:

Projects

PT Customer:

Specific portal for customers for access to their portfolio of products and services via an online platform through multiple channels (web, tablet PC, smartphone and TV);

CRM – Customer Relationship Management:

Customised CRM solution to achieve quality of service improvements, optimise efficiency in customer interaction, intensify commercial focus and leverage knowledge of customer needs;

SIT-E:

Evolution of order entry software to support B2B (Business to Business) services for a new platform with impact essentially in terms of time-to-market of new products and services, revenue assurance and improvement of the record of business products and services;

Residential FOT-BOT:

Increase in wireline service fault repair through the consolidation, from an end-to-end perspective, of the organisation structure, processes and know-how. The project allowed an increase in the fault repair rate at the technical front-office and back-office and a reduction in recurring faults.

Environmental Sustainability

The rationalisation of the company's environmental footprint continues to be a generalised concern, whose implemented projects have already produced results:



Rationalisation of energy consumption and CO₂ emissions

Free cooling systems:

Reduction in energy consumption in small and medium-sized exchanges by blowing outside cold air by low energy consumption ventilator, avoiding the use of current air conditioning equipment over long periods of time;

Application of cold paint on technical cabinets:

Application of cold paint, composed of ceramic particles, avoiding heat absorption by solar exposure by outside multi-service cabinets, reducing the use of external cooling sources;

Lighting systems:

Replacement of lights by T5 bulbs and electronic ballasts with flow regulation, with detection of presence and adjustment of lighting level;

Water consumption control:

Reduction of water consumption in some exchanges through the installation of timed systems and/or water flow regulation. This measure enabled 70% reductions in water consumption;

Use of virtual PCs in Call Centres:

Use of VDI – Virtual Desktop Infrastructure with significant energy savings.

EXPLORATORY INNOVATION

The structured and continuous investment in Research & Development is fundamental for the evolution and creation of innovative solutions in terms of processes, products and technologies, ensuring a long term perspective. The exploratory innovation projects at PT are mainly developed by PT Inovação and SAPO.

PT has been investing in intellectual capital and in methodologies in order to create a learning culture conducive to the capacity of generating new ideas, to implement the respective R&D process and ensure the implementation of innovative processes with positive impact on the company, society and environment.

Main knowledge areas of PT Inovação

- Context Aware services & applications platforms to support future IP Multimedia environments;
- Design of cooperative solutions of energy efficiency in wireless networks focused on 3GPP LTE and femtocells;
- Evaluation of capacity and coverage gains resulting from the use of the radio-electric spectrum in the TV White Spaces for LTE 3GPP implementation;
- Design of a wireless broadband system and a common management system with radio resources in heterogeneous wireless network environments that take advantage from a optical infrastructure to transport radio signals (RoF);
- Participation in the Future Internet Platform and its dimensions in terms of architecture, new business and virtualisation models (IaaS).

Main knowledge areas of SAPO

- Development of applications in multi-platform environment
- Creation of internet contents
- Development of support platforms for online advertising

 **Patents**

In terms of intellectual property, PT Inovação four provisional patent applications and converted other two provisional applications into definitive filings:

- Provisional patent applications:
 - “Managing Link Layer Resources for Media Independent Handover”, also co-requested by the Aegean University and the Demokritos National Centre for Scientific Research;
 - “Information System for Public Attendance”, also co-required by UTAD;
 - “Concentrator for networked sensors and remote meters, supporting diverse network access technologies with automatic fallback strategies, and sensor access security support”;
 - “Reflective Optic Component integrated in a Fibre Optic Terminal”.
- Conversion of provisional patent applications into definitive:
 - “Method and Mechanism for Control and Mitigation of Transitional Effect in Raman Optic Amplifiers with Bomb Reflection”, in cooperation with the Aveiro University;
 - “Context-aware MBMS coverage control”, also object of an international patent application (PCT).

1.2. PARTNERSHIPS

The establishment of strategic partnerships with recognised international companies and institutions is fundamental in generating an extended and dynamic R&D eco-system. The partnerships established have different natures:

- Technological partnerships;
- Strategic partnerships;
- Partnerships with Universities
- Partnerships with research institutes.

 **Technological Partnerships**

In order to customers’ access to next generation services supported on a fibre optic network, PT maintained its agreements with top-class international suppliers such as Corning, Cisco and Huawei as well as equipment manufacturers such as Samsung, LG and ZTE to develop tailored solutions for the Portuguese market.

 **Strategic Partnerships**

PT establishes strategic partnerships with other telecommunications operators to share best practices and to collaborate in innovative projects. It established for such purpose a collaboration agreement in 2010 with Singtel, leading operator in Singapore, in order to share operational and commercial practices in pay-TV services supported on fibre optic and IPTV technology, and to develop innovative applications for high-speed fixed and mobile networks.

 **Partnerships with International Universities**

PT works in partnership with several Universities to develop projects of exploratory nature. In 2010, in the scope of the Carnegie-Mellon program, three researched projects in partnership with PT were kicked off.

Carnegie Mellon Programs

SENODs

Cyber-Physical Systems Technologies for Energy-Optimized Data Centres – development of a number of tools based on cyber-physical system technologies to address energy efficiency and IT set by next generation data centres, such as the one that PT is building;

TRONE

Trustworthy and Resilient Operations in a Network Environment – development of operational frameworks to increase security and fault-tolerance in the cloud computing solutions developed by PT;

NeTS

Next Generation Network Operations and Management – development of a new operational framework for the PULSO platform that enables to ascertain in real time the root causes of eventual failures in PT Group's IP services and networks (with special emphasis on IPTV services).

Additionally, PT collaborated in the guidance of several master's thesis from his employees – namely in the development of a low-cost tool prototype for analysis of social networks for telecommunications operators, developed by a group of MSE (Master of Software Engineering) students – and promoted advanced training and talent development for other thirteen employees, having supported their Professional Master and PhD degrees.

Partnerships with National Universities

At national level, PT has projects underway in the main Universities: Aveiro, Porto, Coimbra, Minho, Trás-os-Montes & Alto Douro, Beira Interior, and in Lisbon, at the Engineering (IST) and Science Faculties. In this domain, the following initiatives stand out:

Programs with National Universities

Web Technologies

Applied to educational contexts – materialised in the SAPO CAMPUS project – a tool that brings the services of the new Web 2.0 (blogs, videos, photos, wiki, Messenger, widgets) closer to PLE - Personal Learning Environment - concepts.

VERBATIM Project

Natural language processing through the development of advanced artificial intelligence in pattern text recognition.

SYLVESTER Project

Development of a social network analyser using social tools (such as Twitter and Facebook), for automatic analysis of feelings, leveraging the preciser modeling of content and analysis recommendation systems.

MIR Project

Graphical advanced processing through the development of advanced artificial intelligence systems for image and video pattern recognition.

REACTION Project

Computing journalism with information recovery, extraction and aggregation for news integration and organisation.

iNeighbour Project

Social networks applied to consumption contexts of the senior population, on the basis of the offer of MEO's new technological solutions - Presentation Framework.

SEDUCE Project

Sociological studies for the conception of TV applications.

Integration of LTE (long Term Evolution) in future network architectures from a mobility perspective

Research on a LTE network architecture for integration in current and future networks, from a mobility support perspective on the LTE network and between different networks.

MultiPass

Transposition of digital identity management technology to the real application domain, transforming mobile devices into 'wallets' or digital 'travelcards', allowing access to a number of integrated services.

PELE – Intelligent Personal Learning Environment

Exploration of context-based information collection and extraction techniques and methodologies and development of a prototype that applies these techniques in a personal learning environment.

inTACT

Demonstration of new interaction paradigms, from tactile methods based on gestures (mainly multi-touch) to immersive natural/spacial or tangible interfaces.

A Cloud Oriented Approach for People-Provided Services

Creation and experimentation of a cloud computing scenario (IaaS and SaaS) that responds to needs in terms of resilience, load balancing, security and fault tolerance.

Partnerships with Research Institutes

PT also has protocols established with different research institutions such as INESC (Instituto de Engenharia de Sistemas e Computadores) and IT (Instituto de Telecomunicações).

INESC

PT maintains a participation in INESC in order to underpin university projects with potential impact on PT's business, including SAPO Labs. These projects are implemented in the domain of Contest Aware services and applications to support future IP Multimedia environments as well as the development of algorithms for high-speed networks optimisation and securitization.

Instituto de Telecomunicações

PT Inovação is a founding associate of the Telecommunications Institute, participating actively in its Aveiro pole where it maintains a resident research group in the areas of interest for PT.

Participation in Workgroups

PT kept an active participation in several national and international workgroups as a way of sharing knowledge and collecting best practices in different areas of activity:

ETNO (European Telecommunications Network Operators)

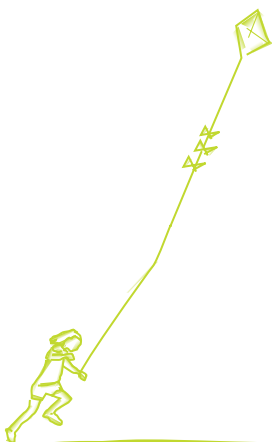
Sustainability Workgroup. PT is an ETNO member, signatory of the respective sustainability charter and is part of several work groups related to technology, regulation, online contents, fraud, cybercrime, security, occupational health and safety, energy efficiency and digital inclusion.

ETSI (European Telecommunications Standartization Institute)

The work groups in which PT participates are related to the following areas: network security, next generation networks, intelligent transport systems, new broadband functionalities and reconfigurable radio systems.

BCSD Portugal (member of World Business Council for Sustainable Development)

PT, as a member, participates actively in the workgroups related to social responsibility, impacts on society and climate change.



CLIMATE CHANGE COMBAT

2.1. ENVIRONMENT PRESERVATION STRATEGY

We know that climate change will have repercussions in company businesses and its potential financial implications are worrying the community and investors. Therefore, we deem essential to identify this issue in the day-to-day management of our company and anticipate strategies that contribute to counter this trend.

We believe that the systematic search of solutions that minimise the impacts of our activity on society, together with the contributions that the new information and communication technologies may induce in our customers will certainly promote better environmental quality in the future.

Technological evolution, less energy-dependency of new equipments, progressive introduction and availability of renewable energies, remote control through domotics, waste segmentation and collection and its more adequate routing for reuse or recycling are now enabling PT to optimize the relationship between its environmental impacts and the delivery of each time more sophisticated services to the market.

On the other hand, the new information and communication technologies and next generation networks already allow us to deliver services to the customers that contribute to reducing their environmental impact, namely carbon dioxide emissions and, in this way, we also contribute indirectly to ecosystem balance.

Over the last few years, PT dedicated itself to promoting the implementation of good environmental practices within its organisation, with suppliers and customers, having defined an environmental policy and management system that deserved recognition and the progressive certification of each one of its business units in compliance with international standard ISO 14001.

Currently, the environmental strategy adopted by the company aims to implement a number of measures that rationalise the energy-dependency of its activity and its customers, and consequently reduces the impacts of the CO₂ emissions related directly or indirectly to the services delivered to the market, which are more and more demanding in terms of volume of stored information and consequently more energy-demanding.

Therefore, we are founding members and participate actively in the Green Touch initiative, presented in the UK, constituted by a consortium of industry-leading partners, research institutions and non-governmental organisations, whose aim is to reduce by 1000 times ICT energy-consumption and respective carbon footprint.

Our impacts are assessed according to the type of actions and practices that we are committed to implementing in order to progressively minimise our carbon footprint.



| ENVIRONMENTAL IMPACTS OF PT - STRATEGY TO COMBAT CLIMATE CHANGE | | | |
|---|---|--|---------------------------------------|
| Impacts | Actions to Develop | | Goals to Achieve |
| Direct | Implementation of a number of practices to minimise direct impact on the environment | Significant reduction of CO ₂ emissions of the sector (energy efficiency) | Optimise carbon footprint |
| Indirect | Development of solutions and technologies with transversal impact on sustainability and increase in quality of life of the population | Positive externalities leveraged by society | Sector with positive net contribution |

2.1.1. LOW-CARBON SUPPLY CHAIN

Energy efficiency and the mitigation of the carbon footprint of the supply chain, upstream and downstream, are our main focuses of climate change combat.

A number of initiatives were assumed aiming at increased energy efficiency and subsequent carbon emissions reduction over the current triennium. It is essential to involve our supply chain for such purpose, achieving in this way the reduction of direct and indirect impacts..

Energy efficiency and the mitigation of the carbon footprint of the supply chain, upstream and downstream, are our main focuses of climate change combat.

| IMPLEMENTATION OF ACTIONS | | | |
|---|---|--|--|
| Intervention areas at PT (Direct Impacts) | | Influence areas of supply chain (Indirect Impacts) | |
| Reduction of energy consumption | <ul style="list-style-type: none"> . Energy certification of buildings . Cooling of technical areas with free cooling system . Energy efficiency criteria in equipment selection and contracting | Supplier selection and hiring model | <ul style="list-style-type: none"> . Inclusion of contractual clauses relative to environmental practices and energy efficiency of equipments |
| Maximisation of adoption of renewable energies | <ul style="list-style-type: none"> . Program for the dissemination of the use of renewable energies . Photovoltaic energy . Eolian energy | Responsible Consumption | <ul style="list-style-type: none"> . Provision of guidelines for good use of services and equipments and package routing |

Considering the actions that aim at the reduction of the Group's direct impacts, in terms of climate change and energy strategy, highlight should go to the commitment and signature of the ETNO⁽⁶⁾ Guidelines, a set of guidelines for the implementation of an Energy Policy i the telecommunications industry.

Based on this commitment, PT defined a number of actions to implement during the current triennium, aiming at performance optimization and a contribution to the reduction of the impact of the telecommunications sector.

(6) ETNO – European Telecommunication Network Operators Association.

Energy-efficient infrastructures:

| ENERGY EFFICIENCY – COMMITMENTS IN COURSE * | | |
|---|---|---|
| Reduction of energy dependency | Energy certification of buildings | . Certification of 20 PT buildings representing circa 40% of PT's energy consumption in Portugal |
| | Cooling of spaces | . Installation of free cooling equipments in 20 rooms that represent more than 30% of energy consumption of PT's technical areas . Execution of efficiency tests of free cooling equipments in PT's data centres |
| | Power, lighting of spaces and equipment systems | . Progressive installation of high energy efficiency lighting (T5light fixtures) in interior spaces of PT buildings; . Progressive replacement of outdoor lighting and signs of PT buildings with LED lights; |
| | Assessment of energy consumption of equipment | . Evaluation of energy consumption of equipment during its lifecycle . Execution of efficiency tests to new lighting systems of PT data centres |
| Adoption of renewable energies | Photovoltaic Eolian Hydrogen | . Definition of a mid-/long-term strategy to use renewable energies, based on tests to assess efficiency levels: . Photovoltaic energy - (4 pilot stations) . Eolian energy – (3 pilot stations) . Creation of a carbon-free station – based on hydrogen battery powered by renewable energies |
| Consumption monitoring per production unit | | . Creation of a management and control system for energy consumption |
| Involve Supply chain | Equipment selection and contracting criteria | . Assessment of the equipment energy-dependency levels during their expectable lifetime. |

* The results of the initiatives underway are presented in the eco-efficiency chapter.

The telecommunications industry has a marginal contribution (circa 1%) in the current CO₂ emissions. Nevertheless, it may play an important role in the global reduction of national emissions. According to the "SMART Portugal 2020"⁽⁷⁾ study, the expected indirect impact of this sector alone will enable the fulfillment of the European Union goals, representing this impact circa ten times the direct carbon footprint of the sector.

Expectably, the adoption of new services in society, leverage the reduction in the total amount of CO₂ emissions by 15%. The commercialization of services and solutions, based on the new information and communication technologies, will contribute decisively to the energy dependency reduction of our customers and consequent atmospheric carbon emissions minimization. The healthcare, education, and domotics domains have already started to become the base of this new paradigm and although still little significant, are already a new window of opportunity in environmental preservation.



(7) SMART Portugal 2020 - Increasing Energy Efficiency through ICT – BCG Study with PT Group participation.

Initiatives to reduce impacts of products and services

• **1st SIM Card made of recyclable and biodegradable paper in the world introduced in April 2010 by TMN**

- TMN is the first operator in the world to launch a SIM card made of recyclable biodegradable paper.
- Making SIM cards of recyclable biodegradable paper avoids using plastics (PVC, ABS or PET) derived from oil, which take more than 1,000 years to degrade naturally.
- These cards were supplied by Incard (Italy) and paper technology belongs to Toppan (Japan), having TMN been the partner chosen for this worldwide launch.
- In 2010, TMN acquired 25,000 SIM cards made of recyclable biodegradable paper.

• **Samsung Blue Earth Mobile Phone**

TMN launched the Samsung Blue Earth in 2010. Inspired by nature, it has an ecological design with a large solar panel in the back, allowing recharging through solar energy as it was projected to transform solar rays into power source to feed the battery. Made of recycled plastic (PCM), it contributes since its manufacture to the reduction in fuel consumption and carbon emissions, being free from prejudicial substances.

The Samsung Blue Earth makes available different ecological applications, namely:

- Eco-Walk, which allows counting the steps of a walk and calculate the reduction in CO₂ emissions, comparing the option of a walk instead of using a motor vehicle;
- Eco-Mode, which allows regulating the brightness of the display, the duration of the backlight of the display; and
- Bluetooth in order to save energy;
- Eco-Calendar, which allows always having available a calendar of the ecologically significant days.

Used materials from recycling

• **Recycled paper**

PT has been replacing the use of recycled paper with FSC certified paper (paper that promotes sustainable forest management, from where its raw materials are extracted), because it is a cheaper option, being simultaneously environment-friendly.

Even so, although this is a generalised practice in the PT companies, at PT Inovação, the acquisition of recycled paper is still significant, as the percentage of recycled paper consumed was circa 45% during 2010.

• **Recycled plastic**

The Samsung Blue Earth is made of PCM recycled plastic, produced from water bottles, contributing in this way to the reduction in fuel consumption and carbon emissions during its fabrication process. The equipment, including the battery charger, is free from prejudicial substances, such as flame retarding agents, Beryl and Ftalates.

The package of the Samsung Blue Earth is made of environment-friendly materials, easily recyclable paper and soy paint. The box containing the mobile phone may be reused as a photo frame. In this way, the package of the Samsung Blue Earth offers the user a fully ecological experience..

2.1.2. BIODIVERSITY

According to different national studies, namely the Institute for Nature Preservation and Biodiversity, ecosystems and species are globally more and more in danger. This trend may have profound implications on the economic and social development of the human community as it is frequently followed by profound changes in the ecosystem.

The General Assembly of the United Nations declared 2010 as the International Year of Biodiversity in order to:

- Express the importance of biodiversity for the well-being of populations;
- Reflect on the conquests achieved to preserve biodiversity;
- Reinforce the initiatives to reduce biodiversity loss.

Aware and aligned with this fact, PT addresses this issue in its strategy, seeking to identify the impact of its activity in biodiversity and developing initiatives that tend to mitigate its harmful effects on the preservation of species.

PT's activity is extended throughout the entire national territory, being the area used in biodiversity-rich habitats insignificant. Antennas are nevertheless one of the places where storks build their nests and therefore PT developed a program to move stork nests to more suitable habitats. These interventions are articulated with the Institute for Nature Preservation and Biodiversity in order to ensure that these actions are done in a correct way and during the period of migration of these birds.

2.1.3. ELECTROMAGNETIC RADIATION

The technological advances of the last century increased the exposure to electromagnetic fields and the population in general is quite worried with the consequences of this new reality.

Antennas and telecommunications equipments emit radiation and create electromagnetic fields that PT not only monitors, to verify if the respective emission levels are within the values deemed acceptable, but also makes them available to the public in general through a website whose monitoring data are collected by an external and independent entity.

- In 2010, under Regulation 96-A/2007 the planned goals were achieved and 346 stations classified as TFE (Building Top or Façade) and 46 indoor (inside buildings) stations were monitored. There were no values outside the parameters established by Law.
- All measurements are sent quarterly to ANACOM, Ministry of Health and Municipalities.
- The radiation levels are available on a website of an independent entity with which PT has associated itself and whose address is <http://monit.it.pt/>.

2.1.4. NOISE

The noise sources capable of causing nuisance are different in nature and intensity and, according to the World Health Organisation, regular exposure to high noise levels may have negative impacts on public health.

In fact, telecommunications stations cause noise that may have impact on the quality of life of surrounding communities, so PT monitors randomly the noise emitted.

- In 2010, PT monitored the noise of 28 TMN stations and 45 sites of PT Comunicações.
- Whenever there are noise levels, causing disturbance and complaints, higher than what is legally defined, PT prepares intervention plans to mitigate the respective impact.

2.1.5. URBAN AND RURAL LANDSCAPE

PT has been trying to make a harmonious integration of its buildings, telecommunications stations, antennas and aerial cables, in the rural and urban spaces, interpreting landscape organisation and the history of the location. Therefore, it establishes partnerships with municipalities and other competent entities whose objective is to identify the most adjusted solutions to the landscape harmony of the location.

In this context, the following impact mitigation initiatives are worth highlighting:

- Installation of towers dissimulated as trees;
- Antenna sharing with competing operators;
- Installation of poles on rooftops dissimulated with chimneys;
- Installation of solutions in hidden/subterranean containers;
- Reconversion of container solutions into multi-function using solutions with remote carriers installed on antenna poles.

2.1.6. NATURAL DISASTERS

Summer fires, winter tempests and other natural disasters have significant impacts on PT’s activity: they destroy communications equipment installed in the affected areas, inhibiting the communications of the population.

Therefore, PT developed services and plans to minimise the consequences of these phenomena:

| Natural disasters | |
|---|--|
| To minimise the occurrence of natural disasters | . Telesurveillance service that allows monitoring the landscape and detect fire situations. |
| To resume communications in as short a time as possible | . Partnership with the Civil Protection authorities at district and national level; . Provision of necessary technical and human means to re-establish quickly normal fixed, mobile and satellite communications - Disaster Recovery and Business Continuity solutions. |

In 2010, the island of Madeira was hit by the worst tempest of the last years, and later on, there were innumerable fires throughout the whole country. To minimize the seriousness of the human and social consequences, PT made available supplementary technical and human means and resumed quickly normality in fixed, mobile, satellite and submarine cable communications, ensuring an effective

intervention by the authorities and Civil Protection, ensuring communications inside and outside the affected areas to combat the isolation of the population. The firemen brigades, Hospitals and Civil Protection authorities are the priority targets of these interventions.

2.2. ECO-EFFICIENCY

PT has been incorporating a number of environmental principles and actions in all its subsidiaries. The respective management systems are certified in compliance with standard 14001 and are subject to periodic audits, both internal and external. Employees and suppliers are the main targets in terms of training and involvement for the pursuance of the principles and defined goals.

This activity is based on policies and environmental management systems that include the following aspects:

- Resource consumption;
- Atmospheric emissions;
- Waste production;
- Waste routing;
- Noise;
- Landscape impacts;
- Electromagnetic fields;
- Sustainable model for supplier selection and hiring;
- Awareness campaigns.

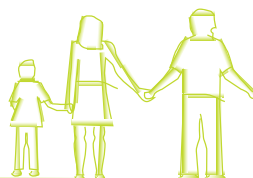
All environmental parameters above were subject to previous evaluation that included the identification and monitoring of impacts and improvements to implement.

During the year 2010, we pursued the goals established for the triennium and started to segment greenhouse gas emissions. This year, there were variations in the energy consumption goals as the company increased significantly its needs of information storage relative to television contents and the new Cloud Computing service. Anyway, consumption rationalisation continued as there was a 6.5% reduction versus turnover.

Additionally, PT reduced significantly the consumption of water, waste production and atmospheric impacts, reducing CO₂ emissions by circa 7%.

Material consumption was also rationalised, posting a smaller increase as compared to 2009.

The data presented in 2010 include as of now another PT subsidiary – PT Sistemas de Informação, which may lead to values higher than expectable.



2.2.1. INTEGRATED PERFORMANCE

➔ **Materials Consumption**

| Materials Consumption | | (T) | | |
|---|---------------|---------------|---------------|--|
| | 2008 | 2009 | 2010 | |
| Batteries (Distribution network) | 48 | 35 | 41 | |
| Batteries (Network infrastructures) | 142 | 268 | 138 | |
| Electric and electronic equipment | 774 | 1,672 | 1,958 | |
| Waste from activity-supporting infrastructures* | 11,772 | 18,174 | 18,703 | |
| Paper / cardboard TOTAL** | 1,569 | 3,244 | 4,741 | |
| Administrative paper | 534 | 519 | 465 | |
| Plastics | 1,189 | 1,991 | 1,551 | |
| Toners and ink cartridges | 4 | 4 | 4 | |
| Wood | 8 | 5 | 11 | |
| Total | 16,040 | 25,912 | 27,148 | |

* Includes cable waste (copper cable with lead, self-supported copper cable, copper cable with plastic, armed copper cable, fibre optic cable, TEDS cable, TE1SE cable), and metal (iron, copper, zinc and aluminium alloys).

** Data from PT Inovação were not included.

In spite of the efforts made to assess the total amount of paper products for the calculation of the established goal, such assessment was not made so a comparative analysis with previous years is not possible.

