

## Corporate Governance Report

The purpose of this report is to disclose the corporate governance structure and practices adopted by the Company with a view to complying with the provisions of the Corporate Governance Code as published by the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* – “CMVM”) in July 2013, as well as with the best international corporate governance practices. This report has been drawn up in accordance with articles 7 and 245A of the Portuguese Securities Code and the form attached to CMVM Regulation no. 4/2013.

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## INTRODUCTION

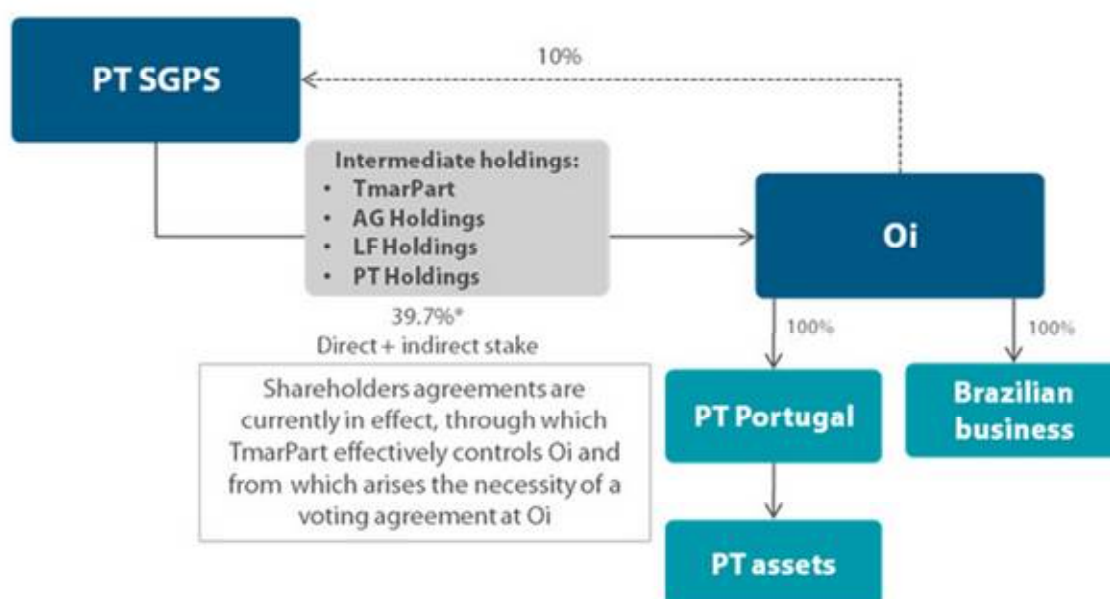
### PT SGPS STRUCTURE

Following the memorandum of understanding disclosed to the market on 2 October 2013 (the “Memorandum of Understanding”), Portugal Telecom, SGPS SA (“Portugal Telecom”, “PT SGPS” or the “Company”), Oi, S.A. (“Oi”) and a group of other entities related to the former have announced their intention to combine the businesses of Portugal Telecom and Oi (the “Business Combination”) and concentrate such businesses in a single listed entity organised and established under the laws of Brazil. In the meantime, it was defined that such company would be Telemar Participações, S.A. (“TmarPart” or “CorpCo”).

Within the scope of such Memorandum of Understanding, PT SGPS subscribed for an increase in Oi’s capital, settled on 5 May 2014, through a contribution in kind of the PT Assets, which consisted in all the businesses of the Portugal Telecom Group on such date, other than its subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A. and its investments in Oi, Contax and its controlling shareholders (the “Oi Capital Increase”). As a result of its contribution to the Oi Capital Increase, PT SGPS increased its actual share in Oi from 23.2%, as previously held through Bratel Brasil, to 39.7%, held through a total direct share of 35.8% (32.8% in PT SGPS and 3.0% in Bratel Brasil) and an indirect share of 3.9%, held through Oi’s controlling shareholders.

After the said contribution, PT SGPS continued having a joint control of Oi with its partners (similarly to previous years), but all the operations in the various geographies are carried out by Oi.

On 31 December 2014, PT SGPS’ main asset was the 39.7% investment in Oi, but the control of the investment in the Oi joint venture is made through various instrumental companies as shown below:



\* Equivalent to 37.3% in CorpCo after the conclusion of the Business Combination.