Nevertheless, in order to compare consumptions, administrative paper consumption was described separately for a reliable analysis. Therefore, analyzing these consumptions, there is a 10% reduction compared to 2009 and 13% compared to 2008.

➔ **Direct energy consumption, segmented by primary source**

Circa 42% of the energy used in our activity comes from renewable energy sources.

Globally, energy consumption increased by 8% year on year: in absolute terms, direct energy consumption increased by 7% and indirect energy consumption grew by 17%.

Circa 42% of the energy used in our activity comes from renewable energy sources.

| Energy consumption | | (GJ) | | |
|--|------------------|------------------|------------------|--|
| | 2008 | 2009 | 2010 | |
| Energy consumption (electric) | 1,368,324 | 1,464,065 | 1,581,726 | |
| Electric energy consumption (wireline) | 1,031,942 | 1,101,537 | 1,193,081 | |
| Electric energy consumption (wireless) | 315,020 | 339,916 | 362,935 | |
| Energy consumption (business support) | 21,361 | 26,898 | 25,710 | |
| Natural gas | 252 | 12 | 1 | |
| Fuel consumption (petrol) | 13,208 | 15,183 | 12,356 | |
| Fuel consumption (diesel) | 195,792 | 208,489 | 222,182 | |
| Total | 1,575,576 | 1,687,749 | 1,816,264 | |

Note: 2008 values were changed to include PT-SI consumptions, except its electric energy consumption.

As to energy produced through renewable energies, the table below differentiates the quantity of energy produced by PT from renewable sources and electric energy supplied to PT by operators obtained from renewable sources.

| Renewable energy consumption used | | (GJ) | | |
|---|----------|----------------|----------------|--|
| | 2008 | 2009 | 2010 | |
| Energy produced from renewable sources | - | 110 | 139 | |
| Energy supplied to PT by operators from renewable sources * | - | 578,306 | 666,707 | |
| Total | - | 578,416 | 666,846 | |

Note: 2009 data not validated in the scope of the Sustainability Report 2009.

* Source: EDP e ERSE

In short, we can say that circa 42% of PT's consumption is obtained from renewable energies.

→ Indirect energy consumption

| Indirect energy consumption | | (GJ) | | |
|---|---------|---------|---------|--|
| | 2008 | 2009 | 2010 | |
| Energy (electricity and fuel) consumed by suppliers to support company activities | 241,363 | 304,515 | 355,919 | |

→ Initiatives for rational energy use

Tangible initiatives in the scope of energy efficiency/rational use of energy occurred in 2010:

| Initiatives for rational energy use | | | |
|---|--------------------------|-----------------------------|--|
| | Savings energy bill (k€) | Consumption Reduction (MWh) | GHG Emissions avoided (tCO ₂ e) |
| d'Alicate Operation (Removal of obsolete equipments from network) | 280 | 4,000 | 1,207 |
| Freecooling in 156 small PTC buildings | 117 | 1,300 | 287 |
| Freecooling in 274 TMN sites | 120 | 985 | 218 |

Intangible initiatives in the scope of energy efficiency/ rational energy use occurred in 2010:

| Description | Objective |
|---|---|
| Installation of Consumption Monitoring Systems in Picoas, Andrade Corvo and Tenente Valadim buildings | To know in detail the electric energy consumptions of the main PT buildings in order to promote its rationalisation |
| Energy diagnosis to HVAC System of Picoas building | Identification of improvement opportunities in the performance of this installation |

As to initiatives in the scope of energy bill control, there was a re-negotiation of the electric energy supply contracts.

During the year 2010, two freecooling units were installed to renew the Platforms Room (Data Centre) of PT Inovação in Aveiro as well as thermal solar panels in two PT Inovação buildings in Aveiro, building 0 (5-storey building) and the canteen.

Twenty PT buildings were also underwent certification, benefiting from better performances in terms of energy and inner air quality, ensuring in this way better working conditions for PT employees.

➔ **Total Water Consumption**

This year, water consumption was reduced by 31%.

Water consumption at PT has mainly two purposes: cooling of technical areas and hygiene, and comfort of workers in administrative areas.

Administrative areas have implemented strong consumption rationalisation measures, namely training and awareness actions for employees and simultaneously installing equipments that reduce the respective consumptions.

In 2010, a few projects that contributed to the reduction of water consumption at PT were executed. From the different projects, highlight should go to the installation of a waterless urinal in the Setúbal building, the installation of a reservoir to recycle water at the Santo Tirso contact centre, installation of flow restrictors in the water taps of the Tenente Valadim building and in the flushing cisterns of the PT-SI building, Tagus Park.

This year, water consumption was reduced by 31%

| Water Consumption * | | | (M ³) |
|---------------------|---------|---------|-------------------|
| | 2008 | 2009 | 2010 |
| Total Consumption | 285,567 | 414,307 | 285,942 |

* The water consumed comes entirely from the public network.
 Note: 2008 values were changed to include PT-SI consumption.

Comparing to the year 2009, there is a 31% reduction in water consumption.

Location and areas of the land belonging to the organisation, leased or managed, biodiversity-rich habitats

PT's activity covers the entire national territory, being the land in biodiversity-rich habitats insignificant.

| Area used in biodiversity-rich habitats | | | (M ²) |
|---|--------|--------|-------------------|
| | 2008 | 2009 | 2010 |
| Total area | 10,849 | 10,050 | 11,300 |

➔ **Strategies and current and future programs for managing biodiversity impacts**

Landscape Impact

PT seeks, in the scope of its activity of building the mobile network, to align these processes with biodiversity maintenance.

In this context, it carries out actions for relocation of stork nests currently built on telecommunications towers. These interventions are articulated with the Institute for Nature Preservation and Biodiversity in order to ensure that these actions are carried out during the migration period of these birds.

These actions, besides having impact in terms of the sustainability of animal life also ensure tower maintenance activities. The dimension of the nests often causes access problems to antennas, with direct impact on the performance of the network.

Apart from these solutions for nest relocation, PT also invests in other actions such as:

- Installation of towers dissimulated as trees;
- Installation of rooftop poles dissimulated as chimneys;
- Installation of dissimulated/subterranean container solutions;
- Reconversion of container solutions into multi-function cabinets using remote carriers installed on antenna poles.

Electromagnetic Radiation

Under Regulation 96-A/2007 the planned goals were achieved and 346 stations classified as TFE (Building Top or Façade) and 46 indoor (inside buildings) stations were monitored. There were no values outside the parameters established by Law.

All measurements were sent quarterly to ANACOM, Ministry of Health and Municipalities.

The radiation levels are available on a website of an independent entity with which PT has associated itself and whose address is <http://monit.it.pt/>.

Noise Monitoring

Aware that telecommunications stations cause noise that may have impact on the quality of life of surrounding communities, PT monitors randomly the noise emitted. In 2010, PT monitored the noise of 28 TMN stations and 45 sites of PT Comunicações.

Whenever there are noise levels higher than what is legally defined, PT prepares intervention plans to mitigate the respective impact.

Total direct and indirect emissions of greenhouse gases, by weight

PT's CO₂ emissions were reduced once again by 7% as compared to 2009, in spite of the increase in energy consumption. This reduction is due to the fact that the consumption reduction policy continued and simultaneously the used electric energy sources incorporated a significant portion of renewable energies.

We reduced CO₂ emissions by 7% in spite of, due to activity growth, having increased the energy consumption, due to activity growth.



| CO ₂ Emissions | | (T) | | |
|---|----------------|----------------|----------------|--|
| | 2008 | 2009 | 2010 | |
| Scope 1 | | | | |
| Direct (petrol) | 897 | 1,902 | 852 | |
| Direct (diesel) | 12,673 | 15,585 | 16,381 | |
| Scope 2 | | | | |
| Indirect (electricity) | 184,250 | 138,306 | 122,144 | |
| Scope 3 | | | | |
| Indirect (diesel consumed by suppliers) | 16,845 | 22,407 | 26,243 | |
| Total | 214,665 | 177,390 | 165,620 | |

Considering the established goal for direct CO₂ emissions in 2008, there is a 27% increase. Nevertheless, comparing with the year 2009, there is a 3% increase.

Analysing globally all the Scopes, there is a 23% decrease in comparison to 2008 and a 7% decrease as compared to 2009.



Initiatives to reduce greenhouse gas emissions

Sustainable fleet program

PT took yet another step to make its car fleet, composed of more than 4,000 vehicles, each time greener. In the scope of the Sustainable Fleet Program, there were several actions to induce: car sharing, removal of own vehicles with high pollution indices, selection of operational vehicles on a basis of a technical analysis on fuel consumption and CO₂ emission, training actions and divulgation of eco-driving, defensive driving and the promotion of the use of alternative transport such as bicycles, trains and 'walk to work'.

Apart from these actions, the European Road Safety Charter was subscribed in March 2010.

This Charter is a European participative platform composed of companies, associations, research institutions and public entities which by signing this charter commit themselves to executing concrete actions to solve road safety problems that they face in the scope of their day-to-day activities.

Signature of the code of conduct of energy efficiency

In September 2010, PT was one of the companies of the Information and Communication Technologies (ICT) sector to sign the code of conduct of energy efficiency, promoted by the European Commission, through the Common Research Centre, committing itself to reduce the electricity consumption of its equipments.

By signing the code of conduct of the broadband equipments (CoC BB), PT is committed to using in building its network and in the installation of customer equipment at home (modems, routers and set top boxes), components with the lowest level of consumption on the market, without loss of service efficiency.

This commitment represents yet another contribution to the Sustainability and Social Responsibility Policy and, at the same time, is a measure to reduce the energy consumption of customers of broadband services.

By signing the “CoC BB equipment” charter, PT commits itself to measurable goals of energy consumption reduction for equipments of support for broadband services, namely MEO services, and reflecting such commitment on its customers.

Click (Operational Management Tool)

2010 saw the launch of a project to include a new work tool, Clicksoftware, to be used in a context of implementation of a Field Force Management solution.

This project aims to:

- Improve customer relationship;
- Improve the quality of service delivered by fulfilling bookings and SLAs;
- Increase productivity through better route management, reducing travel time;
- Reduce ecological footprint avoiding travel due to recurring situations and eliminating the need to print paper worksheets.

The inclusion of this tool on the PDAs of technicians and PCs of work distributors has impact on the planning and organisation of work and resources, in information communication and access and in the assessment of operational activities.

“Green Healthy Moments” reduce energy consumption

More health, more environmental respect and less energy consumption summarise the challenge set to PT employees with campaign “Green ad Healthy Moments” in June 2010 in six PT buildings

The reduction in energy consumption derived from the use of lifts reflects employee motivation and involvement in adopting environmentally responsible behaviour. The campaign aimed to raise the awareness and motivate employees to the practice of healthy and sustainable lifestyles, having many started to use the stairs preferably.

NOx and SOx emissions

In the scope of EU and international commitments assumed relative to the United Nations Framework Convention on Climate Change, Convention on Long-Range Transboundary Air Pollution (UNECE) and the Directive on National Emission Ceilings (EU), Portugal submits annually through the Portuguese Environment Agency, the inventory of greenhouse gases and other atmospheric pollutants.

This inventory does not include, in what concerns road transport, gases Nox, Sox besides other atmospheric emissions. So, besides CO₂, gases CH₄ and N₂O are monitored, and their values are presented below.

| CH ₄ and N ₂ O Emissions | | | (T) |
|--|------|------|------|
| | 2008 | 2009 | 2010 |
| CH ₄ | - | - | 0 |
| N ₂ O | - | - | 1 |

In 2010, the amount of water discharged by PT to domestic collector drains was included in the numbers.

| Discharge of domestic water | | (M ³) | | |
|-------------------------------|---------|-------------------|---------|--|
| | 2008 | 2009 | 2010 | |
| Discharge of domestic water * | 232,134 | 335,183 | 228,754 | |

* Estimated value according to the established in Regulatory Decree no. 23/95 of 23 August; 2008 and 2009 values not checked.

→ Total quantity of waste per type and destination

The execution of PT's activities requires the incorporation of new or reused materials and/or equipments (M&E) and consequently its withdrawal.

In this way, PT has to ensure that the generated waste is duly identified, registered and controlled as to its final destination. Whenever a M&E is removed from active service, it is classified by the company for 'Reuse' or 'Waste'.

M&E considered 'Waste' are delivered to municipal entities or licensed waste removal operators and routed to a suitable final destination.

| Waste Production | | (T) | | |
|--|--------------|--------------|--------------|--|
| | 2008 | 2009 | 2010 | |
| Batteries Waste (mobiles) - recycling ** | 0 | 0 | 0 | |
| Batteries Waste (other) - recycling ** | 151 | 235 | 71 | |
| Fluorescent Lamps Waste - recycling ** | 2 | 1 | 1 | |
| Used Oil Waste - recycling ** | 2 | 1 | 2 | |
| Paper / Cardboard Waste - recycling | 402 | 587 | 393 | |
| Glass Waste - recycling | - | 6 | 2 | |
| Hygiene Waste - physical-chemical treatment ** | - | 3 | 11 | |
| Plastics Waste - recycling | 44 | 80 | 66 | |
| Urban Solid Waste (undifferentiated) - incineration | 110 | 117 | 139 | |
| RE&E Waste (mobiles) - recycling | 2 | 11 | 27 | |
| E&E Waste (other) - recycling | 234 | 177 | 241 | |
| Activity-support Infrastructure Waste - recycling ** | 1,524 | 1,784 | 1,940 | |
| Toner and Ink Cartridge Waste - recycling | 6 | 9 | 10 | |
| Wood Waste - recycling | - | 626 | 372 | |
| Total | 2,477 | 3,637 | 3,276 | |

(*) Waste from activity-supporting infrastructures includes: cable waste (copper cable with lead, self-supported copper cable, copper cable with plastic, armed copper cable, fibre optic cable, TEDS cable, TE1SE cable), and metal (iron, copper, zinc and aluminium alloys).

(**) Dangerous waste

→ Costs with fines resulting from legal environmental non-compliance

| Costs with fines resulting from legal environmental non-compliance | | (EURO) | | |
|--|------|--------|--------|--|
| | 2008 | 2009 | 2010 | |
| Costs with fines resulting from legal environmental non-compliance | - | - | 11,250 | |

In 2010, a fine of €11,250 was imposed upon PT Comunicações as the result of a complaint filed about noise in the Andrade Corvo building. The fine was paid, the noise impact was mitigated and the process is closed, having PT implemented the necessary actions to correct the causes.

Total amount spent in environmental protection

PT has been assuming more and more its environmental responsibility through continued investment in the Environmental Management System that allows the follow-up of different indicators on the environmental impact caused by its activities.

As of 2009, following data uniforming, it became possible to ascertain environment-related costs and benefits. The amounts of 2008 only pertain to wireline.

| Total investments and costs in enviromental protection | | | |
|--|----------------|----------------|------------------|
| | 2008* | 2009 | 2010 |
| Internal manpower (**) | 4,492 | 8,121 | 6,657 |
| Internal costs | 452,812 | 312,808 | 256,583 |
| External costs | 461,552 | 649,735 | 958,433 |
| Total | 914,364 | 962,543 | 1,215,016 |

(*) 2008 information is not comparable with 2009 and 2010 values, as in 2008 it only included wireline, and 2009/2010 incorporates information from several subsidiaries.

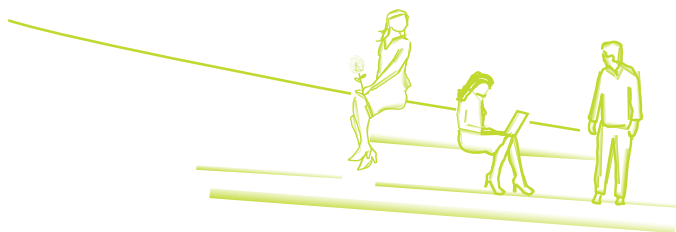
(**) Cost hours/man.

Nevertheless, summing up costs versus revenues, environmental management showed a positive result, as can be verified below..

| Benefits associated with SGA | | | EURO |
|------------------------------|------------------|----------------|------------------|
| | 2008* | 2009 | 2010 |
| Total income | 2,141,667 | 1,187,492 | 5,640,367 |
| Final results | 1,227,304 | 224,950 | 4,425,351 |

(*) 2008 information is not comparable with 2009 and 2010 values, as in 2008 it only included wireline, and 2009/2010 incorporates information from several subsidiaries.

This result is due mostly to revenues from the valuation of waste and new data relative to the mobile network.





INVOLVEMENT AND RELATIONSHIP MANAGEMENT WITH STAKEHOLDERS

3.1. SHAREHOLDERS AND ANALYSTS

3.1.1. RELATIONSHIP PRINCIPLES

PT assumed with its shareholders a commitment to create value, ensuring a good economic and financial performance today and in the future. Transparency, information accuracy and confidence levels in organisation management are, more and more, determinant factors in the evaluation processes of analysts and in the decision of investors relative to their capital allocation options

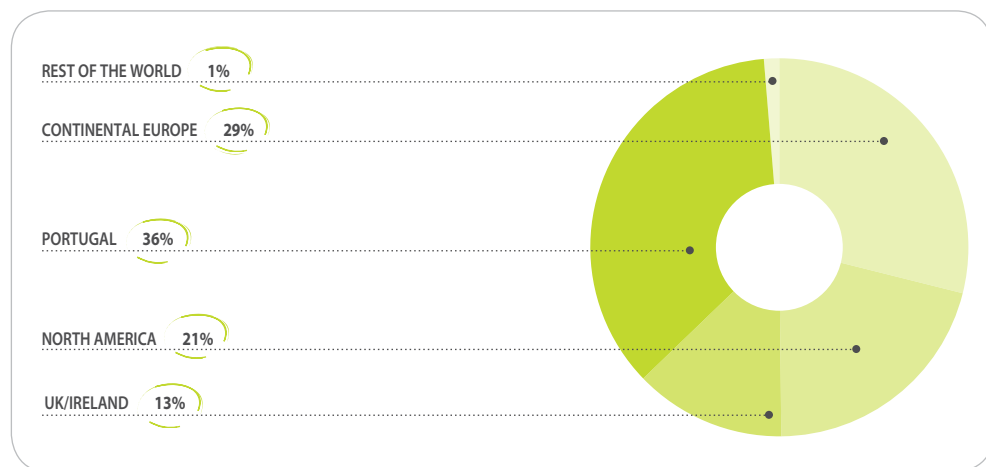
Therefore, the relationship built with shareholders and analysts is based on dialogue, accuracy and information transparency. Apart from the General Meeting of Shareholders, road shows in different markets where the company is listed and where it has investors, PT has specialized teams to dialogue with market analysts and publishes all relevant information for this public on its corporate website.

| Relationship with the stakeholders | |
|-------------------------------------|---|
| Means of relationship | Instruments of relationship |
| General Meeting of Shareholders | Quarterly, half-year and annual reports |
| Nacional & internacional Road shows | Sustainability Report |
| Teams specialised in dialogue | Press releases with relevant facts |
| Corporate website | Market survey on expectations and trends |
| | Share prices in stock exchanges where it is listed |
| | Investors kit |
| | Participation in consultations for international rankings |

3.1.2. SHAREHOLDER COMPOSITION

The share capital in PT is, as from 10 December 2008, 26,895,375 euro, and it is fully paid up and represented by 896,512,500 shares in the par value of three euro cents each.

The distribution of qualified holdings worldwide has the following profile:

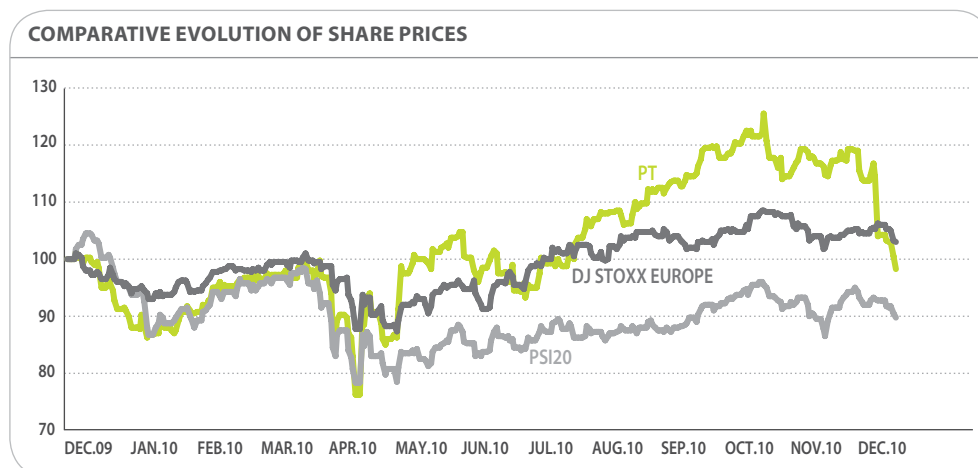


Qualified holdings in the share capital in the issuer calculated in accordance with article 20 of the Portuguese Securities Code.

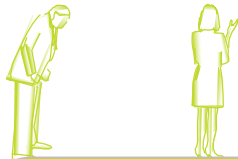
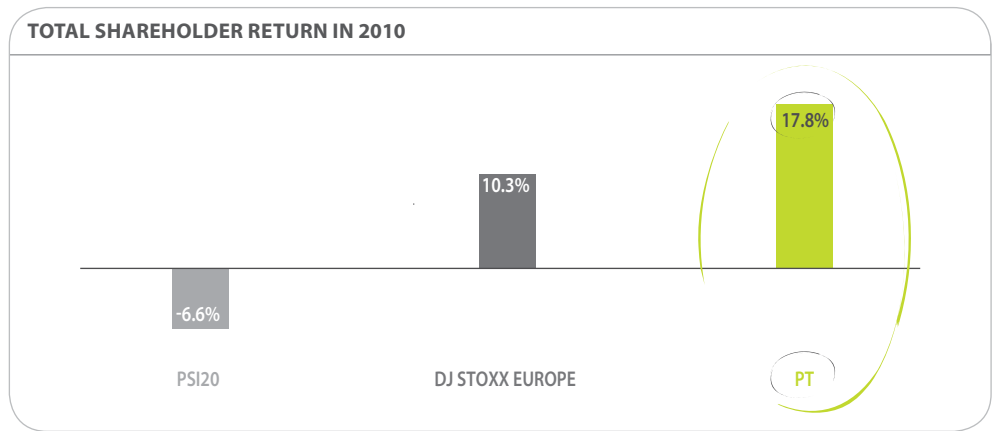
| Qualified holdings | | | | |
|--------------------|-------------------------------------|--------------|--------------|--------------------|
| Date of report | Institutions | Nº of shares | % of capital | % of voting rights |
| 25/Nov/10 | Capital Research and Management | 90,421,315 | 10.09% | 10.09% |
| 31/Dec/10 | Espirito Santo Group(1) | 89,174,416 | 9.95% | 9.95% |
| 08/Jun/10 | RS Holding, SGPS, S.A. | 60,698,090 | 6.77% | 6.77% |
| 31/Dec/10 | Caixa Geral de Depósitos Group | 56,158,965 | 6.26% | 6.26% |
| 03/Dec/10 | The Income Fund of América, Inc. | 45,091,419 | 5.03% | - |
| 31/Dec/10 | Brandes Investments Partners, L.P. | 46,953,365 | 5.24% | 4.11% |
| 22/Dec/10 | TPG-Axon Capital Managment, LP(2) | 37,929,088 | 4.23% | 4.23% |
| 24/Nov/10 | Norges Bank | 44,324,863 | 4.94% | 4.94% |
| 24/Nov/10 | Barclays Group | 26,373,929 | 2.94% | 2.94% |
| 31/Dec/10 | Visabeira Group | 23,642,885 | 2.64% | 2.64% |
| 22/Dec/10 | Deutsche Bank AG(3)(4) | 22,014,272 | 2.46% | 2.46% |
| 07/Dec/10 | BlackRock Inc, | 21,025,118 | 2.35% | 2.35% |
| 03/Feb/10 | Controlinveste Comunicações | 20,419,325 | 2.28% | 2.28% |
| 29/Dec/10 | The Royal Bank of Scotland, N.V.(5) | 19,720,324 | 2.20% | 2.20% |
| 24/Jun/10 | Telefónica, S.A. (6) | 18,122,661 | 2.02% | 2.02% |
| 11/Oct/10 | Europacific Growth Fund | 18,061,608 | 2.01% | - |
| 17/Aug/10 | UBS AG | 17,961,777 | 2.00% | 2.00% |

(1) PT further disclosed, on 28 January 2011, that BES held a qualified holding corresponding to 89,924,416 ordinary shares representing 10.03% of the share capital in PT and the voting rights pertaining thereto. (2) PT further disclosed that TPG-Axon Capital Management, LP had a long position, totalling 43,929,088 shares (corresponding to a qualified holding as mentioned above and Put Options, which corresponds to a financial interest over a total 6,000,000 shares representing 0.67% of the share capital and voting rights corresponding to the capital), representing 4.90% of the share capital in PT and voting rights pertaining thereto. On 10 March 2011, PT informed that TPG-Axon Capital Management, LP now holds a qualified holding and long position of less than 2% of the share capital in PT and voting rights pertaining thereto. (3) On that same date, PT further disclosed that DB AG had a long position, totalling 22,014,272 shares representing 2.46% of the share capital in PT and voting rights pertaining thereto. (4) PT further disclosed, on 7 January 2011, that DB AG now holds a qualified holding and long position of less than 2% of the share capital in PT and voting rights pertaining thereto. (5) On 7 January 2011, PT informed that RBS Holding now holds a qualified holding and long position of less than 2% of the share capital in PT and voting rights pertaining thereto. (6) The said qualified holding was communicated by Telefónica to PT on 23 June 2010, and subsequently CMVM communicated to the market, on 28 June 2010, a draft decision of its Board stating their understanding the voting rights pertaining to the shares covered by equity swap agreements should continue to be attributed to Telefónica. Up to this date, no final decision was disclosed by CMVM, nor did Telefónica communicate to PT any change or rectification to the said qualified holding.

3.1.3. VALUATION AND DIVIDENDS



PT restated its commitment in 2010 to provide attractive dividends to its shareholders and to simultaneously maintain financial flexibility to keep investing in its key markets and in new products and services, maintaining its long-term competitive position.



MOST RELEVANT FACTS ANNOUNCED DURING THE FINANCIAL YEAR

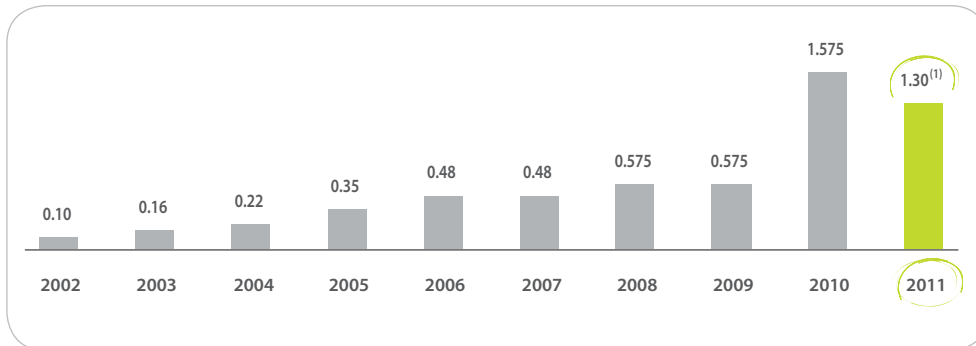
| | |
|---|---|
| 22 January - Portugal Telecom informs about DTT | 30 June - Additional information on the offer over Brasilcel |
| 8 February - Portugal Telecom announces the acquisition of GPTI | 4 July - Portugal Telecom clarifies recent news about Oi |
| 17 February - Resignation of Executive Director - Rui Pedro Soares | 7 July - Additional information on the offer over Brasilcel |
| 22 February - Resignation of Executive Director - Fernando Soares Carneiro | 8 July - Meo surpasses 700 thousand customers |
| 2 March - Portugal Telecom informs about favourable decision regarding fine imposed by the Competition Authority | 17 July - Portugal Telecom informs on expiration of Telefonica's Offer |
| 4 March - Full year results 2009 | 20 July - Portugal Telecom clarifies recent news about Oi |
| 12 March - Notice - Annual General Meeting | 28 July - Portugal Telecom announces the agreement with Telefonica for the sale of Brasilcel |
| 16 April - Filing of Annual Report on Form 20-F | 28 July - Portugal Telecom and Oi to enter into a strategic partnership |
| 16 April - Portugal Telecom's Annual General Meeting of Shareholders | 5 August - 2010 First half results |
| 21 April - Dividend Payment - 2009 Earnings | 27 September - Portugal Telecom concludes the sale to Telefónica of Brasilcel |
| 6 May - 2010 First quarter results | 27 September - Resignation of Non-Executive Director - José Maria Alvarez-Pallete Lopéz |
| 10 May - Portugal Telecom informs about proposal received from Telefónica | 27 September - Resignation of Non-Executive Director - Santiago Fernández Valbuena |
| 1 June - Portugal Telecom informs on the revised proposal received from Telefónica | 29 September - Portugal Telecom informs that it is in discussions with the Portuguese State regarding the potential transfer of the pension liabilities and pension funds |
| 2 June - Portugal Telecom informs on the proposal document received from Telefónica | 29 October - PT informs on the extension of the validity of the memorandum of understanding with Oi Group and Anatel's approval of the transaction |
| 4 June - Notice - General Meeting 30 June 2010 | 3 November - 2010 First nine month results |
| 7 June - Proposal of the Board of directors to General Meeting of Shareholders 30 June 2010 | 3 November - Shareholder remuneration proposal |
| 10 June - Information statement regarding Telefónica's offer | 3 November - Shareholder remuneration proposal |
| 15 June - PT announces request from Telefónica for the inclusion of a new item on the agenda of the General Meeting from Telefónica | 16 December - Exceptional Dividend Payment |
| 29 June - Portugal Telecom informs on revised consideration for the proposal received from Telefónica | 16 December - Exceptional Dividend Payment |
| 30 June - Portugal Telecom General Shareholders Meeting | 22 December - Portugal Telecom informs about favourable decision regarding fine imposed |
| | 28 December - Adjustment to exchange price of Exchangeable Bonds due in 2014 |

As to shareholder remuneration, PT distributed circa euro 1,380 million to its shareholders divided in the following way:



- Dividend relative to fiscal year 2009 of euro 0.575 per share paid in May 2010, amounting to euro 504 million;
- Exceptional dividend of 1 euro per share paid in December, as an anticipation of 2010 profit advance, amounting to euro 875.9 million.

The following chart shows the evolution of shareholder remuneration over the years as well as a forecast for 2011:



(1) Subject to shareholder approval at General Meeting of Shareholders

3.2. CUSTOMERS

3.2.1. CUSTOMER SERVICE

With a vast customer base, PT knows that success in the relationship with each one depends on the quality of the information available on the respective consumption profile, as well as its capacity to meet expectations and to interact with each consumer.

The customer service area deserved special attention, once again, over last year. The growing service sophistication and the widening of the group's commercial offering indicated an increase in the quantity of contacts for clarifications, complaints and/or fault participations. Therefore, we launched a number of initiatives that allowed deepening the knowledge about each customer, adjusting the service offer and response capacity to each need.

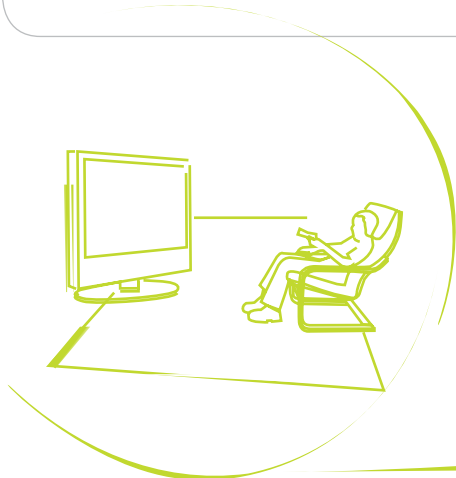
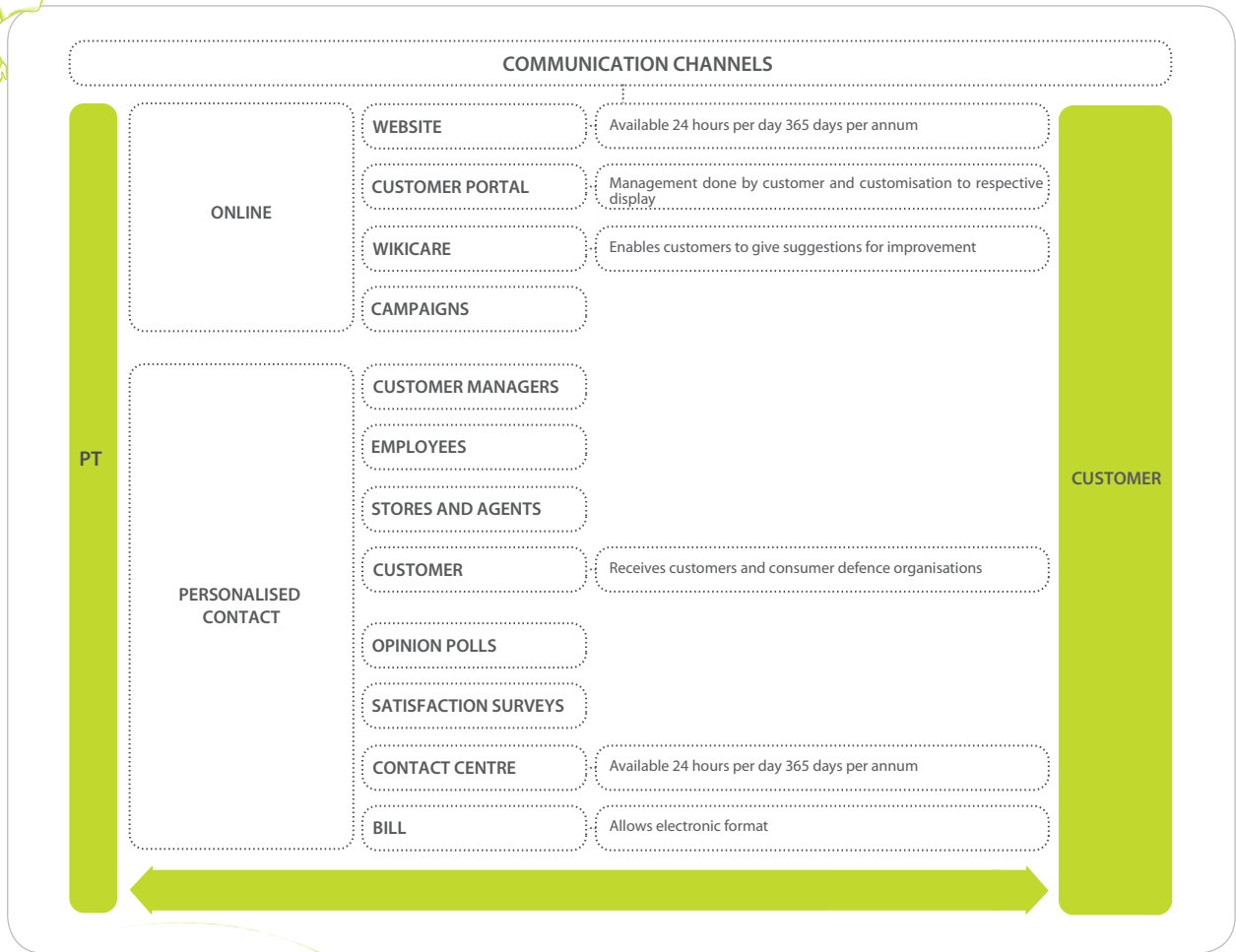
Relationship is a responsibility of all group employees irrespective of functions and/or responsibilities that they perform in the organisation.

Areas of customer focus

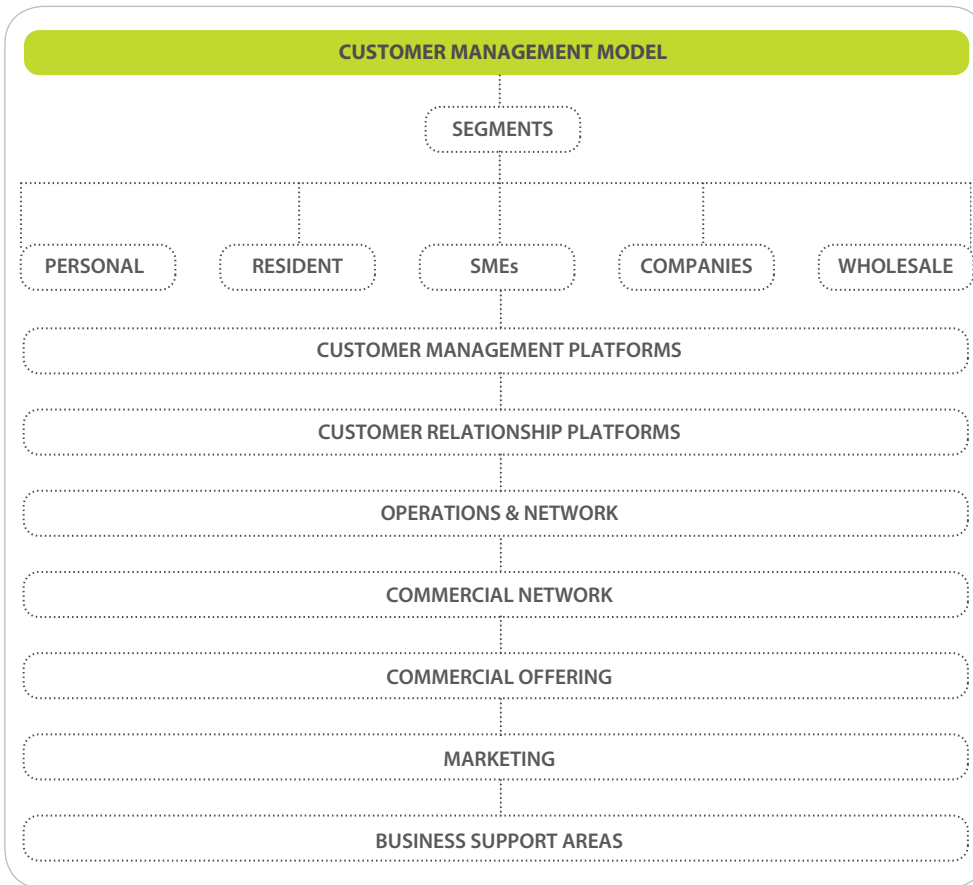
- Listen to customers
- Personalise the relationship with each customer
- Innovate in the offer to the market
- Offer quality services
- Ensure continuity in service delivery
- Ethics in the commercial relationship

In this context, PT continued to wish being recognised as the Portuguese company that has the best customer relationship, and over the year 2010, received such recognition from several entities (described at the beginning of the report).

With this added responsibility, PT continued to seek the path to excellence in this matter and reinforced the communication channels with customers, in order to meet the expectations identified in market surveys.



The path to excellence in customer relationship is based on a company-wide management model.



➔ Anticipating solutions and improving customer service – Tactical Centre

With more than 100,000 daily contacts, PT had the problem of recording situations for which it had no suitable, fast and efficient solutions, thus possibly affecting the quality of service and consequently the level of satisfaction of its customers. Therefore, it created an observatory where every case exposed in the scope of customer service is monitored and where new problems are identified and suitable solutions defined. This observatory, designated Tactical Centre, strongly contributed to accelerate the response to customers and to improve the success rate in contacts made via contact centre.

Goals of the Tactical Centre

- Focus on customer impact: - to improve customer experience, reducing the number of technical and non-technical calls and fault participation.
- Articulation of different interventions:
 - To articulate the intensity of interventions with meteorological forecasts (fault estimate);
 - To measure the impact of network interventions on the quality of service to the customer;
 - To promote communication, involvement and company-wide participation: customer support, technical areas, operations, business;

- Control of impact on Customer – analytical and objective quantification;
- Continuous monitoring – to reduce perception-based analyses;
- Service assurance – provided by the technical team dedicated to the tuning of the upgrade processes.

In 2010, 385 new situations were identified, distributed by the following areas:

| Identified situations by the Tactical Centre | |
|--|-----|
| Wireline | 159 |
| Wireless | 211 |
| Common areas | 15 |

From the identified situations, circa 90% are corrected immediately minimising the negative impact that these occurrences cause to other customers and to the customer services of the company.

Examples of identified situations and solved in the scope of the Tactical Centre:

Common Areas: the quality of the telecommunications services is affected by atmospheric conditions, so after a bad weather alert from the National Authority for Civil Protection (ANPC) there were a number of preventive actions defined in the scope of the Tactical Centre, together with the technical areas in order to minimize possible negative impacts derived from the bad weather for the days identified during October. This operation minimized the negative impact that atmospheric conditions usually provoke on telecommunications.

Wireline: due to human error, the price update of the fixed telephone service of the residential segment caused an impact on the prices of this service for the business segment. When this situation was detected in the first billing cycle, it was solved at once, avoiding inconveniences to all the other business customers in the remaining billing cycles in the same month.

Wireless: in April, due to a request from the business units, the minimum top-up values were changed. Due to human error, the new top-up values would not update the validity of the card for another 30 days as it should be. This correction was made in 2 days, avoiding an impact on more than 90% of the customers using this service.

➔ **Customer Ombudsman – minimising unsatisfactory situations**

The customer ombudsman evaluates the complaints received from unsatisfied customers, after unsatisfactory solutions have been presented by all the other areas of the company.

During 2010, circa 58,000 complaints were evaluated and solved.

This value increased mainly due to the natural catastrophes occurred in Madeira during 2010.

| Origin of situations presented | (N.º OF SITUATIONS) |
|--|---------------------|
| Customers | 49,004 |
| Consumer Defense Organisations and other external entities | 8,863 |
| Total | 57,867 |

Every situation presented and evaluated by the services of the Customer Ombudsman were solved in accordance with the customer's expectations in a short period of time, which varied from 4 to 24 hours, according to goal set.

Performance in customer contact

It is essential for PT that customers feel satisfied with their customer contact services.

Aware that the number of contacts would necessarily increase due to the growing service sophistication and diversification, the performance monitoring reached shows that the improvement measures introduced contributed to increase PT's customer contact capacity.

It is essential for PT that customers feel satisfied with their customer contact services.

| Customer Contact | | | |
|---|-------|-------|-------|
| | 2008 | 2009 | 2010 |
| Total complaints received/1,000 customers (monthly average) | 321 | 219 | 182 |
| Contacts made (monthly average) | 87.4% | 95.3% | 91.3% |

2008 and 2009 values were changed to include only Customer Care services.

| Complaints | | | |
|---|------|------|------|
| | 2008 | 2009 | 2010 |
| Total complaints received/1,000 customers (monthly average) | 27.2 | 31.7 | 26.6 |
| Time spent treating each one – days (monthly average) | 4.8 | 3.9 | 4.1 |

| Service Installation | | | |
|---|--------|--------|--------|
| | 2008 | 2009 | 2010 |
| Total installation requests (monthly average) | 64,171 | 72,503 | 67,455 |
| Time spent installing each one – days (monthly average) | 13.8 | 10.3 | 8.3 |

| Faults | | | |
|---|------|------|------|
| | 2008 | 2009 | 2010 |
| Total faults reported/1,000 customers (monthly average) | 24.8 | 33.4 | 29.4 |
| Time spent repairing each one – days (monthly average) | 1.9 | 1.6 | 1.7 |

This year, the established goal was not reached. Nevertheless, there were some improvements, namely in the average time to install services, with a 19.4% reduction, and also special emphasis on the 16% reduction in the average number of complaints per 1,000 customers. The remaining times are in line with the values of the previous year.

3.2.2. CUSTOMER SATISFACTION LEVEL

Customer recognition demonstrated through the average score attributed to PT constitutes a strong motivation to keep improving daily the relationship established with the market.

| Customer Satisfaction Index | | (SCALE 1 TO 10) | | | | | | | |
|-----------------------------|--|-----------------|------|------|------|----------|------|------|------|
| | | WIRELINE | | | | WIRELESS | | | |
| | | 2007 | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | 2010 |
| Residential / Personal | | 6.8 | 7.5 | 7.8 | 7.8 | 7.3 | 7.9 | 8.0 | 8.0 |
| Business ⁽¹⁾ | | 6.8 | 7.4 | 7.4 | 7.9 | 7.2 | 7.4 | 7.4 | 7.5 |

Sources: Residential/Personal: Marktest
Business: DataE

The activity of the company in the market is naturally reflected on the average customer satisfaction level. PT surveys regularly the satisfaction of its customers through market surveys and opinion polls. 2010 saw our satisfaction levels improve significantly in the business market namely in wireline, while the remaining market segments in general maintained their satisfaction level, which is quite high, in line with the goals set for this triennium.

3.2.3. DATA PROTECTION AND PRIVACY

The Information Security Policy in terms of the Information Systems and Technologies was prepared and launched in 2010, having most employees been subject to specific training actions.

Confidentiality and security of consumer data, access and traffic protection to the database information, as well as confidentiality of telecommunications content, are areas safeguarded by PT in order to respect the freedom and basic rights of each individual.

PT follows the national legislation scrupulously, which is very detailed and specific concerning this subject, as well as the European and American legislation. Being listed in European and North-American Stock Exchanges, PT is scrutinised by entities from different sectors, apart from the regular audits to all the situations capable of rendering the protection of personal data more vulnerable with the support of security and legal experts.

In 2010, PT prepared and launched its Information Security Policy in terms of the Information Systems and Technologies. This policy contains a vast number of procedures about which most employees have already been specifically trained.

Knowing that this is a sensitive area in which the evolution is fast, PT has been participating in forums of discussion on this matter and implementing measures deemed as best practices to safeguard data protection and customer privacy.

- As a sequence of the 31st International Conference on Data Conference and Privacy held in Madrid, 50 countries came to an agreement on new common measures about data protection and privacy, as some of the measures already developed and applied within the EU are expected to be enforced outside its borders.
- The “Madrid Resolution” as the document is known, tries to establish international standards to ensure increased privacy and reservation in the access to personal data and may originate legislation in this domain in countries where it does not exist.
- PT is part of a working group in which representatives from circa 50 countries and companies in the domain of the information and communication Technologies are also present.
- The approved document may be consulted online and defines the basic principles for the use of personal data: loyalty, legality, proportionality, quality, transparency and responsibility. It also recognizes the need of existence of supervisory authorities.
- The principles defined in this resolution are part of the “standard” applied in the European Union and in Portugal, but the authorities have been defending the importance of its generalisation to other countries as transactions and services are each time more global, as data protection of Portuguese citizens may be rendered more vulnerable taking into consideration the absence of rules in other countries..

PT provides data pertaining to its customers exclusively on request by the judicial authorities in the terms of the law.

The Information Security Policy in terms of the Information Systems and Technologies was prepared and launched in 2010, having most employees been subject to specific training actions.

3.2.4. CONTENT SECURITY

Today's ease to access and to make available contents is really stimulating, no doubt contributing to bring people closer together, and to make these more knowledgeable in diversified terms. Nevertheless, we know that this reality causes concerns related to undue use of these potentialities by segments of the population with less critical and/or selection capacity to choose contents suited to their interests.

Aware of this fact, PT has launched initiatives whose goal is to make the population aware of the responsible use of contents, makes available guidelines for the use of parental control devices and software, follows the recommendations on international bodies on this matter and signed a protocol in 2009 with a scientific computing entity to monitor contents and for network security.

Code of Conduct

PT signed in 2008 the Code of Conduct for activities of delivery of content services that aims to protect minors from harmful content when using mobile communication services.

Protocol of cooperation for the secure use of IT and of internet

PT signed a protocol of cooperation with FCCN (Foundation for National Scientific Computing) in the domains of IT and Internet security.

As to IT security, there should be caution in terms of an action or a number of actions carried out against a computer or computer network that results or may result in the loss of confidentiality, integrity, or performance of data communication network or system, namely unauthorised access, information change or removal, interference or service denial in a computing system.

As to Internet security, illegal contents should be identified and denounced, aiming essentially to remove and make impossible the access to content pertaining to child pornography or violation of human rights, notably violence and racism.

"Communicating with Security Program"

In order to make the school community aware of the good use of content accessible via electronic communication devices, PT prepared, through its volunteer work programs, an initiative that should be brought to a wide number of schools nationwide in a classroom environment whose goals are:

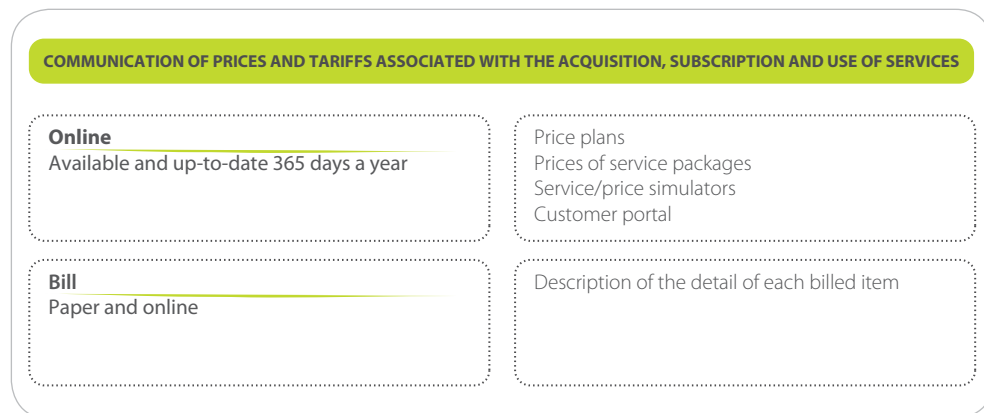
- To promote the secure and responsible use of electronic content and equipment;
- To make educators aware of the parental control tools currently available.

This program was prepared and tested in some schools in 2009, and it is expected to be put into execution over two years.

3.2.5. RESPONSIBLE CONSUMPTION

The increased convergence between devices and contents, between the fixed and mobile networks and the new functionalities afforded by the fibre optic network (including FTTH – Fibre to the Home), together with the consolidation of the customer management and interaction, programs for customer service improvement and the aggregation of more sustainable attributes to the commercial offering, were some of the issues on the management agenda of the business units of the group's companies.