Following the default, in July 2014, as to the reimbursement of the debt instruments issued by Rio Forte Investments, S.A. ("Rio Forte"), PT SGPS and Oi entered, on 8 September 2014, into an Exchange Agreement and a Call Option Agreement, both subject to the laws of Brazil, as detailed under item 10 of Part I hereof, whose main terms and conditions were approved by the shareholders at a General Meeting held on the same date. The execution of the agreements with Oi, including the Exchange Agreement and the Call Option Agreement, permitted the pursuance of the Business Combination transaction announced on 2 October 2013. However, the pursuance of the merger of PT SGPS into CorpCo, and the resulting extinguishment of PT SGPS, as originally planned was no longer feasible taking into account the change in the composition of PT SGPS' assets after the performance of the Exchange (as defined under item 10 of Part I hereof) , as well as the deterioration of Oi's financial situation verified in the meanwhile.

As detailed under item 10 of Part I hereof, the Exchange agreed upon on 8 September 2014 was consummated, on 30 March 2015, as follows: (i) PT SGPS deposited the Oi Shares Subject to Exchange (as defined under item 10 of Part I hereof) with the Depositary (as defined under item 10 of Part I hereof) and instructed the Depositary to record the transfer of the ADSs Subject to Exchange (as defined under item 10 of Part I hereof) to PT International Finance B.V. ("PTIF"); and (ii) PTIF transferred to PT SGPS the Rio Forte Instruments (as defined under item 10 of Part I hereof) in the total amount of €897 million, in accordance with the Exchange Agreement, as amended by the Assignment Act (as defined under item 10 of Part I hereof).

After the execution of the Exchange, the relevant assets held by PT SGPS consist of a direct and indirect shareholding of 27.48% in Oi, the Rio Forte Instruments in the total amount of €897 million and the Call Option over 47,434,872 ordinary shares and 94,869,744 preferred shares of Oi.

On 31 March 2015, the shareholders in TmarPart approved an alternative structure for the Business Combination, which does not involve the incorporation of the Oi shares in CorpCo or CorpCo's migration to the Novo Mercado segment of BM&FBOVESPA. The parties agreed on a new shareholding and management structure for Oi (the "New Structure"), which includes the following stages:

- › Corporate and management reorganisation, adopting a new governance model that will comprise the main characteristics of the Novo Mercado of BM&FBOVESPA, without the parties, however, desisting from endeavouring to reach the Novo Mercado of BM&FBOVESPA;
- › Voluntary conversion of Oi's preferred shares into ordinary shares, observing in such conversion the exchange ratio of 0.9211 ordinary shares for each Oi issued preferred share ("Oi Share Conversion Programme"), taking into account that the said voluntary share conversion proposal is subject to a minimum percentage of adhesion by holders of two-thirds of ex-treasury preferred shares ("Conversion Condition"), such adhesion to be manifested within 30 days from Oi's General Meeting of Shareholders resolving on the beginning of the period of time for conversion;
- › Implementation of the one share/one vote principle. However, a 15% limitation to the voting rights applicable to all Oi shareholders will be included in the Bylaws of Oi. Such limitation will cease to exist in case of occurrence of certain events, including capital increase, corporate reorganisation or takeover bid if resulting in a dilution of the current shareholder base in excess of 50%;
- › Extinguishment of trading restrictions for all shareholders with a view to increasing the liquidity of Oi shares;



- › Extinguishment of TmarPart through its incorporation in Oi, with the resulting termination of TmarPart's Shareholders' Agreements, in order to ensure the dispersion of Oi's control; and
- › Implementation of the New Structure as soon as possible, and before 31 October 2015.

## PART I – INFORMATION ON SHAREHOLDER STRUCTURE, ORGANIZATION AND CORPORATE GOVERNANCE

### A. SHAREHOLDER STRUCTURE

#### I. CAPITAL STRUCTURE

##### 1. CAPITAL STRUCTURE

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

Five hundred of such shares are Class A shares, which is equivalent to 0.0000558% of the total share capital. According to the Bylaws, a majority of Class A shares must be held by the Portuguese State or other entities belonging to the State sector. Such shares are currently held by the Portuguese State.

Following a resolution approved at the General Meeting of shareholders dated 26 July 2011, Class A shares no longer grant any special rights to the Portuguese State as shareholder in PT SGPS. In this way, no shares representing the share capital in PT SGPS grant any special rights to their holders at this time.

All PT SGPS ordinary shares are admitted to trading on the Euronext Lisbon regulated market. Class A shares are not admitted to trading on any regulated or non-regulated market.