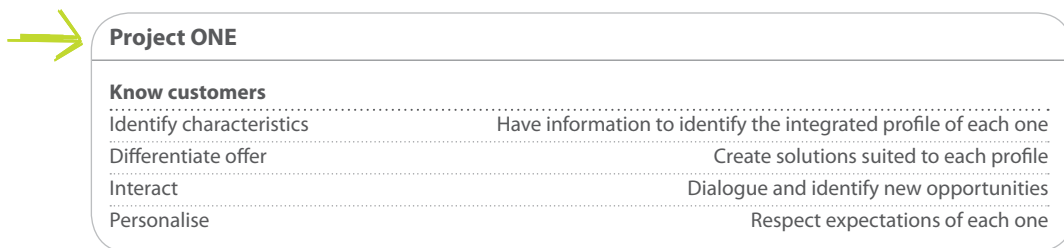
In order to ensure the clarity of the tariffs associated with services acquisition, subscription and use, PT had already launched in 2009 a new bill that presents the items on the bill more clearly to its customers and kept the online divulgation of its prices as well as simulators so that each customer may have total control over the amount spent and may select the most convenient solutions for his specific needs and characteristics.



PT entered a new stage in customer relationship management, with the launch of an improvement to the CRM (Customer Relationship Management) platform, also designated as project ONE.

For each customer, we got just one screen, just one history, just one look, just one vision.

With the development and implementation of this new CRM solution, for the moment just for the wireline business customers, PT got a single image of the customer in every contact point, facilitating the relationship and a better understanding of the expectations of each one.



Initiatives to enrich the offer of products & services and to make consumption more responsible

All the products and services commercialised by PT are subject to rigorous tests in order to ensure user health and safety and, for each one, there is a user manual provide and/or labels with the specifications on its adequate use and what to do with it whenever it is replaced or discontinued by its users.

On the website of the company, customers will also find user guides that include not only parental control indications as well as indications to protect the identity of each user an access to harmful contents. Soon, we will also make available indications on healthy ways to use telecommunications equipments and services.

The commercialisation of services and solutions, based on the new information and communication technologies, will contribute decisively to the energy dependency reduction of our customers and consequent atmospheric carbon emissions minimisation. The healthcare, education, and domotics

domains have already started to become the basis of this new paradigm and although still little significant, they are already a new window of opportunity in environmental preservation.

• **1st SIM Card made of recyclable and biodegradable paper in the world introduced in April 2010 by TMN – avoids the use of plastics derived from crude oil.**

- TMN was the first operator in the world to launch a SIM card made of recyclable biodegradable paper;
- Making SIM cards with recyclable biodegradable paper avoids using plastics (PVC, ABS or PET) derived from oil, which take more than 1,000 years to degrade naturally.

• **Samsung Blue Earth Mobile Phone – it contributes since its fabrication to a reduction in fuel consumption and carbon emissions, being free from harmful substances.**

TMN launched the Samsung Blue Earth in 2010. Inspired by nature, it has an ecological design with a large solar panel in the back, allowing recharging through solar energy as it was projected to transform solar rays into a power source to feed the battery. Made of recycled plastic (PCM), it contributes since its fabrication to the reduction in fuel consumption and carbon emissions, being free from prejudicial substances.

- The Samsung Blue Earth features several ecological applications, namely:
 - Eco-Walk, which allows counting the steps of a walk and calculate the reduction in CO₂ emissions, comparing the option of a walk instead of using a motor vehicle;
 - Eco-Mode, which allows regulating the brightness of the display, the duration of the backlight of the display; and
 - Bluetooth in order to save energy;
 - Eco-Calendar, which allows always having available a calendar of the ecologically significant days.
- The package of the Samsung Blue Earth is made of environment-friendly materials, easily recyclable paper and soy paint. The box containing the mobile phone may be reused as a photo frame. In this way, the package of the Samsung Blue Earth offers the user a fully ecological experience.

• **Electronic or paper bill**

PT has been replacing the use of recycled paper in its bills with FSC certified paper (paper that promotes sustainable forest management, from where its raw materials are extracted), because it is a cheaper option, being simultaneously environment-friendly.

It has simultaneously promoted the adoption of the electronic bill, assigning benefits to adopters, thus contributing to increased dematerialization of day-to-day life of its customers, and of yourself, too.

3.3. EMPLOYEES

3.3.1. HUMAN RESOURCE MANAGEMENT MODEL

The people who are part of the organisation assume a fundamental importance for management as their capacity of adaptation to market changes and innovation in the use of their work tools contribute decisively to making the difference and consequently to the positioning of each company on the market.

Through the profound knowledge about the strong and weak points of each employee and of the organisation itself, it is possible to develop management methodologies to optimize the alignment between personal skills and company goals and in this way contribute to aggregating value to the respective businesses.

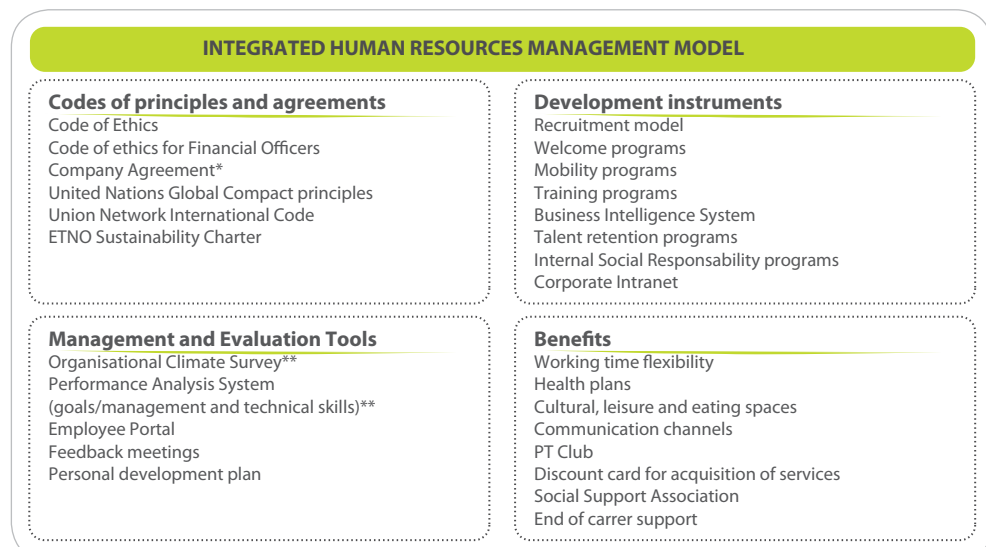
In fact it is people who with their attitude, skills, and degree of involvement with the organisation that, more and more, constitute the main factor of differentiation and competitiveness of the company in the global market.

PT's human asset management is done taking into consideration the Universal Declaration of Human Rights as part of the 10 principles of the United Nations Global Compact signed by PT, also complying with the Social Responsibility principles of UNI (Union Network International) and the Portuguese labour legislation.

PT keeps being recognised as the most family-friendly company, in accordance with the criteria evaluated by AESE and Deloitte and maintains the certification of its management systems in the Occupational Hygiene, Health and Safety area, in compliance with OHSAS 18001

PT's Human Asset organisation aims essentially to:

- Promote a culture of merit and continuous development within the organisation;
- Maximise skills and employee skills;
- Ensure close and effective accompaniment of organisational structures;
- Ensure excellence in execution betting on specialisation;
- Promote a constructive labour relationship;
- Stimulate a fluid communication throughout the whole organisation;
- Include all employees in this model irrespective of work contract.



*The company agreement applies by default to all employees and, among others aspects, assures equality of opportunities, equality of remunerations for identical functions between men and women, health and security protection and minimum periods of time for communication of any work-related change.

** Under review.



MEANS OF RELATIONSHIP WITH THE EMPLOYEES

- Employee portal
- Feedback meetings for performance evaluation
- Corporate Intranet
- "É Consigo" (help line - email and contact telephone line)
- Workers' Committee, Unions and Paritary Committee
- Internal magazine and newsletter
- Organisational climate survey

The human resource management model and respective assignment of responsibilities is structured in the following way:

RESPONSIBILITY FOR THE HUMAN RESOURCE FUNCTIONS

HUMAN ASSET COMMITTEE
(Committee chaired by Group CEO)

Leadership and supervision of the implementation of the Human Asset Plan

EXECUTIVE MANAGEMENT

HR BUSINESS
Support services
Occupational health and safety

Development and Leadership

Internal Social Responsibility

Insourcing

Labour Relations and legal-labour consultancy

Internal Communications

Execution of day-to-day HR functions and support to Departments

Functions transversal to the Group

3.3.2. EMPLOYEE PROFILE

PORTUGAL

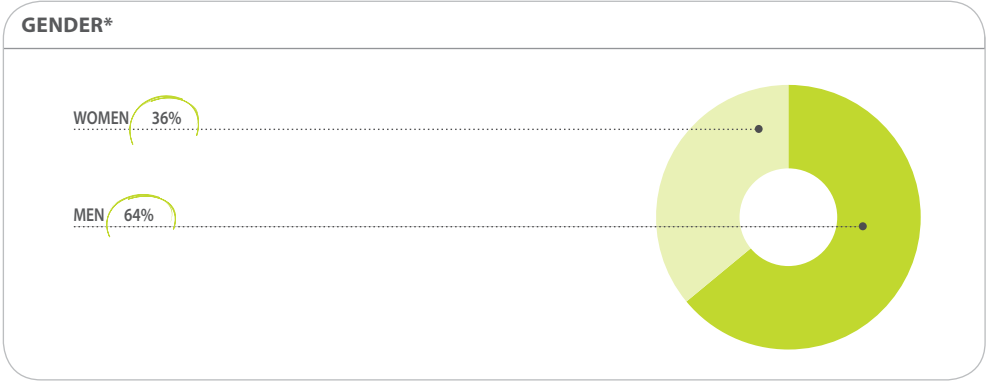


INTERNATIONAL

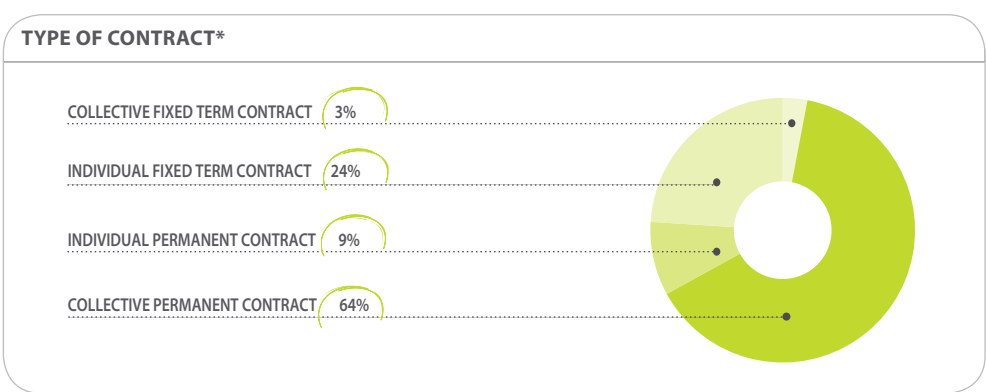
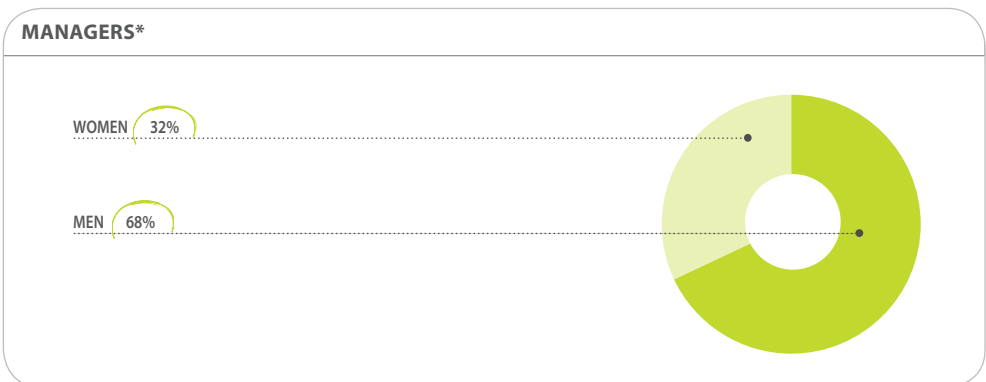


(a) Whithout ViVo.



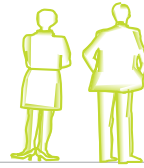


| | |
|----------------------------------|------|
| PEOPLE WITH DISABILITIES* | 1% |
| UNIONISED* | 41% |
| ROTATION RATE* | 1.4% |
| AVERAGE TERM IN SERVICE* | 14.5 |
| AVERAGE AGE* | 40.6 |
| ABSENTEEIN* | 3.3% |



* PT data in Portugal.

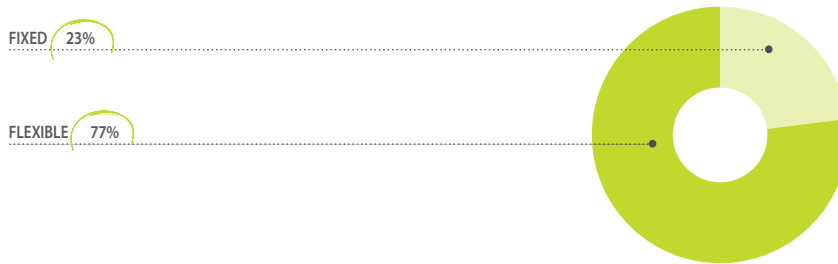




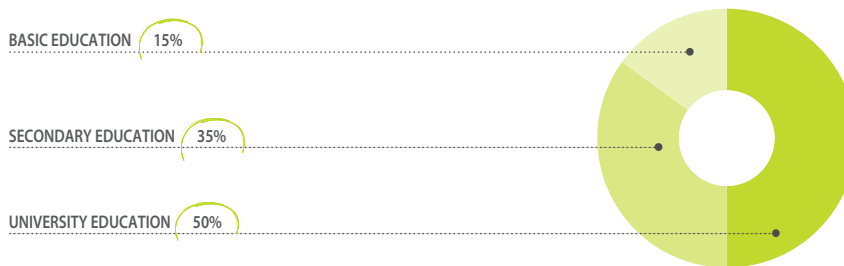
PROPORTION OF BASE REMUNERATIONS – MEN VERSUS WOMEN

| | |
|-----------------|--------------|
| MANAGERS | 1.01% |
| OTHER | 1.05% |

WORK SCHEDULES*



ACADEMIC TRAINING*



3.3.3. TALENT ATTRACTION AND RETENTION

I. Recruitment

PT wishes to continue to rejuvenate its managers seeking to identify the necessary skills to achieve its strategic goals and identifying young talent in the main Portuguese Universities.

In 2010, 104 new interns initiated PT's Trainees program. This program has the duration of two years and puts the interns in contact with the different areas of intervention of the company so that they may get in touch with the entire business reality. The groups of Trainees annually admitted by PT deserve being followed up by the Chief Executive Officer.

During 2010, in order to optimise the talent retention programs already existing in the group, a pilot project was implemented in the course of which talent was mapped according to two perspectives:

- Potential leaders and
- Holders of specific technical knowledge.

* PT data in Portugal.

As this pilot showed good results, PT is at this moment seeks to extend the project to the entire organisation. This action has direct impact on employee retention, enabling to capitalize on the investment made, both in terms of admission and of continued training of these employees.

II. Performance management and assessment

Individual performance analysis constitutes a key element of the human asset management, which was subject to a revision in line with the current market trends, strategic orientation of the company and best international practices.

Performance Assessment - Main Goals

Motivate
 Motivate people by establishing objective criteria that allow rewarding their contribution to the performance of the organisation.

Develop
 Follow up employee performance, providing them with a clear direction; establish future commitments.

Improve results
 Analyse their goal achievement and skills proficiency levels.

A process of analysis in terms of behaviour skills and achieved results was defined and implemented, involving all employees, which is based upon a number of transversal skills, organised in a common grid, differentiated by assessment profiles so as to allow an evaluation suited to the functions and skills of each employee.

Assessment Areas

Knowledge

Attitude

Initiative

Rigour

Teamwork

Team Management

Achievement of results

The model comprises a top-down analysis, self-evaluation and feedback meetings between evaluator and evaluated person, whose result is a Personal Development Plan for each employee, in which a joint constructive analysis is drawn up for the development and maximisation of the strong points of the employee as well as the identification of development actions in the areas deserving improvement.

The Performance Assessment is supported on an application resident on PT’s internal portal, its main characteristics being the ease of access by all employees and of execution of all associated actions.

This management tool enables:

- **Company management:**
 - To increase their knowledge of employee skills;
 - To increase their level of alignment with the strategy of the company;
 - To reinforce the orientation towards the fulfilment of goals;
 - To promote bottom-up and top-down communication.

• **Employees to get:**

- A better knowledge of what the management values in their work;
- Awareness of their strong points and improvement areas;
- Creation of opportunities for direct communication with management to find the best solutions to meet the defined goals;
- The right vectors for improvement of their performance and development.

In order to ensure process transparency, once the conclusion of the assessments is stabilised in the system, the self-assessments are made available on the intranet to the evaluators as well as the evaluation and respective Personal Development Plan to the evaluatees. The aim is to get feedback on the level of satisfaction of the employee with the performance analysis process, so that during 2011, employees should confirm their acknowledgement of their evaluation during the feedback meeting, not only to validate that it took place, but also to express their agreement with the Personal Development Plan, ensuring in this way the best articulation between all parties.

A company career model review was also initiated. The new model is expected to be concluded next year, in line with employee expectations, the sector and new market trends.

The new model is being prepared with the contributions of all interested parties and will seek to combat complexity, inadequate nowadays, and simultaneously promote simplicity and individual merit.

3.3.4. COLLECTIVE BARGAINING

Employee policies and management model are the result of the existing dialogue between PT’s top management and the representatives of the employee collective representation structures.

In 2010, this dialogue had the frequency shown below with the following issues on the agenda.

| Employee collective representation structures | | |
|--|---------------|---|
| | Unions | Employee Committees and Sub-committees |
| Nº of meetings in this year between PT management PT and representatives | 102 | 39 |
| Issues handled: | | |
| Company Agreement | √ | |
| Training Plan | √ | √ |
| New Career Model | √ | √ |
| Assessment & Incentives | √ | √ |
| Work Schedules | √ | √ |
| Recruitment & Internships | | √ |
| Health Plans | | √ |
| OH&S Plans | | √ |
| Pension Plans & Funds | √ | √ |
| Organisation Climate Survey | | √ |
| Information Security | | √ |
| Building Security | | √ |
| Certification Process SA 8000 | √ | |
| PT’s Quarterly Results | √ | |
| VIVO Alienation Process | √ | √ |
| Universal Service | √ | |
| Social Responsibility/Policy | √ | √ |

Conclusions agreed in these meetings are incorporated in the adopted policies and management models.

The issues included in the Company Agreement are the following:

- Issues included in the Company Agreement**
1. Rights, duties and guarantees of the parties
 2. Professional framework and development
 - a. Definition, framework and professional activities
 3. Recruitment, professional mobility and training
 - a. Recruitment
 - b. Mobility
 - c. Professional Evolution
 - d. Admissions
 - e. Management positions – Appointments
 - f. Training
 4. Performance of work
 - a. Service Travel
 - b. Occasional mobility
 - c. Duration of work
 - d. Work schedules
 - e. Supplementary and nocturnal work
 5. Special Work Conditions
 - a. Maternity/Paternity
 - b. Work by persons with disabilities
 - c. Working-students
 6. Work remuneration
 7. Suspension of work contract
 - a. Weekly rest and holidays
 - b. Annual Holidays
 - c. Absences
 - d. Leave of absence and impeachments
 8. Exercise of union activity
 9. Health, social security and accidents
 10. Occupational Safety, hygiene and health
 11. Paritary Committee

3.3.5. ORGANISATIONAL CLIMATE

To ask in order to get answers, to hear in order to understand, to analyse in order to improve. These have been the basic foundations of the Employee Satisfaction Survey that PT conducts annually.

Carried out in every PT subsidiary, the results of this survey have contributed not only to enabling the employees to express their views in a voluntary, anonymous and confidential way but also to adjusting the human assets management to the strategy of the Group.

Trying to meet the needs and requirements of the organisation so as to endow it with relevant knowledge and information, the 2009 Survey was conducted with the aim of knowing, accurately and in detail, the opinion of the employees on an extended range of issues.

The accessibility of all employees and the confidentiality of the answers are guaranteed, through the use of an external website.

PARTICIPATION RATE



DIMENSIONS ANALYSED

| | | |
|----------------|--------------|-----------------------|
| Ethics | Involvement | Work Conditions |
| Discrimination | Training | Social Responsibility |
| Company | Assessment | Function |
| Team | Remuneration | Image |
| Strategy | Career | Leadership |

EMPLOYEE SATISFACTION INDEX



It is worth highlighting the aspects pertaining to Non-Discrimination and R&D which received the highest classification from PT's employees.

The areas identified as being less satisfactory are the basis for the preparation of the strategic intervention of human resource management and leadership and development, namely in the aspects related to career development.

It is worth highlighting the aspects pertaining to **Non-Discrimination and R&D** which received the highest classification from PT's employees.

3.3.6. TRAINING

Employee training continues to be a priority for PT. In 2010, investment and training time was adjusted to the current needs of the company, so investment in this area was reduced by circa 2% and training time per trainee was reduced by circa 10%.

TRAINING ACTIONS*



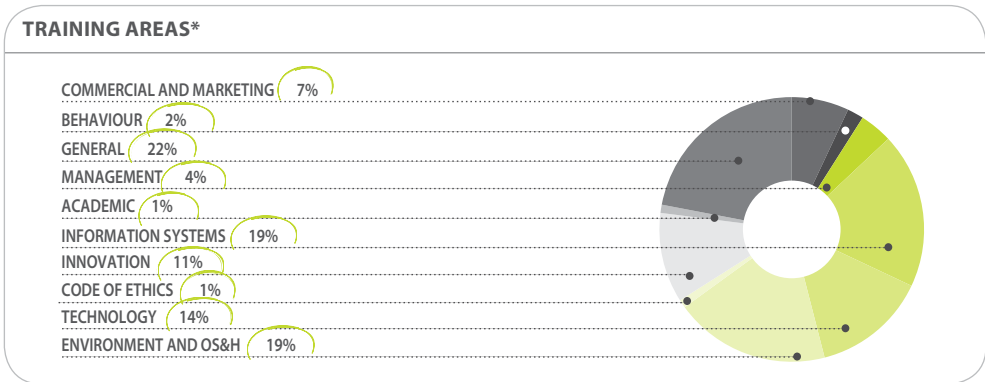
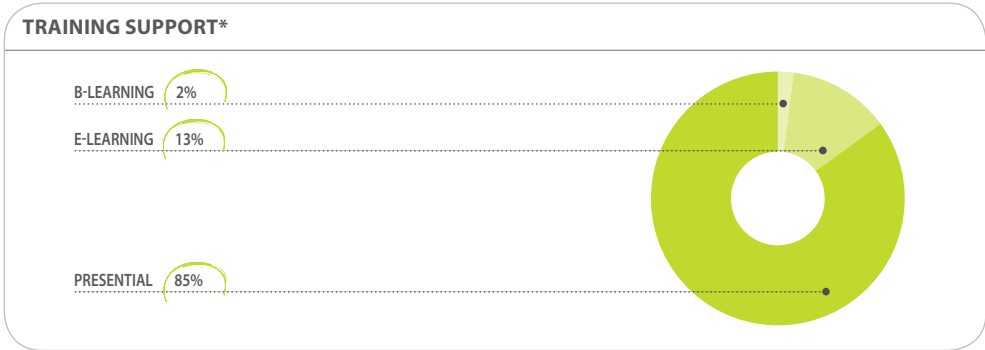
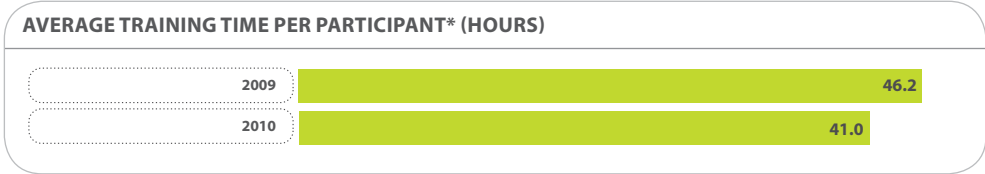
INVESTMENT IN TRAINING* (EURO MILLION)



PARTICIPANTS VERSUS N.º EMPLOYEES*

95%

* PT Data in Portugal.



3.3.7. OCCUPATIONAL SAFETY & HEALTH

Occupational safety and health are ensured by PT-ACS, a PT subsidiary, which is legally equivalent to a private social solidarity institution.

Nevertheless, the employee representatives for Occupational Health and Safety as well as all employees are an active part in the continuous improvement of their work conditions and quality of life.

At PT, all employees are responsible for taking care of health and safety at their working spaces, namely participating at the identification of dangers, evaluation of risks, and the definition and adoption of measures of control suited to each situation.

For better anticipation of market trends in this area, PT ACS participates actively in an ETNO workgroup: 'Good Work Good Health'. In parallel, the information and management of PT's business units are certified in compliance with OHSAS 18001.



* PT data in Portugal.

OCCUPATIONAL SAFETY, HYGIENE AND HEALTH MANAGEMENT MODEL

SAFETY AT WORK

Prevent **work accidents**, minimising professional risks.

HYGIENE AT WORK

Combat **professional illnesses**, through the identification of the factors that may affect the work environment and the worker.

HEALTH AT WORK

Monitor the **worker's health**, whose technical responsibility belongs to the occupational doctor.

GOALS OF THE OS&H MODEL

Improve the quality of life of employees
 Decrease the number and seriousness of work accidents
 Improve human relations at the work place
 Contribute to improve levels of productivity of the company
 Minimise costs

OPERATIONALISATION OF THE OCCUPATIONAL SAFETY, HYGIENE AND HEALTH MODEL

Risks – Identify and evaluate risks
 Control of occupational risks – Propose measures for mitigation of identified risks
 Plans for prevention of occupational risks– Develop and follow up implementation
 Workplaces – Collaborate in the conception of workplaces
 Occurrence of incidents – Analyse causes of incidents
 Employee Information campaigns – propose and collaborate in campaigns
 Training – Participate in the conception of training programs
 OS&H management system – Promote and follow up system audits
 Identify dangers;

The OS&H programs carried out by PT ACS cover all active employees with the following results in 2010:

N.º OF OCCUPATIONAL MEDICINE CONSULTATIONS PERFORMED*

6,741

ACCIDENTS *

| | |
|---|-----|
| N.º of occupational accidents | 289 |
| N.º of deaths due to occupational accidents | 0 |

TYPE OF OCCUPATIONAL ACCIDENTS

| | |
|-----------|-----|
| Service | 189 |
| Transport | 72 |
| Sport | 25 |
| Other | 3 |

ASSESSMENT OF WORK CONDITIONS *

| | |
|--|-----|
| N.º of risk assessments performed (IPAR)/Establishment | 125 |
| N.º of reports/studies issued | 30 |

* PT Data in Portugal.

| N.º OF RISKS ASSESSED BY CRITICALITY LEVEL * | |
|--|--------------|
| Tolerable | 3,088 |
| Low | 5,911 |
| Medium | 527 |
| High | 3 |
| Total | 9,529 |

| SAFETY COORDINATION * | |
|-------------------------------------|--------------|
| N.º Security Procedure Sheets (FPS) | 4,614 |
| N.º Safety & Health Plans (PSS) | 88 |
| Visits to works | 542 |
| Total | 5,151 |

PREVENTIVE MEASURES ADOPTED *

Global plan for improvement of Individual Protection Equipments used in PT companies;
 Training action "STAP – Safety when working high up – Wooden poles" for PT employees and some Service Providers working outside, namely on poles.

| N.º BIRTHS OF EMPLOYEE CHILDREN IN 2010 | |
|---|-----|
| N.º births of employee children in 2010 | 393 |

| SCREENINGS | Nº. EMPLOYEES |
|----------------------|---------------|
| Breast cancer | 1,088 |
| Cardiovascular Risks | 1,134 |

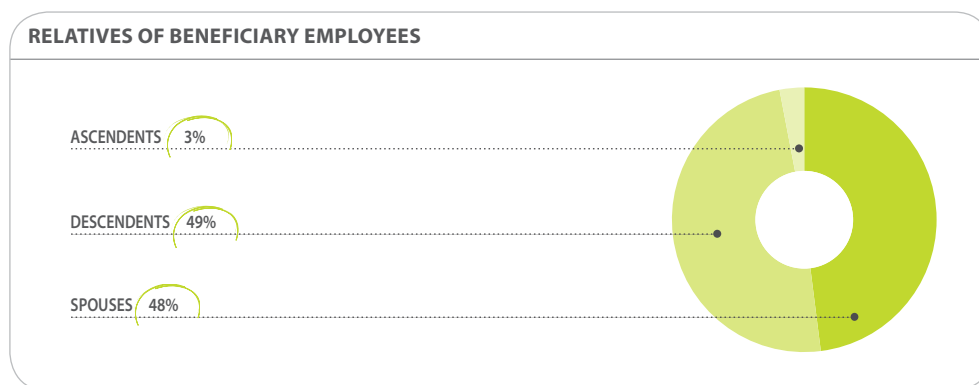
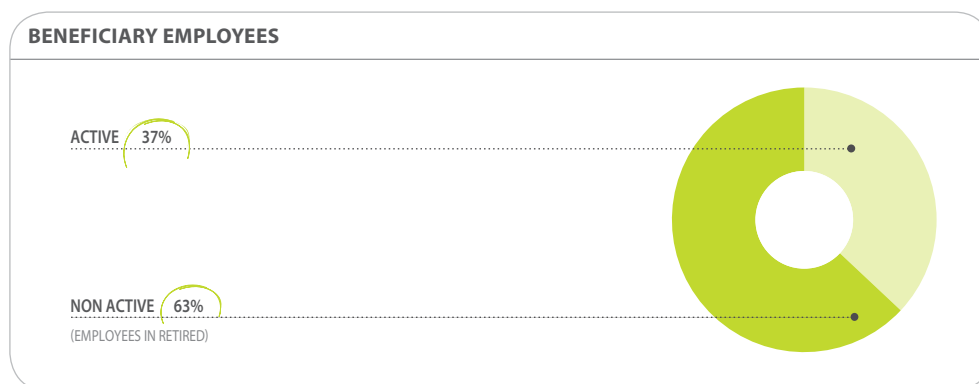
| TRAINING | |
|--|---------------------------|
| Employee Training | 54 OS&H training programs |
| Average n.º of training hours per employee | 4.2 hours |

The intervention of PT ACS goes beyond the OS&H management model. PT ACS is the entity that delivers healthcare services to PT Group employees, namely health promotion and protection, by delivering directly or indirectly healthcare services in terms of preventive, curative and rehabilitation medicine. Healthcare plans managed by PT ACS ensure benefits to active, pre-retired or retired employees and to their relatives.



* PT Data in Portugal

In this way, the intervention of PT ACS covers a universe of 51,064 beneficiaries, distributed as follows:



3.3.8. INTERNAL SOCIAL RESPONSIBILITY

The integrated human asset management model now has an internal social responsibility area based on a uniform company-wide program organised in accordance with 4 pillars. This Internal Social Responsibility program seeks to support employees and their relatives, promote social values, group initiatives related to well-being, culture and health, mark special moments and support the development of employee children in situations of need.

| INTERNAL SOCIAL RESPONSIBILITY PROGRAMS | |
|---|---|
| Internal Social Responsibility Programs for employees and relatives | Description of programs |
| Grow Up | Digital inclusion program, acquisition of school skills and occupation of free time |
| Support | Program to support specific needs |
| Action | Well-being and anti-stress program |
| Celebrate | Program to commemorate special dates |

➔ **GROW UP PROGRAM**

To award meritocracy, foster school learning, and promote free time occupation during school holidays, are the guidelines of the Grow Up program.

| GROW UP INITIATIVES | N.º PARTICIPANTS |
|--|------------------|
| Support for employee children | 2,380 |
| Free time occupation (holidays of employee children) | 1,301 |
| Focus Group on citizenship issues | 116 |
| Total | 3,797 |

➔ **SUPPORT PROGRAM**

Helping employees in 'active' situation/ex-employees and their families in the resolution of family weaknesses concerning health and other social issues, promoting social training and family volunteering outside normal working hours, these are the main goals of this intervention pillar.

| SUPPORT INITIATIVES | N.º PARTICIPANTS |
|---------------------------|------------------|
| Psycho-social health | 1,405 |
| Economic support | 59 |
| Social and civic training | 596 |
| Family Volunteering | 592 |
| Total | 2,652 |

➔ **ACTION PROGRAM**

To promote healthful life habits and prevent possible stress situations, are the goals of this program. It includes actions to screen anxiety and stress, cardio-vascular diseases, tobacco addiction, and sports and culture-related initiatives.

| ACTION INITIATIVES | N.º PARTICIPANTS |
|---------------------|------------------|
| Well-being & Sports | 5,862 |
| Culture | 3,712 |
| Total | 9,574 |

➔ **CELEBRATE PROGRAM**

To include employee families in the day to day of the company is the main goal of this program. The initiatives celebrate essentially festive dates related to the younger children of the employees.

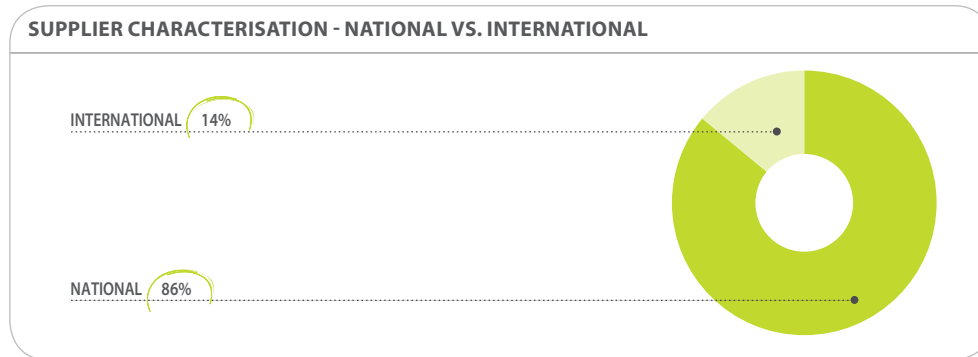
| CELEBRATE INITIATIVES | N.º PARTICIPANTS |
|---|------------------|
| PT Baby – Offer due to birth of employee child | 480 |
| Commemoration of the World Child's Day | 648 |
| Commemoration Mother's Day / Father's Day / Day at PT | 7,003 |
| Christmas Parties for employee children | 12,594 |
| Total | 20,725 |

3.4. SUPPLIERS

3.4.1. PROFILE

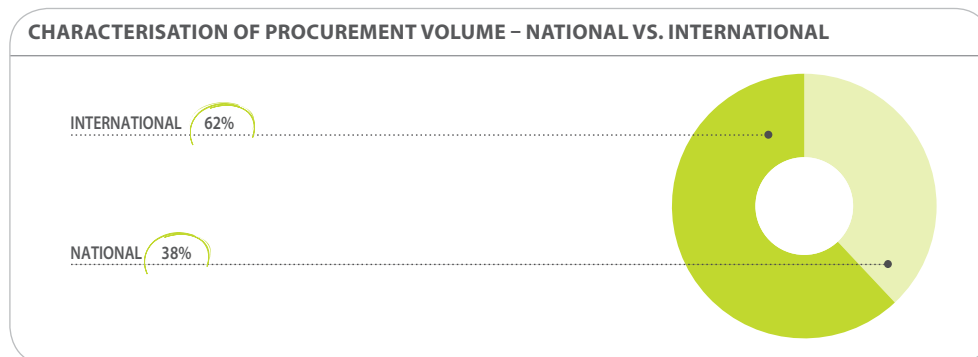
During the year 2010, the supplier base registered at the PT portal showed the following profile:

TOTAL N.º REGISTERED SUPPLIERS **1,246**



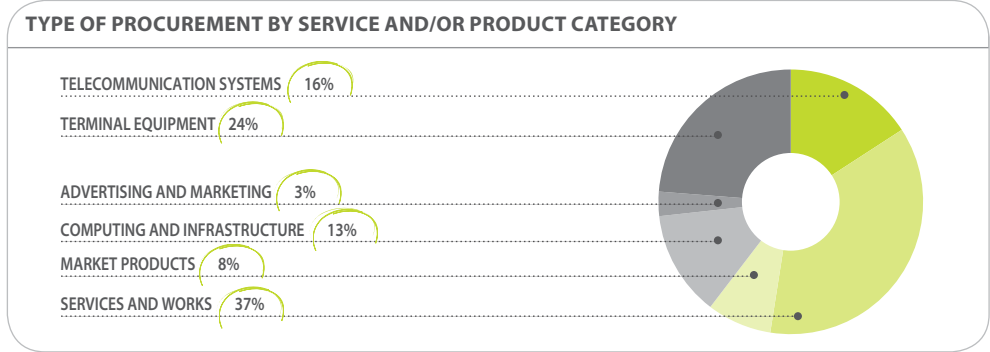
The global procurement volume in 2010 decreased slightly compared to the previous year (-19%), with a 20% increase in the domestic market and a decrease (-32%) in procurement for the overseas subsidiaries.

CHARACTERISATION OF PROCUREMENT VOLUME **EURO 3,373 MILLION**



N.º SUPPLIERS WITH ADJUDICATIONS IN CORPORATIVE PROCESSES **495**





3.4.2. PROCUREMENT MODEL

In order to optimise the acquisition of goods and services, contributing decisively to the creation of competitive differentiating advantages, PT defined a Procurement Model that centralizes in a common and integrated way all the acquisitions of goods and services for the PT group companies.

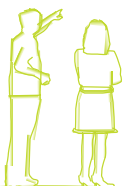
The creation of value is obtained through an extended and transversal relationship with each supplier and the incorporation of specific know-how from the procurement areas in the strategic decisions that influence that influence acquisitions.



The Procurement Model is composed of three big phases – Planning, Market Consultation, and Management and Monitoring:



The Procurement Model is governed by solid principles in order to obtain each time more and better results for all process intervenients. In this way, teamwork, a continuous improvement attitude, the observance of ethical principles and transparency inherent to the Procurement function, and respect for environment and human rights are key prerequisites of the adopted model.



3.4.3. TRANSPARENCY AND ANTI-CORRUPTION IN THE PROCUREMENT MODEL

Apart from being governed by PT's Code of Ethics and Sustainability and Social Responsibility Policy, the application of PT's Procurement Model to the bargaining relationships with suppliers is translated into the following practices divulged and verified with all interested parties:

Transparency

All the information should be made formally available to the potential Suppliers during a procurement process, ensuring full transparency in information access.

Equality of Opportunities

During the bargaining process, the equality of opportunities is guaranteed to all Suppliers that meet comparable requirements, enabling the group's openness to all suppliers.

Access to Information

Suppliers will be able to have access to all the information and clarifications they need on any matter of the negotiations in course, in a clear, complete and cordial form.

Reciprocity and Rigour

All conditions relative to the delivery dates, prices, conditions of payment, conditions of acquisition and attribution of responsibilities should be defined in detailed form, by both parties.

Loyalty

Employees intervening in the negotiation must take into account the company's objectives, trying to meet its needs in the most credible and advantageous form.

Reciprocal Procurement

Reciprocal procurement should not condition or interfere with the result of any bargaining process.

Confidentiality

Both PT and Suppliers should keep secrecy on all the information exchanged during a procurement process.

Likewise, the following behaviours from Suppliers in their relationship with PT are deemed unacceptable:

- Use of less competitive prices in direct adjustments or situations of sole Supplier;
- Use of low prices during the negotiations, to win the contract, with the intention of increasing them when the contract is won;
- Request for price increases throughout the duration of the contract;
- Request for information on other competitors;
- Use or proposal of ambiguous conditions with the intention of gaining advantage over other competitors;
- Lying or induction in error, purposefully, during the bargaining process;
- Commitment above its capacities;
- Exaggeration in the gravity of a problem to get business bargaining advantages.

Along with the improvements incorporated into the Sustainable Supplier Selection and Hiring Model, aligned with the evolution of the market needs and requirements, the Ethics Committee of PT Compras was created in 2007. It is composed of company representatives and of the Governance Committee, and its functions are the following:

Ethics Committee - Functions

- To give to the employees and to the management of the company all the clarifications deemed necessary in the scope of the Code of Ethics;
- To ensure the counselling of employees who may have doubts of interpretation or application of the Code of Ethics to concrete situations;
- To ensure the resolution of conflicts between Norms of Conduct of the Code of Ethics and the specific functions of each employee;
- To analyse eventual deviations to the fulfilment of the Norms of Conduct defined by the Code of Ethics and to propose the measures that it may judge pertinent.

Any violation to these procedures may be denounced through the whistleblowing channel available on PT's corporative website. In 2010, there were not any denunciations of this nature.

3.4.4. SUPPLIER SELECTION AND HIRING

The supplier selection and hiring model is based on rigorous principles of transparency, honesty and equality of opportunities, loyalty and confidentiality.

Business success and customer satisfaction are closely related to the capacity of selecting suppliers that fulfil the needs of the company and that are simultaneously aligned with PT's conduct as well as its ethical, social and environmental principles.

For such purpose, a business unit – PT Compras – was created, whose function is to ensure a single procurement model, transversal to all PT subsidiaries, whose aim is to gain bargaining synergies and an integrated and responsible management of the relationship with suppliers.

All suppliers are subject to a pre-selection phase. An electronic platform was created for this purpose that specifies the necessary requirements for the potential candidates to register, as there are fields to fill in and to include documents to prove the capacity of response and ethical alignment with the principles defended and required by PT.

This platform has been improved consecutively by including new specifications and functionalities, contributing to ensuring more equality of opportunities among potential suppliers, more rigour in the evaluation of the candidates, and consequently more transparency in the selection process. Moreover, it also contributes to reducing process times, increasing confidentiality and information security, and lastly dematerialising day-to-day life and the carbon footprint of this function in the organisation.

PT adopted regulations that ensure that along its relationship with suppliers, there are always documents that regulate the minimal requirement in terms of ethical conduct and social responsibility, notably in terms of:

Supplier acquisition

Our code of ethics signals our *a priori* position and requirement related to ethics, environmental protection and social responsibility to all suppliers wishing to interact with PT.

Supplier registration

In order to collect structured information and raise the awareness of its suppliers for best practices, PT Compras, included a questionnaire in the supplier registration process, containing detailed questions on the policies followed in terms of quality, environment, social responsibility, and occupational health and safety.

Consultation

In the tender requests we always include the Code of Conduct of Social Responsibility of UNI (Union Network International), signed between PT and UNI. Each supplier contacted must submit, in parallel with its proposal, a document declaring that it respects and complies in the scope of its activity with the fundamental human rights in the community and at the workplace, namely those included in the same Code of Conduct (fundamental rights, regulations and principles applicable in terms of environment, and occupational safety, health and hygiene).

Selection

All competing suppliers must also present, together with the technical proposal, a document proving the existence and compliance with good environmental practices, as well as the respective capacity for the development of the activity that is the object of the consultation, in the terms of the applicable environmental legislation and specifically, of what is specified in the general regulation of waste management and specific relevant legislation in the scope of the activity, which is the object of the consultation. The level of social responsibility declared and the level of environmental ensured constitute, among others, evaluation criteria for eventual adjudication.

Contracting

The minutes of the contract negotiated with the suppliers specify their compliance with the environmental legislation applicable to the activity developed in the scope of the contract at stake, as well as the legal and regulatory dispositions related to Occupational Safety, Hygiene and Health. In this way, PT Compras ensures that throughout the supply cycle of any business party there are strong codes of conduct, socially accepted and part of the PT universe that regulate alignment in social, environmental, and ethical-economical terms..

3.4.5. STRATEGIC ALIGNMENT OF THE SUPPLY CHAIN

For PT it is essential to create conditions to promote the alignment between its principles and those of its suppliers, believing that only in this way lasting partnerships can be created with mutual advantages and beneficial results for society and environment.

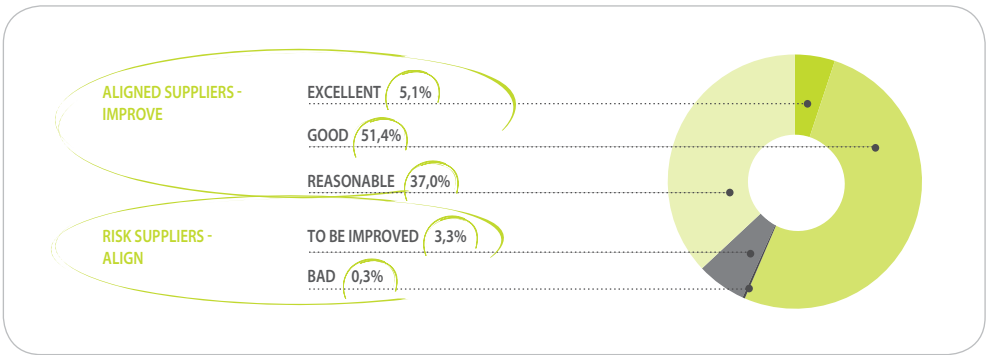
Therefore, apart from the clauses included in the respective contracts, PT Compras launched a 2nd phase of the Sustainability survey in the last quarter of 2010 that aimed to assess the level of alignment between PT's sustainable procedures and policies and its suppliers and, after evaluating the results, initiate a path of successive approaches.

The 2010 survey showed once again a good level of response and consequent alignment between suppliers and PT's Sustainable Policies and Procedures, being the average score around 70.7 (scale 0 to 100).

The evaluated parameters were once again: company profile, labour policy, ethical conduct, occupational health and safety, and environmental management.

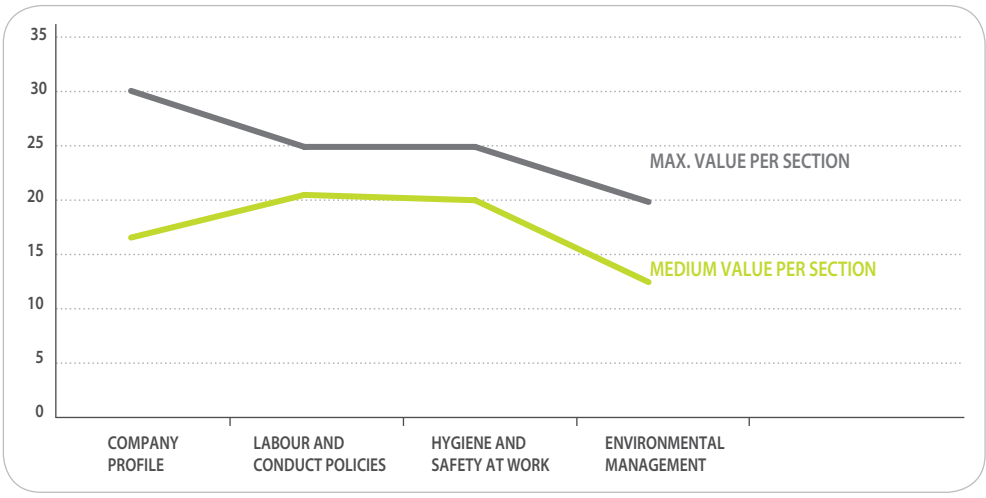
The monitored results demonstrated globally that the performance shown in the table below indicates a satisfactory level of convergence in most suppliers evaluated, as well as the need to try to make the others more attentive to sustainability-related issues.

| SUPPLIERS VERIFIED 41% | | | |
|---|----------|----------------|-------------|
| LEVEL OF ALIGNMENT BETWEEN SUPPLIERS AND PT | | | |
| | Rating | Total Entities | % |
| Excellent | (90-100) | 20 | 5.1% |
| Good | (70-90) | 203 | 51.4% |
| Reasonable | (50-70) | 146 | 37.0% |
| To be improved | (30-50) | 25 | 6.3% |
| Bad | <30 | 1 | 0.3% |
| Total Entities Verified | | 395 | 100% |
| Average Scoring | | | 70.7 |



The evaluation per criterion, showed the following maximum and minimum values:

| EVALUATION PER CRITERION | | | |
|--------------------------------|---------------------------|--------------------------|-----------------|
| | Maximum Value per Section | Medium Valor per Section | Average Scoring |
| Company profile | 30 | 16.7 | 55.6% |
| Labour and Conduct Policies | 25 | 20.7 | 82.8% |
| Hygiene & Safety at Work | 25 | 20.1 | 80.4% |
| Environmental Management | 20 | 12.8 | 64.0% |
| Total Verified Entities | | 395 | 70.7% |



Additionally, in the scope of supplier verification, 24 presential audits were conducted by the supplier control team of the PT Group in order to monitor the compliance with the requirements defined in Standard SA 8000, notably in terms of Health and Safety, Labour Policy and Work Conditions, in order to evidence the commitment assumed.



24 PRESENTIAL AUDITS TO RANDOMLY CHOSEN SUPPLIERS
ISSUES : HEALTH & SAFETY, LABOUR POLICY AND WORK CONDITIONS



FUTURE PERSPECTIVES

In the scope of the development of the supplier selection and hiring model, from a continuous improvement perspective, PT Compras identified the following opportunities to be implemented in the near future:



SUPPLIER MONITORING

Sustainability: Continue supplier interaction in the scope of improvement in terms of sustainability and of supplied services and/or equipment evaluation, aiming not only to reinforce mutual knowledge, but also to contribute to constructive evolution of the partnership relationships with PT.

Supplies: PT is developing a platform for supplier evaluation in terms of supplies to be implemented during 2011, to measure the performance of a number of criteria previously defined as critical.

This evaluation platform will allow, once again, contributing to process transparency in hiring suppliers and also, through systematic feedback actions, giving another contribution to a positive evolution of suppliers, with direct impact on the development of partnership relationships.



ELECTRONIC COMMUNICATION

Consolidate the use of the electronic communication module with suppliers that corresponds, in terms of the number of procurement processes both at domestic level and for the companies where PT holds stakes overseas (excluding VIVO), to 79% of the total amount of processes adjudicated (72% in December 2009).



SOCIAL RESPONSIBILITY

PT Compras commenced in 2010 a process of formal commitment of its suppliers to PT's policy of sustainability and social responsibility, by signing the respective charter of principles.

Circa 91% of corporatively adjudicated suppliers in 2009 subscribed and demonstrated to comply with the principles signed. This action was later extended to corporative suppliers registered in 2010, having obtained a 90% adherence.

Although the signature of the charter is not compulsory, PT promotes its signature and supplier adherence to the principles defended therein.



03

CREATING VALUE FOR SOCIETY



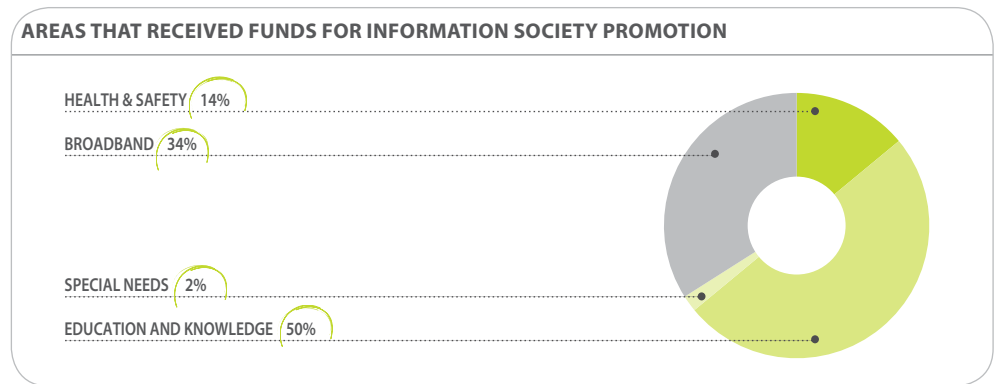
CREATING VALUE FOR SOCIETY

DIGITAL INCLUSION AND LITERACY OF THE POPULATION

The Information Society will continue to be one of PT's main priorities. The generalization of the use of the information and communication technologies as well as the growing offer of broadband solutions and services, and the programs of support for the community and groups of citizens with special needs, constitute examples of PT's involvement in the construction of the Knowledge Society.

The building of a more digitized society is from our viewpoint the guarantee of a better access to information and consequently to knowledge – indispensable condition to progress and to the promotion of a more responsible citizenship.

In 2010, PT's initiatives to promote the information society amounted to euro 63, 218 millions, and adding the 2009 amount, a total of euro 250 million.



1.1. ENSURING ACCESS AND SERVICES FOR ALL

Going against the economic conjuncture and some of its consumers with increased budget constraints, PT created a special price plan for customers in a long-term unemployment situation.

Universal Service

In the scope of the delivery of the universal service, PT continued to ensure the access to telecommunications services to underprivileged communities and/or geographically away from urban centres thus ensuring that all citizens may access a basic set of services of general interest irrespective of its location and/or consumption profile.



Public Payphones

At national level, PT had the following public payphones offering telephone or Internet service:

Public payphones – 31,365

Public payphones with Internet access – 70 (52 access points at Public Payphone stores)

Public Payphones on the streets accessible by users with special mobility needs – 310

Public Payphones deemed of special interest by the regulator – 2,936

The number of public payphones installed in places with less than 1,000 inhabitants – 11,349

Solutions for low income markets

The offering of PT services comprises all profile needs, making available an integrated offer for low-income consumers.

These services and respective prices are published at the company website.

Wireline – price plans <http://casa.telecom.pt/ptresidencial2>

Wireless – <http://www.tmn.pt/portal/site/tmn>

Broadband – <http://adsl.sapo.pt/prodtarif.html>

Contingency plans to ensure the continuity of the service delivery

In case of situations of absence of service due to acts of vandalism, natural catastrophes including other situations, PT has a number of contingency plans that can be activated, ensuring service continuity under acceptable conditions in as short a time as possible.

Special solutions for citizens with special needs

In the case of programs to improve the accessibility to the information and communication technologies by institutions and entities working in the domain of the disabilities, or by citizens with special needs, the PT Foundation continued to develop and make available a number of products and services (wireline and wireless Special Solutions) for people with different types of impairments or disabilities, severe illnesses or elderly people at risk, taking into consideration the specificities of the following disability areas:

- **Sight;**
- **Speech-Communication;**
- **Cognition;**
- **Neural-motor Dysfunction;**
- **Hearing.**

The composition of these solutions requires adaptation oriented in accordance with each need identified that can be found at <http://fundacao.telecom.pt/>.

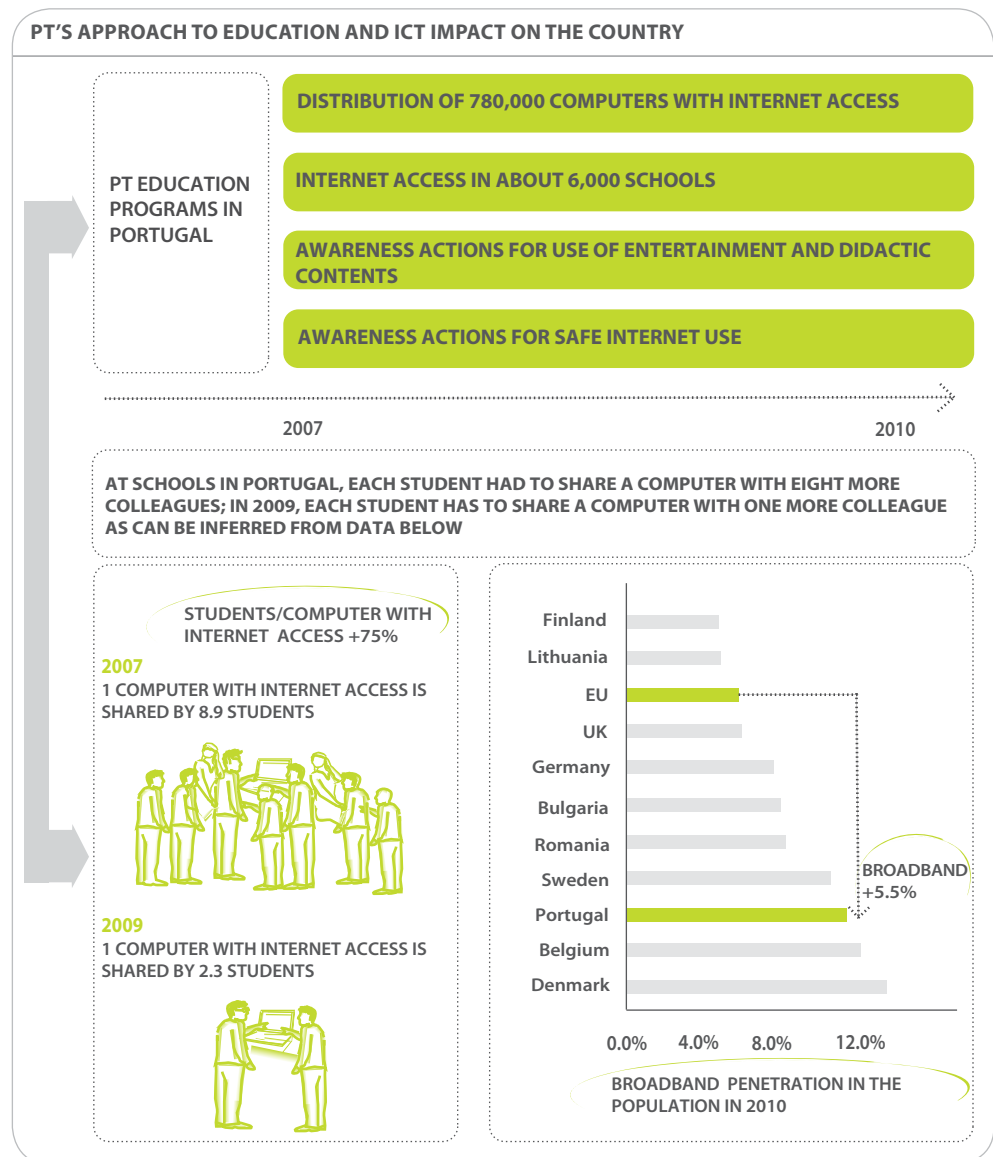
1.2. DIGITAL LITERACY AND KNOWLEDGE ACCESS

Portugal is one of the European countries with one of the best infrastructures of access to broadband, to Internet and to IPTV services. PT has strongly contributed to this reality, as it is the leader in the several broadband internet access platforms and it has maintained a high level of investment in upgrading the network and in launching services adapted to several consumer profiles.

We are experiencing today a real turning point in a wide group of areas in our life. We are contemporaneous of a world each time more dematerialized where we can multiply time and resources. Transferring information at 100 Mbps is not more than an industry evolution – it is a paradigm change. All these transformations have repercussions in our day-to-day life: at home, at school, in health, lifestyles and PT wishes to play an active role in such change.

The application of new technologies, namely the new fibre optic network, to the universe of education, healthcare, and security enables the creation and use of solutions that promote social sustainability. These are 3 scopes of activity to which PT is especially committed:

- **Education**, we are involved in a vast number of initiatives in all geographies where we operate and are involved in a vast set of initiatives in all geographies where we operate and that aim to promote access to education, info-inclusion and generation of talent, using communication technologies as a lever of change and progress.
- **Healthcare**, we are pioneers in the introduction of pilot-solutions that narrow the relationship between doctor and patient, eliminate the geographical factor as an element of social discrimination in access to healthcare and introduce new possibilities of diagnosis, clinical follow-up and process simplification.
- **Security**, we implemented a number of innovative solutions that promote critical information sharing between authorities and citizens, the correct and safe use of information technologies, new ways of relationship with police forces and geo-referenciation of equipments and people.



APPROACH TO EDUCATION

The information relative to PT's activity axes, objectives and initiatives in education are described in the following table:

| Approach to education | | |
|-----------------------|--|--|
| Axes of activity | Objectives | Initiatives |
| Infrastructures | Reinforce the set of computing equipments in each classroom; | E-schools program and school of the Future; |
| | Promote internet access in the classroom; | WANs Program |
| | Provide internet access in the classroom; | LANs Program |
| Contents | Increase production and shared use of digital pedagogical contents in Portuguese | Sapo Portal |
| | Create electronic platform to support school management to improve management efficiency, information access and communication among educational community | PIBE Program |
| Training | Ensure training actions with technical and pedagogical contents to all elements of educational system. | A number of initiatives carried out for school community, senior or underprivileged population |

RESULTS OF PROGRAMS

In general, PT contributed to bring Portugal closer to European rates in terms of mobile broadband and digital literacy:

PT Solutions – Contribution to Education improvement

High Speed internet connection

WAN Program: high-speed interconnection of 6,300 schools and 19 delegations of Ministry for Education;

LAN Program: local networks in more than 1,000 schools to provide internet in the entire school space using fixed (Ethernet) and wireless (Wi-Fi) infrastructure.

100 schools already have 100 Mbps connections.

Technological park in the classroom

e.initiatives: participation in e.school, e.teacher and e.opportunities programs (provision of portable computers with broadband access under attractive conditions);

TMN responsible for 85.5% of adherences to program (from a total of 850,000 people);

780,000 portables with mobile broadband distributed by e.schools program;

Portugal in 2nd position in Europe in Mobile Broadband (16.1% vs 5.7% European average);

1st Tele-classroom solution in Portugal: developed to facilitate school integration of students with disabilities or severe illnesses, during hospital stays. It has already benefited more than 400 children and youngsters.

Production and sharing of pedagogical contents

SAPO Kids website, developed by PT for Portugal, Cape Verde, Angola and Mozambique, to promote learning and online information search;

Scratch, educational program resulting from a partnership between PT and MIT to allow exercising creativity and scientific, logical and mathematical thinking by providing simplified computer programming tools, on the basis of which projects may be developed. There already more than 14,000 projects on the Portuguese platform;

Virtual school (Porto Editora) and *Escola da Malta*, which allow learning online with free classes for the first school cycle;

Tiradúvidas, educational support service for the first school cycle.

Training ICT use

Knowledge Roadshow: 2 buses equipped with advanced technological and pedagogical solutions that crossed 32 municipalities throughout the country, giving priority to remote areas, underprivileged populations and groups;

Communicating with Security: practical training by PT volunteers to students and teachers on responsible internet, mobile and TV use. In 2010, this program was done in partnership with a police force – GNR – and counted on more than 67 employees/volunteers from PT who promoted training actions in 40 schools, in a total of more than 6,000 students.

Projects for education and knowledge promotion

Unique commitment with CMU Program in terms of R&D, in partnership with Carnegie Mellon University and the Ministry for Science, Technology and University Education involving a 5 working year period and the Carnegie Mellon University, availability of human resources and materials, to underpin R&D projects;

Protocol with Gulbenkian Foundation, to support Doctoral program in Mathematical and Computing Biology that enables the operation of the respective laboratory.



APPROACH IN HEALTHCARE

Our intervention in healthcare, respective solutions and results contribute to improving the quality of life of the users:

Solutions and results in the Healthcare areas

Mobile healthcare solutions

Tele Home Care: ‘Panic button’ solution for emergencies with direct connection to dedicated Call Centre, available 24h a day, 365 days a year;

Baby Care: Pioneer system worldwide to allow parents of premature babies in the intensive care room, a constant contact with their children from their home, 24h/day - (40 cameras installed; 575 potential beneficiaries/year in intermediate care and 69 in intensive care).

Telemedicine Services

Medigraf Tele-consultation: Integrated communication and integrated solution to support remote medical consultations.

More than 10 years experience and more than 8,000 tele-consultations in Pediatric and Fetal Cardiology.

Includes 50 healthcare units in Portugal + 2 Hospitals in Angola + 1 Hospital in Cape Verde.

Efficiente healthcare unit management

Healthcare centre of the Future: Integrated solution for information, management and prevention, allowing efficiency and productivity gains.

Its main features are: contact management, including notification of users and corporate TV , enabling waiting queues and makes available useful information and entertainment contents.

Impact on the use of the services of the Healthcare Unit of S. Julião: 50% reduction in waiting list in terms of patient average waiting time.

Online healthcare Services

User Portal: Portal developed with several features that facilitate citizen's life (more than 600 users of USF S. Julião with access to the Portal).

Collaborative Portals: Portals that allow sharing of information, knowledge and innovation among healthcare professionals, increasing and improving their knowledge.

Electronic Medical and Health Records

Electronic Clinical Process: Digitisation of clinical process through solutions that allow efficiency gains and increase in user satisfaction.

My Sapó Health: First personalised system with health information in Portugal with free access that allows recording, organizing and managing health information. Since launch at end of May 2010, there were more than 800,000 visits and 2,400,000 pageviews.



APPROACH IN SECURITY

Development of solutions that facilitate and promote security in several dimensions:

Solutions and results in the Security areas

Security portal of Ministry of Internal Administration:

Portal: Allows sharing information with citizens and institutions. The portal includes preventive and reactive information, contact and participation of occurrences and, just for institutions, sharing and access to restricted information and decision support systems.

Since its launch in August 2009, the portal has received more than 90,000 visits, being the most sought issue: Domestic Violence.

Precinct of 21st Century

PT installed an innovative solution in the Estoril precinct allowing a new security model, a new way of relationship with police forces and increased qualification and skills from security officers.

The solution includes videosurveillance outside the precinct, videoconferencing between precincts, and multimedia kiosk with useful information, corporate TV, mail and waiting list management and online training for officers.

During the six months of the pilot in 2009, the Portal of the precinct received more than 30,000 pageviews and the information kiosk was used 300 times.

Geo-referenciation

TMN Car Control: Allows, via SMS or Web, locating a vehicle, remote ignition blocking and unblocking, receiving and activating alarm button with direct link to security forces.

TMN Localizz: Allows real time locating of a person or equipment through the location of the mobile phone.



SOCIAL RESPONSIBILITY IN THE COMMUNITY

The essential prerequisite for Portugal Telecom's social responsibility is respect for the values of the societies where it operates and bases its activity on the commitment to contribute to the improvement of the quality of life of all, namely through awareness programs for social, school and professional inclusion and the inherent promotion of knowledge, health, safety of people, goods and environment.

This activity targets mainly underprivileged layers of the population and, among these, children, youngsters and senior citizens.

A PT is a member of the London Benchmark Group and seeks to assess the impact of its social intervention according to the respective methodology.

The response to the social intervention and development support commitment by the Group is materialised externally through its commercial brands and through the PT Foundation that made a total investment in society amounting to euro 5 million in 2010.

2.1. SOCIAL AND CULTURAL SUPPORT BY COMMERCIAL BRANDS

PT's commercial brands, namely MEO, TMN and SAPO, in the scope of their marketing campaigns and/or whenever their services proved to be useful to social causes or catastrophes, support needy entities. In 2010, this support amounted to approximately euro 1 million, with the following distribution:

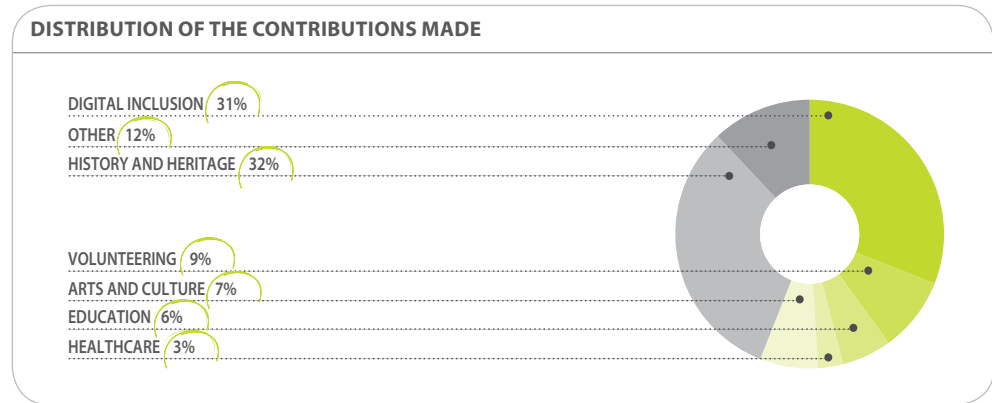


These initiatives target essentially support and recovery from international catastrophes, support to social solidarity institutions, temporarily with budget restrictions.

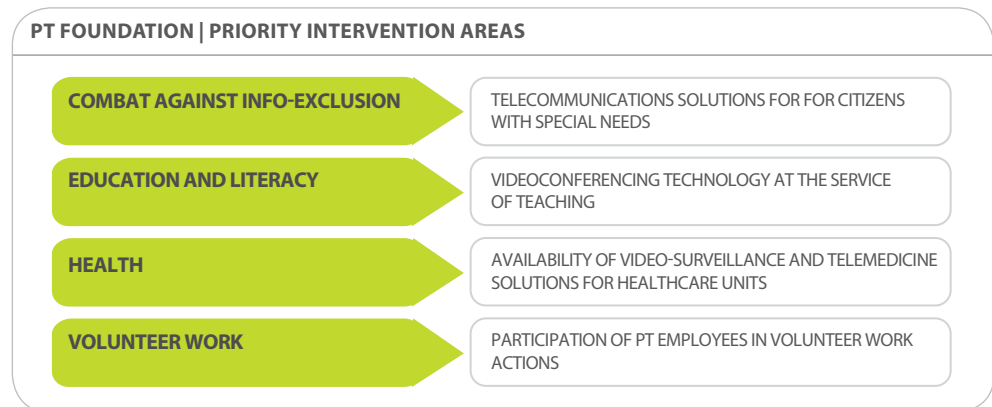
One of the examples highlighted is the 'PT Solidarity Campaign' after the catastrophe in Haiti at the beginning of January 2010. In this campaign, customers were invited to help Haitian citizens hit by the earthquake through a telephone call. With the value collected by PT and TMN, it was possible to help non-governmental organisations with missions in Haiti, such as AMI, Red Cross and 'Médicos do Mundo' which distributed food, medication or shelters.

2.2. PORTUGAL TELECOM FOUNDATION

The initiatives of the PT Foundation amounted to euro 4 million in 2010, distributed by the following areas:



The PT Foundation is a non-profit private institution deemed of public utility whose strategic orientation targets the following intervention areas:



2.2.1. INFO-EXCLUSION COMBAT

INFO-EXCLUSION COMBAT **EURO 1.24 MILLION**



PT and TMN special solutions for citizens with special needs

Circa 3,809 people with special needs and institutions for social, school or hospital support benefited from solutions (devices and/or services) specifically prepared by PT for each one of them.

This number covers the number of beneficiaries that use services permanently and new acquisitions of equipment, software or special services in 2010.

In the case of programs to improve the accessibility to the information and communication technologies by institutions and entities working in the domain of the disabilities, or by citizens with special needs, the PT Foundation continued to develop and make available a number of products and services (wireline and wireless Special Solutions) for people with different types of impairments or disabilities, severe illnesses or elderly people at risk, taking into consideration the specificities of the following disability areas:

- **Sight;**
- **Speech-Communication;**
- **Cognition;**
- **Neural-motor Dysfunction;**
- **Hearing.**

The composition of these solutions requires adaptation oriented in accordance with each need identified and its purpose and features can be found at <http://fundacao.telecom.pt/>.

Social, school and professional inclusion initiatives

These initiatives target skills training and acquisition for socially underprivileged people, aiming to surpass communication barriers as the result of their disabilities:

Estrela (Star) Project – adapted for cerebral palsy

Estrela (Star) Project - partnership between the PT Foundation and the Federation of the Portuguese Cerebral Palsy Associations (APPC) involves the installation of PT Foundation centres with educational and training resources at the 19 Cerebral Palsy Associations throughout the country. These spaces have special PT solutions and ADSL Internet access. In 2010, APCC from Porto joined the initiative in the Lousada delegation, having been installed a new centre with augmentative communication and Internet access.

Urano (Uranus) Project – adapted for mental disability

The Uranus project, signed with Humanitas (Portuguese Federation for Mental Disability) enabled the aims to support for the support of skills of mentally disabled people, covering the total of 34 institutions federated at Humanitas. **In 2010, a new centre at APERCIM in Mafra as added, and software in older equipment of the first phase was upgraded.**

Astro Project – adapted for students with educational needs

Continuing the partnership with the Directorate-General for Innovation and Curriculum Development (DGIDC) of the Ministry for Education, 27 centres for evaluation, demonstration, experimentation and training of technologies of support for neural-motor, visual, intellectual disability and users for augmentative communication. Considering the efficiency of the project, created in 2006, the ASTRO centres were complemented with the CRTIC (Centros de recursos TIC para a educação especial) equipping them more technology and ensuring the necessary educational technicians. During the 2009/2010 school year, the 27 existing centres benefited 1,072 students who were evaluated and/or trained in the use of special technologies.

TeleClassroom was developed to facilitate the school integration of students with disabilities or severe illnesses during their stay at the hospital or in isolation/convalescence at home. In these locations, the installation of a solution enabling the use of videotelephony, file transfer, document sharing by students and teachers is ensured. This solution based on IP technology has a new version, easier to use, being the software upgraded as disinstallations/new installations occur, being also installed the ADSL or Mobile Broadband version, depending on the type of use of each student. During the 2009/2010, 15 students benefited from Tele-Classroom during their hospital stay, or due to severe disability.

Using the same Tele-Classroom system with MBB version, a protocol between the PT Foundation and ACREDITAR was established to allow students with cancer to benefit from this solution.

John Paul II Project – adapted for neural-motor disability

This project is the result of a protocol signed in 2009 with the John Paul II Centre for People with Profound Disabilities that enabled to equip Moinhos School with 1 centre for digital inclusion of people with special needs and a Home for people with disabilities.

In 2010, under Sunflower 3G project, a partnership of the PT Foundatio with Qualcomm’s Wireles Reach, the Joh Paul II Centre was equipped with with a MyTobii. It is an eye-controlled system, highly sophisticated, that allows the evaluation of cases of neural-motor disability and visual disability associated, experimenting and training, in a configuration as an excellence centre for evaluation of the central zone of the country.

Inclusive CNO – Centre for New Opportunities for students with disabilities

Support technologies were installed at Casa Pia in Lisbon for students with neural-motor disability, for people with sensorial disabilities (blind, amblyopic, deaf and deaf-blind people), and a protocol was celebrated with the Inclusive CNO of Arrábida which will operate at the Lima de Freitas school in Setúbal.

St. Nicholas Project – adapted for senior citizens in isolation

This project of support for lonely senior citizens was developed in partnership with the St Nicholas Parish Social Centre and the Local Council of St. Nicholas, aims to create a solidary network of support for senior citizens underprivileged of Downtown Lisbon who live in a situation of isolation and solitude. In 2010 this project was extended to the entire city of Lisbon, namely the Campo Grande parish. This project that covers 71 senior citizens enables the beneficiaries to initiate an alarm call to the St. Nicholas Parish Social Centre which is equipped with technicians who will forward the help request to the right contact of the social network of the senior citizen.

Escol@ Felis Project – train health and education technicians in terms of Inclusion for people with special needs

This project was managed and developed in cooperation with PT Inovação and aims to create a training area on the Formare platform, specifically for the health and education technicians involved in the social intervention projects for the digital inclusion of people with special needs, in the scope of the partnerships of the Foundation. There were training modules made available about GRID2 to 33 institutions that are part of the Uranus Project. The support for the development of new contents for FELIS was upported namely:

- PT GRID2 Advanced, from ANDITEC;
- “Care Well, Do Better”, from ADVITA to support people who take care of persons with special needs;
- PRO LGP, from the Catholic University in Lisbon, with contents for a university degree in Portuguese Gestural Language.

Relay Centre for Contact with Deaf People

The PT Foundation in collaboration with the Portuguese Federation of Deaf Associations and the National Rehabilitation Institute supported the development and implementation of the Relay Centre installed at the headquarters of this Federation, for contact with desf people through the Portuguese Gestural Language.

Through this support, whose aim is to support the infrastructure and communications, the PT Foundation provides for each attendance position, the installation, subscription and communications of a analogue line and an ADSL access. It also provides for each contact centre position, a telephone with headset.

Sunflower Project – donation of special equipment

The Sunflower project aims to donate equipment with technology supported on the fixed or mobile (3G or BLM) networks for augmentative communication with special software as well as other support equipment to people with profound disabilities without resources to acquire such devices at the subsidized price. The following technologies stand out: PT TeleClassroom, PT Magic (amblyopic people), PT JAWS (blind people) and PT Magic Eye (neural-motor disability).

In 2010, children and youngsters from several institutions namely CECD (CERCI from Mira-Sintra), UTAAC from the Calouste Gulbenkian Palsy Centre and 'Inválidos do Comércio'. Two projects relative to school inclusion of university students with special needs were also supported, namely:

- **A Computer Engineering student from the University of Porto with Duchenne muscular dystrophy;**
- **A Sociology student at ISCTE benefits from the Tele-Classroom system in the scope of the UR project.**

The mobile component of Sunflower has been developed in the scope of the PT Foundation partnership with Qualcomm's Wireless Reach.

Snowball Project – digital inclusion of citizens with disabilities

The Snowball project is the result of a partnership with the Ministry of Health and comprises the creation of 23 centres for the digital inclusion of handicapped people or with neural-motor, speech or degenerative neural-muscular disabilities where 3G technologies will be installed with software and other support devices.

This project aims to facilitate communication with health professionals, stimulate training and scientific activities, facilitate patient communication and insertion in their social and family environment and enable IT access through the Internet, as well as the reception and sending of SMS and MMS messages.

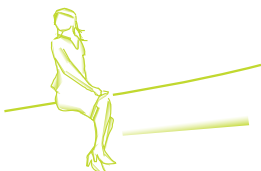
In 2010, 19 of the 23 centres in the project were installed according to the priorities defined by the Directorate-General of Health.

Sun and Light Projects – creation of 14 centres for people with mental disability or multi-disabilities

The Light project is a partnership between the PT Foundation and Fenacerci (National Federation of Social Solidarity Cooperatives) This project will equip institutions with augmentative technologies allowing personal rehabilitation programs that promote social inclusion through literacy development. In 2010, 3 of the 8 centres of the project were installed.

The Moon project is a partnership between the PT Foundation and Unicrisano (Union of Children's Recovery Centre of the Santarém district) that aims to create 6 centres for people with mental disability or multi-disabilities. Unicrisano works with different mental disabilities, such as motor, speech, visual or hearing disabilities. This project will allow people supported by Unicrisano to develop an educational or training plan, promoting their autonomy and a better quality of life.

Both projects are included in the scope of the partnership between the PT Foundation and Qualcomm's Wireless Reach, whose aim is to put 3G and BLM technologies to the service of people with special needs.



2.2.2. EDUCATION AND LITERACY

EDUCATION AND LITERACY

EURO 0.29 MILLION

Programs for training and skills acquisition of underprivileged population

A computer, an opportunity – recycling and access to new technologies

This is a company social responsibility initiative that ensures the distribution of computers, withdrawn from active service within the PT Group but still in good condition of work, to entities of reference with valid projects in the area of social development and information society.

The recipients of this program are entities with defined educational projects and with evident need of this type of equipment.

The delivery of this equipment in mainland Portugal was made by DHL in the scope of a specific cooperation protocol included in the respective social responsibility program.

In 2010, 306 computers were donated to 40 Portuguese institutions from all over the country, and 1,248 computers went to Portuguese-speaking countries. In these countries, the identification of beneficiaries as well as the delivery is done by local PT subsidiaries, namely **300 to Cape Verde, 300 to São Tomé and 20 to Angola.**

Mozambique received 284 computers to equip Professional schools in that country, in the scope of a project covering the whole territory and involving the cooperation of the Ministries of Education of both countries. Additionally, 40 portable computers were donated to regional and provincial coordinators of the project.

Communicating with Security – sharing knowledge to ensure responsible use of equipment, contents and functionalities

As a result of a pilot launched last year, the PT Foundation developed an extensive program during 2010 to raise the awareness of students and teachers for IT literacy issues, particularly the safe use of mobiles and internet.

The training actions take place in a classroom environment in order to leverage their results, ensured by PT volunteers under the internal regulations that enable their participation in volunteering actions during normal office hours without penalties in terms of remuneration or absenteeism rate. For such purpose, specific pedagogical contents were prepared for each one of the different school levels, namely basic and secondary level, being assured the uniformity of transmission of contents through previous training actions and using usual means of support.

The initiative has gathered an impressive membership throughout the school year. ‘Communicating with Security’ actions were taken at **40 schools, for a universe of 6,058 students from various locations in mainland Portugal, involving 67 volunteers and PT.**

The initiative enjoyed a large participation and throughout 2010, the ‘Communicating with Security’ actions were brought to **39 schools, for a universe of 6,058 students in mainland Portugal, involving 106 PT volunteers.**

“Bora Nessa” Project

Inspired on a Venezuelan system, the Generation/Bora Nessa project – the groups orchestras constituted by students from Mário de Sá Carneiro schools in Camarate, and Bartolomeu Dias in Sacavém, and Apelação – **covers currently circa 70 youngsters** and seeks to assert itself as a social and educational response for young people from underprivileged areas.

Apart from the support in terms of funds, the PT Foundation provided a stay for these children, exclusively, in a boarding school regime, at PT’s holiday camp in Verdizela. The Generation/Bora Nessa performed throughout the year in different locations in Lisbon, namely Aula Magna, São Luís Municipal Theatre, Camões Theatre and Fórum Picoas.

PT Foundation supports education and research

Proceeding with its support for the Doctoral degree in Computer Biology, the PT Foundation continues to ensure communications, making available a high-speed broadband link, between the Gulbenkian Science Institute and the scientific national/international network managed by the Foundation for National Scientific Calculus. The quality of the research and educational activities in this matter, and the interest in establishing contact with the best international centres a scientists were decisive aspects for this partnership. The scientists within the program lead locally scientific research projects, with preference for issues relevant for the Portuguese scientific community, and participate in the teaching activities developed at the GSI or other university-level institutions, being encouraged to cooperate with researchers in other research institutions in Portugal.

The PT Foundation underpinned and supported top institutions and organisations in initiatives and projects oriented towards education and knowledge, among which stand out:

- . American Club of Lisbon/Fundação PT scholarship.
- . City of Lisbon Foundation scholarships - (2).
- . Scholarship granted to a young man to pursue his academic training in Oxford.
- . Support for the Friends without Frontiers ONG with a view to the operation of a residence for students pursuing their university degree in the city of Beira, Mozambique.
- . The intention is to raise the qualification of local managers through educational facilities in their own country which is in need of critical mass to assert itself.
- . Support for the University of Lisbon with a view to preparing the celebration of its centenary.
- . Support for the Academy of Sciences of Lisbon.

Study Visits

Seeking to make young people aware of the business reality and the work universe, the PT Foundation has been repairing and accompanying visits from groups of school students to PT's installations, namely the Satellite Operations Centre, PT Inovação, the Network Management Centre and Picoas Data Centre, Monsanto Broadcasting Centre, Call Centre at Moeda Street, PT-SI and Sapo. **During 2010, 489 students benefited from such visits.**

2.2.3. HEALTH

HEALTH

EURO 0.12 MILLION

Donation of goods, services or financial donations, to several healthcare organisations and institutions

Baby Care – newborn follow-up

The Baby Care solution was initially made available at the Dr. Alfredo da Costa Maternity, a pioneer experience worldwide.

This solution allows the parents of premature babies to follow up on their children through camera images installed at the incubators, anyplace, anytime wherever a fixed or mobile internet access is available, being enough to enter an identification and a password attributed by the Maternity, in order to guarantee the respective privacy.

During the year 2010, a vast maintenance operation on the equipments installed at the maternity was carried out, and throughout 2010 92 families took advantage of this technology. At Júlio Dinis Maternity in Porto, an identical solution was used by 125 families throughout last year.

The relevance of Baby Care in terms of healthcare humanization justified the installation of the system at the Bragança maternity, endowed with equipment for 6 incubators since mid-December 2010.

Telemedicine – Consultations and consultation scheduling

Through the videoconferencing service and the new web functionalities, healthcare units and patients started to benefit from a number of new functionalities facilitating the relationship between doctors and patients.

In December 2010, a protocol with Marquês Valle Flor Institute that establishes the support of the PT Foundation through the donation and respective installation of two Medigraf systems (one in Lisbon at the MVFI headquarters and another one in São Tomé e Príncipe at the Dr. Ayres de Menezes Central Hospital), thus allowing tele-consultations between both countries.

The project aims to improve the delivery of healthcare services to the population of São Tomé, namely through remote diagnosis and follow-up, enabling a more effective intervention and contributing to a foreseeable reduction in patient evacuations to Portugal. Additionally, this system will contribute to an improvement in the degree of differentiation of healthcare professionals in São Tomé, through their contact and collaboration work with specialists in Portugal who will perform the consultations.

The necessary communications system in São Tomé is expected to be concluded in February 2011, a date from which tele-consultations will be able to commence.

My Sapó Health – Personalised health information management

In the context of a partnership established between the PT Foundation and the National School for Public Health (ENSP), conditions for the development a research project focused on the development and use of a system providing citizens with personalized access to their health information and respective electronic management under conditions of strict confidentiality and security.

This computer-based support – My Sapó Health – was developed by SAPO and counted on the contributions from ENSP to the improvement of the technological platform and the drawing up of specific test-contexts with a view to make them available and disseminate them via this platform.

The system enables the use to manage different kinds of health information such as for example personal parameters (weight, blood pressure, heartbeat rate, glycemic index, etc.) and record important information such as allergies, food habits, routines of physical exercise, treatments, medication and scheduling of consultations. The application provides also a number of relevant functionalities such as the access to safe and renowned websites on specific health issues (also a ENSP contribution) or information on healthcare units, doctors and pharmacies in the vicinity of the user through a geo-referenciation system.

There are 1,335 users currently registered.

2.2.4. GROUP HISTORY AND HERITAGE

GROUP HISTORY AND HERITAGE

EURO 1.49 MILLION

Publications

“History of Telecommunications in Portugal – from the General Directorate of Telegraphs of the Realm to Portugal Telecom” work developed over some years of inventorying and study of the historical, technological and documentary heritage of the PT Group. This work, authored by Professor Fernanda Rollo, was sponsored and the respective book was edited by the PT Foundation. This book condenses the essential in telecommunications evolution in Portugal over one century and a half.

The said work was the winner of the Grand Prize APCE 2010 in the Historical Responsibility and Company Memory category.

Museological Nucleus of Vilar

In this space lies the historical witness of the reality of what were the telephone central offices of manual switching (assisted by telephone operators) and how they operated, dated from the first half of the 20th century.

This space has several models of old telephones on show, enabling visitors to follow the evolution of communications, since its introduction in Portugal until nowadays.

It was visited in 2010 by 714 people, mostly students, from various levels of education and by various associations as well.

Portugal Telecom Collection of Contemporaneous Art

In order to make known Portugal Telecom Collection of Contemporaneous Art, a protocol with the municipality of Alcochete was celebrated to organise another exhibition. Between 16 April and 31 July 2010, at the Alcochete Culture Forum, twenty works from contemporaneous Portuguese artists were exhibited to the public, having been presented works from António Palolo, Alice Geirinhas, Gaëtan, João Tabarra, Joana Rosa, João Vieira, João Pedro Vale, Joaquim Bravo, Joaquim Rodrigo, Lourdes Castro, Manuel João Vieira, Martinha Maia, Miguel Soares, Paula Rego, Pedro Cabral Santo, Pedro Portugal and Pedro Proença.

The exhibition was visited by 845 people.

Portuguese Communications Foundation

In the domain of heritage maintenance and preservation, the support for the Portuguese Communications Foundation (FPC) of which Portugal Telecom is a founder was kept. In 2010, a vast document and technological heritage in the domain of communications was concentrated in a sole location, part of it is already treated in the context of the History and Heritage Project, and another part whose future treatment will allow extending the heritage shown to the public in the museum of the Portuguese Communications Foundation (FPC), dedicated to communications and their evolution.

Support for culture and citizenship projects

- **National Culture Centre** – Support for the e-culture channel of this institution;
- **World Press Cartoon** – Support for the organisation of this international cartoon show;
- **European Strategy Forum** – Association for Culture Debate – Support for the activities of this association that include seminars, conferences and workshops on strategic issues relative to the European Union and its member states.



2.2.5. ENVIRONMENT

ENVIRONMENT EURO 0.19 MILLION

RITF Project

Contribution to implement a Funchal municipality recovery plan, due to the Winter catastrophe (floods and devastation caused by the flow of water) occurred in Madeira at the beginning of 2010.

Funchal Ecological Park

Contribution to soil cleaning, removal of burnt trees, eradication of infestating species, regarding the forest regeneration devastated during the summer fire which affected over 90% of the park.

“Lagoa das Furnas” Integrated Park

Contribution to water quality recovery, eliminating sources of contamination that lead to lagoon eutrophication, which allows exploring historical, cultural, geological and landscape heritage of the region.

International Year of Forests

Support, in cooperation with SAPO, for the development of the official website of the International Year of Forests, to promote activities that will take place in 2011.

2.2.6. SUPPORT FOR PATRONAGE INITIATIVES AND PROJECTS

SUPPORT FOR PATRONAGE INITIATIVES AND PROJECTS EURO 0.30 MILLION

Match-fund raising actions

- **The “Let’s offer dreams” campaign was promoted by the PT Foundation, in partnership with Sapo**, structured on a match-fund basis to support “Terra dos Sonhos” Institution. During two days, in several PT buildings in Lisbon, Porto, Coimbra, Faro and Porto Salvo, PT employees were able to buy t-shirts, pencils and “Terra dos Sonhos” coloring books, contributing with donations freely defined by each donor, having the PT Foundation granted donation of the same amount. The combined donations, from employees and the PT Foundation, will enable 19 “dreams” of children with chronic diseases or in an advanced state of evolution.
- **Christmas Solidary initiative** – Also in a match-fund raising context launched in December, PT employees were invited to contribute with their donation for a solidarity initiative for three social solidarity institutions. The PT Foundation contributed with a donation worth twice the total amount received from employees, have been benefited, by this initiative, **Casa do Gaiato, Life and Peace Community, Mafamude Social Center.**

2.3. VOLUNTEERING

PT has several volunteering projects whose aim is to support projects in needy areas of the community or environment and to motivate employees and respective families to citizenship-related activities.

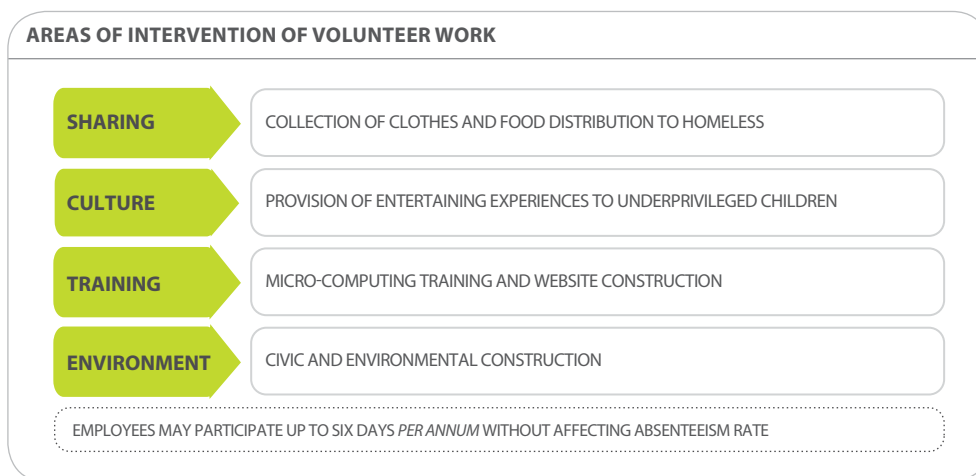
- **Company volunteering** – makes it possible for every PT employee to donate 6 full days of volunteer work during normal office hours without affecting the respective remuneration or absenteeism rate;

In this domain in 2010, more than 250 PT volunteers performed circa 1,550 hours of volunteer work to 59 institutions (schools and institutions supporting socially underprivileged people), to the direct benefit of more than 7,200 people.

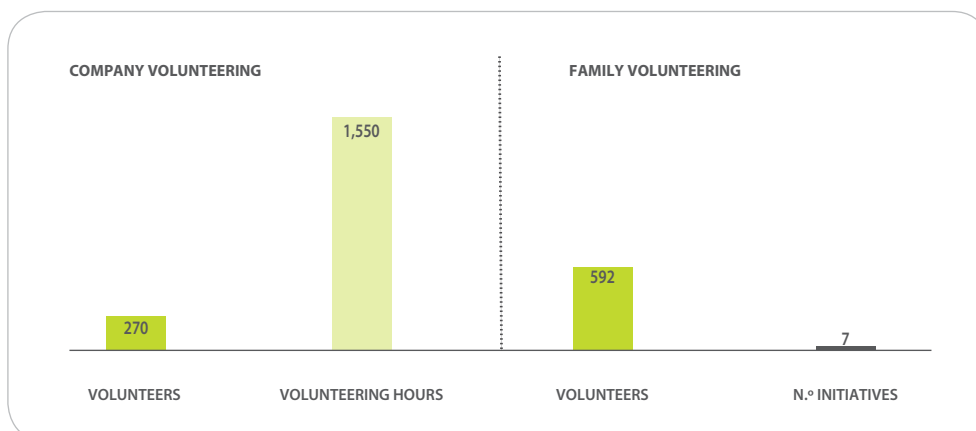
The organisation of these programs involved an amount of euro 0.37 million.

- **Family volunteering** – organized outside normal office hours, it involves the participation of employees and their families.

In this scope, in 2010, 600 volunteers participated in 7 social and environment initiatives.



The national community relied on the voluntary collaboration of about 850 volunteers from PT and at least 1,550 hours of support actions.





66 institutions benefited from PT Volunteer Work

Circa 7,500 citizens benefited from support from PT Volunteer Work

COMPANY VOLUNTEERING INITIATIVES

Dawn Program

The Dawn Program is a bank of hours of company voluntary work of PT employees who are given the opportunity of donating 5 days *per annum* during normal working time to participate in social development projects, considering the number of involved hours, this is a unique program in terms of corporate volunteer work.

- “Communicating with Security”;
- Heart Challenge – promoted by the Portuguese Cardiology Foundation;
- Right Arm Program – to give students the opportunity of contacting professional reality in their interest areas;
- Pluto Project – Interior architecture and lighting projects were executed, as well as the telecommunications infrastructures project for the “Big House”, a shelter home and training centre for youngsters with Asperger syndrome;
- CUTE Project – Recreation of entertaining and leisure spaces to improve quality of life in under-privileged areas;
- Rastrillo solidarity Fair – Fund collection for New Future Association;
- Let’s reuse school books – this action involved collecting used school books from PT employees. The books were delivered in pre-defined collection points, and later selected by volunteers for reuse. Part of the collected books (circa 100) were distributed to company employees who needed them, having most (circa 900) been given to the Social Support Fund for Cape-Verdeans in Portugal, which forwarded them to the Santa Cruz municipality, Santiago Island.

In the initiatives in the scope of this program, there were 203 volunteers who offered a total amount of 633 working hours, having been benefited 47 institutions and circa 7,000 direct beneficiaries.

Share Project

A long-term company voluntary work project, unknown in Portugal, born out of a protocol with Santa Casa da Misericórdia de Lisboa (NGO), according to which computing equipment and respective training actions are made available to youngsters and senior citizens supported by that institution.

In 2010, 5 PT employees participated in the project amounting to 441 working hours benefiting 13 direct recipients.

Hand-in-Hand Project

This project targets private social solidarity institutions, as well as hospitals and schools, which operate in the domain of info-excluded citizens. The development of the Hand-in-Hand project will include specific tasks, the signatory companies being committed to make available employees to participate during normal working hours.

Coordinated by Portugal Telecom Foundation, Hand-in-Hand project has the participation, availability and commitment of the following companies: Allianz, BP Portugal, Sacoor Brothers, Cisco, DHL, INOV, Jason, Mandala, Microsoft, Nova Delta, Opway, SAS, Siemens, Xerox, Prosegur, PT Comunicações, TMN, PT Contact, PT Inovação, PT PRO, and PT SI.

The actions developed in the scope of the Hand-in-Hand project were as follows:

- “A Week at the Prisons” involving the prisons of Setúbal, Sintra, Vale de Judeus, Especial de Santa Cruz do Bispo and Castelo Branco where the activities developed included the improvement of spaces, Portuguese museum on-line visiting and forums of discussion through www.culturaonline.pt portal.
- “Conchinhas do Mar” – summer action at Tamariz beach with children and youngsters from the Alcoitão Rehabilitation Centre, aged between 5 and 16 years. In 2010, this action benefited 20 children with neural-motor or intellectual disability, having consisted of mornings at Tamariz beach, walks and games at Gandarinha Park, horse riding and games at Aldeia Hípica Fonte Caspolina, surfing classes and caricature drawing.
- “One day sailing” with the Social Centre of the municipality of Ílhavo, with Florinhas do Vouga and Centro de Acolhimento de Emergência Infantil de Aveiro, a centre for young people with disabilities or impairments, developing the following activities: contact with the boats, sailing on typical boat ‘Inobador’ and painting of a panel.
- “Week with Senior Citizens” – action developed in collaboration with St. Nicholas Parish Centre in Lisbon and Yellow Heart associations from Sintra and Cacém, which consisted of small repair works at the homes of some senior citizens, online visits to Portuguese museums, and a bus tour to Fátima.

In 2010, 69 PT employees participated in the project, amounting to 483 working hours benefiting 11 institutions and 207 direct recipients.

FAMILY VOLUNTEERING INITIATIVES

FAMILY VOLUNTEER WORK (POST LABOUR TIME)

Solidary Look + Solidary House

Giving Hands without Age

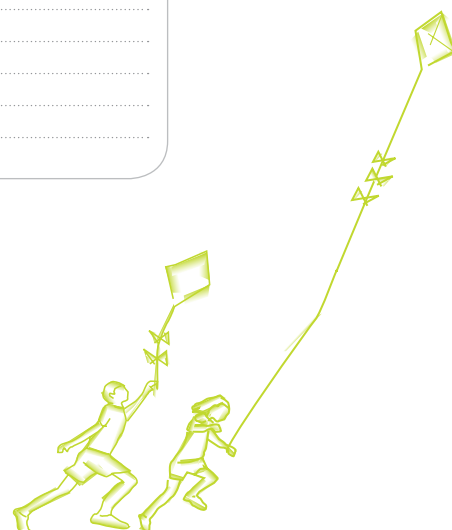
Clean Portugal

Solidary Tour

Heart Challenge + Solidary Christmas

Food Bank

4-Legged Friend



GRI AND UNGC TABLE

PROFILE INDICATORS

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|---|--|---------|---------------------------|---|--------------------|
| 1. STRATEGY AND ANALYSIS | | | | | |
| 1,1 | Declaration of the person with greater decision power in the organisation (i.e. General-Director, Chairman of the Board or position of equivalent importance). | Fully | 12-14 | | |
| 1,2 | Description of main impacts, risks and opportunities, related to the activity of the company. | Fully | 16-25; 36-42 | | |
| 2. ORGANISATIONAL PROFILE | | | | | |
| 2,1 | Name of the reporting organisation. | Fully | 2 | | |
| 2,2 | Main brands, products and/or services. | Fully | 10-11 | | |
| 2,3 | Operational structure of the organisation, including main departments, participated companies in operation and joint ventures. | Fully | 10-11; 50 | | |
| 2,4 | Location of the headquarters of the company. | Fully | 2 | | |
| 2,5 | Countries where it is present and name of those with significantly relevant operations for the sustainability issues handled in the report. | Fully | 10-11 | | |
| 2,6 | Type and legal nature of ownership. | Fully | 2 | | |
| 2,7 | Markets covered (including a detailed geographic analysis, the sectors covered and the types of beneficiaries/ customers). | Partial | 10-11 | Only the information on total customer base is disclosed as the segmentation on customer type is confidential due to market competition. | |
| 2,8 | Dimension of the organisation, including number of employees, net sales (for organisations of the private sector) or net revenue (for organisations of the public sector) and the amount of products provided and services rendered. | Fully | 10-11; 20; 100 | | |
| 2,9 | Main changes occurred, during the period covered by the report, in terms of dimension, organisational structure or the shareholder structure. | | 52 | | |
| 2,10 | Prizes received during the period of the report. | Fully | 26-27 | | |
| 3. PARAMETERS OF THE REPORT | | | | | |
| 3,1 | Period covered (i.e. civil/ fiscal year) for the information presented in the report. | Fully | 5 | | |
| 3,2 | Date of the latest published report (if applicable). | Fully | 5 | | |
| 3,3 | Report Publication cycle (annual, biennial, among others). | Fully | 5 | | |
| 3,4 | Person(s) to be contacted for clarifications relative to the report or its content, including electronic address and the Internet site. | Fully | 5 | | |
| 3,5 | Process for the definition of the report content, including: the process to determine the relevance, the definition of priority issues in the scope of the report. | Fully | 5; 30-32 | | |
| 3,6 | Boundaries of the report (countries or regions, products or services, departments, installations, joint ventures or participated companies, as well as other limitations of specific scope). | Fully | 2, 5 | | |
| 3,7 | Mention any relative specific limitations to the scope and the boundaries of the report. | Fully | 5 | | |
| 3,8 | Base for report elaboration in what concerns joint ventures, participated, partially controlled companies, leasehold installations, subcontracted operations and other situations that can significantly effect the comparability between distinct periods or with reports from other organisations. | Fully | 5 | | |
| 3,9 | Data measurement techniques and calculation bases, including underlying hypotheses and techniques to the estimates applied to the compilation of the indicators and other information contained in the report. | Fully | 5 | | |
| 3,10 | Explanation of the effect of any reformulations of existing information in previous reports and the reasons for such reformulations (i.e. fusions/acquisitions, change of period or year, nature of the business, methods of measurement). | | 5 | | |
| 3,11 | Significant changes, in relation the previous reports, in terms of scope, boundary or applied methods of measurement. | Fully | 5 | | |
| 3,12 | Table that identifies the place of the standard-information in the report. | Fully | 143-151 | | |
| 3,13 | Policy and current practice relative to the search of an independent process of reliability assurance for the report. If it is not be enclosed in the reliability assurance report that follows the sustainability report, explain the scope and the base of any independent verification that has taken place as well as the nature of the existing relationship between the organisation and the auditor(s). | Fully | 5; 153-154 | | |
| 4. GOVERNANCE, COMMITMENTS AND INVOLVEMENT | | | | | |
| 4,1 | Structure of governance of the organisation, including committees subordinated to the hierarchically highest governance body and with responsibility for specific tasks, such as the definition of the strategy or the supervision of the organisation. | Fully | 50 - 61 | | |
| 4,2 | Indicate if the Chairman of the hierarchically highest governance body is simultaneously an executive director (and in this case which are its functions in the scope of the management of the organisation and the reasons for this composition). | Fully | 52 | | |
| 4,3 | Indicate, in the case of organisations with a unitary administration structure, the number of members of the hierarchically highest governance body who are independent and/or non-executive members. | Fully | 51 | | |
| 4,4 | Mechanisms that allow the shareholders and employees to transmit recommendations or orientations to the hierarchically highest governance body. | Fully | 88; 100 | | |
| 4,5 | Relationship between the remuneration of the members of the hierarchically highest governance body, top directors and executives (including decision making agreements) and the organisation performance (including social and environmental performance). | Fully | 54-60 | | |
| 4,6 | Processes available to the hierarchically highest governance body to prevent the occurrence of interest conflicts. | Fully | 36-42; 46-50; 60 | | |
| 4,7 | Process for the determination of the qualifications and skills demanded to the members of the hierarchically highest governance body to relatively define the strategy of the organisation relative to the issues connected to the economic, environmental and social performance. | Partial | 54, 60, 61 | Elected Board Members are evaluated on the basis of the whole of their management skills, comprising financial and non-financial criteria. Nevertheless, there are no specific processes for such evaluation. | |
| 4,8 | The internal development of declaration of principles or mission, codes of conduct and principles considered relevant for the economic, environmental and social performance, as well as the implementation phase. | Fully | 46-47 | | Principles 1 to 10 |
| 4,9 | Processes of the hierarchically highest governance body, to supervise the form how the organisation carries out the identification and the management of the economic, environmental and social performance, the identification and the management of relevant risks and opportunities as well as the adhesion or compliance with the internationally accepted standards, codes of conduct and principles. | Fully | 36-42; 43-45; 47-50 | | Principles 1 to 10 |
| 4,10 | Processes for the evaluation of the performance of the hierarchically highest governance body, especially in relation to the economic, environmental and social performance. | Fully | 54, 55, 60, 61 | | |

PROFILE INDICATORS

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|-----------|---|--------|-------------------------|------------------------------|--------------------|
| 4,11 | Explanation on whether the precaution principle is handled by the organisation and how it is done. | Fully | 36-42; 47, 48 | | Principle 7 |
| 4,12 | Letters, principles or other initiatives developed externally of economic, environmental and social nature that the organisation subscribes to or defends. | Fully | 47, 48 | | Principles 1 to 10 |
| 4,13 | Significant participation in associations (such as industrial associations) and/or national/international defense organisations where the organisation: holds positions in the governance bodies; participates in projects and committees; contributes with substantial financings, that exceed the normal obligations of the participants; faces the participation as strategical. | Fully | 45; 70-72 | Complete list on the website | |
| 4,14 | Relation of the groups that constitute the interested parties involved by the organisation. | Fully | 31, 32 | | |
| 4,15 | Base for the identification and selection of the interested parties to be involved. | Fully | 31, 32 | | |
| 4,16 | Methods used to involve the interested parties including the frequency of the involvement, by type and groups, of the interested parties. | | 31-32; 88, 92, 100, 104 | | |
| 4,17 | Main issues and concerns identified through the involvement of the interested parties and the measures adopted by the organisation in their treatment, namely through the reports. | Fully | 32-34 | | |

MANAGEMENT APPROACHES

| | | | | | |
|----|--|---------|--------------------------------|--|--|
| EC | Economic Management Approach | Fully | 12-13, 23, 30, 122-129 | | |
| EN | Environmental Management Approach | Fully | 73-75, 77-79, 82-85 | | |
| LA | Labour Management Approach | Fully | 100-101, 103-104, 106-109, 111 | | |
| HR | Human Rights Management Approach | Partial | 45, 49, 100, 105-106, 114-117 | | |
| SO | Social Management Approach | Partial | 43, 45-47, 122-129 | | |
| PR | Product Responsibility Management Approach | Fully | 34, 43-44, 92, 96-98 | | |

PERFORMANCE INDICATORS

ECONOMIC

| | | | | | |
|-----|---|-------|---|--|-------------|
| EC1 | Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core) | Fully | 19-25, 89, 90, Pages 60-63 of Annual Report | | |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core) | Fully | 73-77 | | Principle 7 |
| EC3 | Coverage of the organisation's defined benefit plan obligations. (Core) | Fully | 21; Page 68 of Annual Report | | |
| EC4 | Significant financial assistance received from government. (Core) | Fully | 21 | | |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional) | Fully | 21 | | Principle 1 |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core) | Fully | 113-119 | | |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. (Core) | Fully | 151 | PT has a quota policy that assumes the following recruitment policy: local recruitment and a minimum number of expatriates (mainly in financial areas). | Principle 6 |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core) | Fully | 119-141 | | |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional) | Fully | 19-25 | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that water consumption is an aspect with low relevance in PT's activity. | |

ENVIRONMENT

| | | | | | |
|-----|---|---------|----------------|---|--------------------------|
| EN1 | Materials used by weight or volume. (Core) | Fully | 80 | | Principle 8 |
| EN2 | Percentage of materials used that are recycled input materials. (Core) | Fully | 76 | | Principle 8, Principle 9 |
| EN3 | Direct energy consumption by primary energy source. (Core) | Fully | 81 | | Principle 8 |
| EN4 | Indirect energy consumption by primary source. (Core) | Fully | 81 | | Principle 8 |
| EN5 | Energy saved due to conservation and efficiency improvements. (Additional) | Fully | 81 | | Principle 8, Principle 9 |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional) | Partial | 76, 81, 84, 85 | PT cannot yet quantify energy consumption reductions derived from these measures. Such measurement shall only be done accurately in 2020. | Principle 8, Principle 9 |

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|-----------|--|---------|-----------|--|--------------------------|
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. (Additional) | Partial | 81 | PT cannot yet quantify energy consumption reductions derived from these measures. Such measurement shall only be done accurately in 2020. | Principle 8, Principle 9 |
| EN8 | Total water withdrawal by source. (Core) | Fully | 81 | | Principle 8 |
| EN9 | Water sources significantly affected by withdrawal of water. (Additional) | No | | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that water consumption is an aspect with low relevance in PT's activity. | Principle 8 |
| EN10 | Percentage and total volume of water recycled and reused. (Additional) | No | | Water consumption at PT is of little significance, therefore investment in water recycling and reuse mechanisms has low priority. | Principle 8, Principle 9 |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core) | Fully | 82 | | Principle 8 |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core) | Fully | 77 | | Principle 8 |
| EN13 | Habitats protected or restored. (Additional) | No | | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that biodiversity impact is an aspect with low relevance in PT's activity. | Principle 8 |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional) | Fully | 82-83 | | Principle 8 |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional) | No | | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that biodiversity impact is an aspect with low relevance in PT's activity. | Principle 8 |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. (Core) | Fully | 84 | | Principle 8 |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. (Core) | Fully | 84 | | Principle 8 |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional) | Fully | 81, 84-85 | | Principle 7-9 |
| EN19 | Emissions of ozone-depleting substances by weight. (Core) | No | | This indicator is only applicable to companies that emit ozone layer damaging substances. PT does not produce any equipment that emits such substances; therefore it is not applicable to this company. | Principle 8 |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. (Core) | Fully | 85 | | Principle 8 |
| EN21 | Total water discharge by quality and destination. (Core) | Fully | 86 | | Principle 8 |
| EN22 | Total weight of waste by type and disposal method. (Core) | Fully | 86 | | Principle 8 |
| EN23 | Total number and volume of significant spills. (Core) | No | | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that biodiversity impact is an aspect with low relevance in PT's activity. | Principle 8 |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional) | No | | Environmental issues at PT are managed through existing environmental management systems that allow the identification of the most relevant impacts to take into consideration. The certification of these systems validates the classification of aspects to be considered. Therefore, it is assumed that biodiversity impact is an aspect with low relevance in PT's activity. | Principle 8 |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional) | No | | Waste produced by PT is entirely transported and routed to a suitable final destination through entities licensed for such purpose. The amount of dangerous waste produced and final destination is shown in indicator EN22. | Principle 8 |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core) | Partial | 76 | PT cannot quantify the reductions achieved accurately. Such amount shall only be possible in 2020. | Principle 7-9 |

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|---|--|---------|------------------|---|---------------------------------------|
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. (Core) | Fully | | Some measures to reduce the impact of the packages sold to the market are implemented (MEO and TMN products), namely the use of certified paper originated from forests with sustainable management, as well as the use of more ecological ink. Nevertheless, PT does not collect the packages of the products sold. | Principle 8, Principle 9 |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. (Core) | Fully | 86 | | Principle 8 |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional) | Fully | 84 | | Principle 8 |
| EN30 | Total environmental protection expenditures and investments by type. (Additional) | Partial | 87 | | Principle 7-9 |
| SOCIAL: LABOUR PRACTICES & DECENT WORK | | | | | |
| LA1 | Total workforce by employment type, employment contract, and region. (Core) | Fully | 101-103 | | |
| LA2 | Total number and rate of employee turnover by age group, gender, and region. (Core) | Fully | 102 | | Principle 6 |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional) | Fully | 100 | | |
| LA4 | Percentage of employees covered by collective bargaining agreements. (Core) | Fully | 102 | | Principle 1; Principle 3 |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. (Core) | Fully | 100 | | Principle 3 |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional) | Fully | 111 | | Principle 1 |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (Core) | Fully | 102, 109 | | Principle 1 |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core) | Fully | 108-111 | | Principle 1 |
| LA9 | Health and safety topics covered in formal agreements with trade unions. (Additional) | Fully | 105-106, 108-111 | | Principle 1 |
| LA10 | Average hours of training per year per employee by employee category. (Core) | Fully | 108 | | |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional) | Fully | 108 | | |
| LA12 | Percentage of employees receiving regular performance and career development reviews. (Additional) | Fully | 104 | | |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core) | Fully | 102-103 | | Principle 1; Principle 6 |
| LA14 | Ratio of basic salary of men to women by employee category. (Core) | Partial | 103 | PT assesses this ratio, taking into consideration the two relevant categories for the company (managers and non-managers). | Principle 1; Principle 6 |
| SOCIAL: HUMAN RIGHTS | | | | | |
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core) | Fully | 114; 117-119 | | Principle 1 to 6 |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core) | Fully | 118, 119 | | Principle 1 to 6 |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional) | Fully | 108 | | Principle 1 to 6 |
| HR4 | Total number of incidents of discrimination and actions taken. (Core) | Fully | 47-49 | | Principle 1; Principle 2; Principle 6 |
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core) | No | | Considering the nature of its activities, there is no risk of impeachment to the free exercise of freedom of association and celebration of collective bargaining agreements. PT's activity is guided by and complies strictly with SOX and CMVM guidelines, and implements the best management and risk practices, as well as all strategic guidelines in terms of respect for human rights, namely the United Nations Global Compact, subscribed by PT. | Principle 1 to 3 |
| HR6 | Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labor. (Core) | Fully | 47-49 | | Principle 1; Principle 2; Principle 5 |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labor. (Core) | No | | Considering the nature of its activities, there is no risk of occurrence of forced or slave labour. PT's activity is guided by and complies strictly with SOX and CMVM guidelines, and implements the best management and risk practices, as well as all strategic guidelines in terms of respect for human rights, namely the United Nations Global Compact, subscribed by PT. | Principle 1; Principle 2; Principle 4 |
| HR8 | Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional) | Fully | | | Principle 1; Principle 2 |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional) | Fully | | | Principle 1; Principle 2 |

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|--|--|---------|----------|--|-------------------|
| SOCIAL: COMMUNITY | | | | | |
| SO1 | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core) | Fully | 36-42 | | |
| SO2 | Percentage and Fully number of business units analyzed for risks related to corruption. (Core) | Fully | 36-42 | The risk evaluation process, risk factors and respective management are applied to all PT's businesses. Corruption risk analysis, being included in the Code of Conduct, is one of the analysed issues/risks. | Principle 10 |
| SO3 | Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core) | Fully | 108 | | Principle 10 |
| SO4 | Actions taken in response to incidents of corruption. (Core) | Fully | 47-49 | | Principle 10 |
| SO5 | Public policy positions and participation in public policy development and lobbying. (Core) | Fully | 46 | | Principle 1 to 10 |
| SO6 | Fully value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional) | Fully | 46 | | Principle 10 |
| SO7 | Fully number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional) | Fully | 43-44 | | |
| SO8 | Monetary value of significant fines and Fully number of non-monetary sanctions for non-compliance with laws and regulations. (Core) | Fully | 45 | | |
| SOCIAL: PRODUCT RESPONSIBILITY | | | | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core) | Fully | 96-97 | | Principle 1 |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional) | Fully | 97 | | Principle 1 |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core) | Partial | 97-98 | This information is not material for PT's activity or its sector, as can be observed in the materiality matrix on page 32. | Principle 8 |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. (Additional) | Fully | 94 | | Principle 8 |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional) | Fully | 91-96 | | |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core) | Fully | 46-47 | | |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional) | Fully | 91-95 | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional) | Fully | 94, 96 | | Principle 1 |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core). | Fully | 45 | | |
| ICT SUPPLEMENT: LIST AND PERFORMANCE OF THE COMPANY | | | | | |
| IO 1 | Capital investment in telecommunication network infrastructure broken down by country/region. | Fully | 21 | | |
| IO 2 | Net costs for service providers under the Universal Service Obligation when extending service to geographic locations and low-income groups, which are not profitable. Describe relevant legislative and regulatory mechanisms. | Fully | | Issues related to obligatory universal service are regulated by ANACOM, a body with which PT holds regular contacts. PT has been conducting negotiations with this body which will enable it to report the amount of investment with suppliers in the scope of the obligatory universal service. | |
| IO 3 | Practices to ensure health and safety of field personnel involved in the installation, operation and maintenance of masts, base stations, laying cables and other outside plant. Related health and safety issues include working at heights, electric shock, exposure to EMF and radio frequency fields, and exposure to hazardous chemicals. | Fully | 108-111 | | |
| IO4 | Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) standards on exposure to radiofrequency (RF) emissions from handsets | Fully | 77, 78 | | |
| IO 5 | Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) guidelines on exposure to radiofrequency (RF) emissions from base stations. | Fully | 77, 78 | | |
| IO 6 | Policies and practices with respect to Specific Absorption Rate (SAR) of handsets. | Fully | 77, 78 | | |
| IO 7 | Policies and practices on the siting of masts and transmission sites including stakeholder consultation, site sharing, and initiatives to reduce visual impacts. Describe approach to evaluate consultations and quantify where possible. | Fully | 77, 78 | | |
| IO 8 | Number and percentage of stand-alone sites, shared sites, and sites on existing structures. | Partial | | In the scope of the obligatory universal service, all PT payphones are available for sharing. TMN shares antennas with the other market operators, although this information is not quantified. | |
| PA 1 | Policies and practices to enable the deployment of telecommunications infrastructure and access to telecommunications products and services in remote and low population density areas. Include an explanation of business models applied. | Fully | 122, 123 | | |
| PA 2 | Policies and practices to overcome barriers for access and use of telecommunication products and services including: language, culture, illiteracy, and lack of education, income, disabilities, and age. Include an explanation of business models applied. | Fully | 122 | | |
| PA 3 | Policies and practices to ensure availability and reliability of telecommunications products and services and quantify, where possible, for specified time periods and locations of down time. | Fully | 122 | | |

| INDICATOR | DESCRIPTION | REPORT | PAGE | EXPLANATION | UNGC |
|-----------|--|---------|--------|--|------|
| PA 4 | Quantify the level of availability of telecommunications products and services in areas where the organisation operates. Examples include: customer numbers/market share, addressable market, percentage of population covered, percentage of land covered. | Fully | 122 | | |
| PA 5 | Number and types of telecommunication products and services provided to and used by low and no income sectors of the population. Provide definitions selected. Include explanation of approach to pricing, illustrated with examples such as price per minute of dialogue/bit of data transfer in various remote, poor or low population density areas. | Fully | 123 | | |
| PA 6 | Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief. | Fully | 123 | | |
| PA 7 | "Policies and practices to manage human rights issues relating to access and use of telecommunications products and services. For example: a)Participation in industry initiatives or individual initiatives related to Freedom of Expression b)Legislation in different markets on registration, censorship, limiting access, c)Interaction with governments on security issues for surveillance purposes d)Interaction with national and local authorities and own initiatives to restrict criminal or potentially unethical content. e)Protecting vulnerable groups such as children. Explain how such policies and practices are adapted and applied in different countries." | Fully | 96, 97 | | |
| PA 8 | Policies and practices to publicly communicate on EMF related issues. Include information provides at points of sales material. | Fully | 77, 78 | | |
| PA 9 | Total amount invested in programmes and activities in electromagnetic field research. Include description of programmes currently contributed to and funded by the reporting organisation. | Fully | 70, 72 | | |
| PA 10 | Initiatives to ensure clarity of charges and tariffs. | Fully | 97, 98 | | |
| PA 11 | Initiatives to inform customers about product features and applications that will promote responsible, efficient, cost effective, and environmentally preferable use. | Fully | 97, 98 | | |
| TA 1 | Provide examples of the resource efficiency of telecommunication products and services delivered. | Fully | 64-72 | | |
| TA 2 | Provide examples of telecommunication products, services and applications that have the potential to replace physical objects (e.g. a telephone book by a database on the web or travel by videoconferencing). | Fully | 64-72 | | |
| TA 3 | Disclose any measures of transport and/or resource changes of customer use of the telecommunication products and services listed above. Provide some indication of scale, market size, or potential savings. | Partial | | PT is not able to measure impacts i the scope of this indicator. Nevertheless, studies conducted on ICT impact give indications on potential savings. The Smart 2020 study is such an example. | |
| TA 4 | Disclose any estimates of the rebound effect (indirect consequences) of customer use of the products and services listed above, and lessons learned for future development. This may include social consequences as well as environmental. | Partial | | PT is not able to measure impacts i the scope of this indicator. Nevertheless, studies conducted on ICT impact give indications on potential savings. The Smart 2020 study is such an example. | |
| TA 5 | Description of practices relating to intellectual property rights and open source technologies. | Fully | 69, 70 | | |

ESSENTIAL INDICATOR



Statement GRI Application Level Check

GRI hereby states that **Portugal Telecom - PT** has presented its report "Sustainability Report 2010" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 19 May 2011

A handwritten signature in black ink, appearing to read "Nelmar Arbex", is written over a faint, large watermark of the GRI globe logo in the background.

Nelmar Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because Portugal Telecom - PT has submitted this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 16 May 2011. GRI explicitly excludes the statement being applied to any later changes to such material.

SGS – VERIFICATION STATEMENT

TO THE BOARD OF DIRECTORS OF PORTUGAL TELECOM, SGPS, SA

NATURE AND SCOPE OF THE VERIFICATION

By request of Portugal Telecom SGPS, SA, SGS ICS performed an independent verification of the Sustainability Report 2010. The scope of the verification, based on SGS' methodology for Sustainability Reports Verification, included the text, data, charts and declarations contained herein. Data from legally certified financial reports were not verified at the source, throughout this verification.

RESPONSIBILITY

The Board of Directors of the Portugal Telecom Group is responsible for the information disclosed and for setting evaluation criteria. The Board is also responsible for establishing the systems for gathering, classifying, validating and reporting the information. SGS ICS did not participate in the treatment of any information comprised in the Sustainability Report 2010. It is the responsibility of SGS ICS to issue an opinion regarding the suitability of the aforementioned information, based on the independent verification protocol, which was carried out with regards to the scope and the purpose of the verification commitment.

INDEPENDENCE AND COMPETENCE STATEMENT

SGS Group is a world leader in inspection, assessment and verification services, operating in over 140 countries, with an offer that includes the certification of services, of quality, environmental and social management systems, and auditing procedures concerning ethical issues, as well as the verification of environmental, social and sustainability reports. SGS ICS asserts its independence before favours, outside influence and conflicts of interests related to PT Group, its subsidiaries and interested parties.

The members of the verification team were selected according to their knowledge, experience and qualifications regarding the proposed verification. The team included auditors registered with the Institute of Environmental Management and Assessment (IEMA), the International Register of Certified Auditors (IRCA), Social Accountability International (SAI) and also EMAS Verifiers. The participating verifiers have coordinating auditor qualifications for the performance of certification audits to ISO 9001 quality management systems, ISO 14001 environmental management systems, OHSAS 18001 occupational safety and health management systems, and SA8000 social responsibility management systems.

VERIFICATION CRITERIA AND METHODOLOGY

SGS Group developed a set of protocols for the verification of sustainability reports (Sustainability Report Assurance) based on best practices established by the 2006 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the AA1000 Assurance Standard (2003) and International Standard on Assurance Engagements 3000 (ISAE 3000). These protocols are classified into different verification levels, according to the reporting history and the capacity of the reporting organisation.

The Sustainability Report 2009 was verified in accordance with the level 2 protocol, consisting of (i) the identification of the existence of management control systems supported by organisational policies and resources, (ii) the assessment of the efficiency of the procedures and systems for gathering, classifying, validating and reporting the information contained herein, including, whenever necessary, corroborative statements and/or evidence from external interested parties, (iii) carrying out a sample of certain procedures for consolidating the information concerning the reported environmental and social performance, (iv) comparing the included financial information with the information contained in the financial reports from where it was retrieved, (v) interviewing the managers responsible for preparing the information (vi) providing evidence that the fundamental principles of the GRI reporting guidelines (2006) have been considered and applied, and (vii) verifying the fulfilment of the terms required for stating that this report was prepared "in accordance with" Level A GRI guidelines (2006).

CONCLUSIONS

Based on the methodology identified above and the work carried out, it is the opinion of SGS ICS that the information and data included in the verified report are accurate, comprehensive, reliable and provide an adequate representation of the activities of the Portugal Telecom Group, in Portugal, throughout a period of twelve months ended as at 31 December 2008.

On the path of sustainable strategy, a fundamental pillar of its business model, PT was recognised by international entities, so that is now integrated in Dow Jones Sustainability Index and became the only Portuguese company simultaneously included in the two main indices of sustainable development, the DJSI e o FTSE4Good.

SGS ICS states that the Sustainability Report 2010, the object of this verification, was prepared in accordance with GRI Guidelines (2006), fulfilling the Level A+ requirements necessary for that purpose.

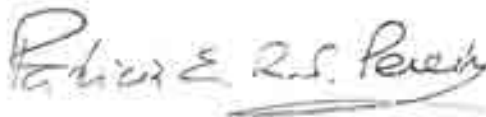
RECOMMENDATIONS

Based on the verification carried out, we identified areas of progress as compared to previous reports, and areas for improvement that will allow for the strengthening of the sustainability context of the Portugal Telecom Group. The observations identified were object of the Internal Management Report directed at the Board of Directors of the Portugal Telecom Group.

In representation of SGS ICS



Isabel Berger



Patrícia Pereira

Certification Department

Lisbon, 6 April 2010

www.pt.sgs.com

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