On 6 February 2015, PT SGPS was given notice by the New York Stock Exchange (“NYSE”) that the Company was below the continuous trading criteria established under Section 802.01C of the NYSE Listed Company Manual since the average closing price of its American Depositary Shares (“ADSs”) on the NYSE was below 1.00 dollar for a consecutive trading period of 30 days. In this way, considering such factors, as well as the possibility of achieving a reduction in the costs of the Company through the elimination of the charges associated to keeping the trade of ADSs on the NYSE, PT SGPS communicated, on 9 March 2015, that the Board of Directors had approved the withdrawal of PT SGPS’ ADSs from trading on NYSE. PT SGPS kept its American Depositary Receipts programme, thus permitting investors to hold its ADSs and trade the same in OTC transactions. The last day of trading for the Company’s ADSs on the NYSE was 27 March 2015.

##### 2. ANY RESTRICTIONS TO SHARE TRANSFERABILITY, SUCH AS CONSENT CLAUSES FOR DISPOSAL, OR LIMITATIONS TO SHARE OWNERSHIP

The Company does not adopt any specific limitations as to share transferability. However, the Bylaws provide that shareholders carrying out, directly or indirectly, a business competing with the business of companies in a control relationship with PT SGPS may not be the owners, without the prior authorisation of the General Meeting of shareholders, of ordinary shares representing more than 10% of the share capital in the Company.

##### 3. NUMBER OF OWN SHARES, CORRESPONDING CAPITAL PERCENTAGE AND CORRESPONDING VOTING RIGHTS PERCENTAGE

On 31 December 2014, the Company held 20,640,000 own shares resulting from the physical settlement of equity swap agreements over PT SGPS own shares.

#### 4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES

In the normal course of business, PT SGPS has entered into agreements that might be amended or terminated in the event of a change of control in the Company. Due to their relevance, the following should be highlighted: Private Instrument for a Call Option on Shares Issued by Telemar Participações SA, Pasa Participações SA, EDSP75 Participações SA and other Oi Companies, entered into on 25 January 2011.

Under such agreement, the companies in the Oi control group shall be entitled to acquire from the PT Group, which will be under the obligation of selling, its shares as directly and indirectly held in the Oi controlling holdings, in the event of a change of PT SGPS control structure as defined under the agreement. Such call option shall remain in force for as long as PT SGPS is the holder of a direct or indirect share in Telemar Participações SA.

Moreover, the Addendum to the Shareholders' Agreement in respect of Telemar Participações SA, also entered into on 25 January 2011 between PT SGPS and shareholders in Telemar Participações SA, provides that the controlling shareholder, whether directly or indirectly, of any one of the parties (PT SGPS included) can only cease exercising control over such party upon prior submission by the latter of a proposal for disposal of the shares held by such party in Telemar Participações SA to the other parties to the agreement.

Additionally, we should mention the shareholders' agreement entered into between PT SGPS and Samba Luxco S.à r.l. ("Samba"), dated 13 August 2007, regarding the company Africa PT, B.V. (currently "Africatel, B.V."), incorporated within the context of the strategic partnership established between the above companies for the purpose of jointly creating and developing a telecommunications service provider operating in the entire Sub-Saharan Africa. Under such shareholders' agreement, in the event of a change of control in Portugal Telecom, Samba would have a put option to sell to PT SGPS its entire shareholding in Africatel, B.V. The 75% share previously held by PT SGPS in Africatel BV is currently held by Oi, through Africatel GmbH, following the contribution by PT Portugal, SGPS, S.A. ("PT Portugal") within the framework of the Oi Capital Increase.

In November 2014, Africatel GmbH and PT SGPS were informed that Samba, the holder of the remaining 25% in Africatel B.V., had commenced arbitration proceedings against Africatel GmbH and Portugal Telecom at the Arbitration Court of the International Chamber of Commerce in respect of its supposed put option to sell its share in Africatel B.V., among other allegations. It is Samba's understanding that its right to such put option, according to the shareholders' agreement of Africatel, was triggered by the transaction between PT SGPS and Oi which included the Oi Capital Increase. The other allegations include rights of first offer, first refusal and tag along, that Samba considers having been triggered by this transaction. In case the Arbitration Court agreed with Samba allegations, it could require, among other things, an independent appraisal report of Africatel B.V., and any liability concerning the purchase of Samba's shareholding in Africatel B.V. and/or damage indemnification could be relevant. Both Africatel GmbH and PT SGPS intend to vigorously fight these allegations.

Within the framework of the Subscription Agreement entered into between Portugal Telecom and Oi in respect of the Oi Capital Increase, Oi agreed to be the successor of Portugal Telecom in any right or obligation under agreements executed by Portugal Telecom, provided the agreements establishing such right or obligation were specified on the documentation for the overall offer that was part of the Oi Capital Increase. It was disclosed on the Oi Capital Increase prospectus that, among other matters, Samba had said that the Business Combination between Portugal Telecom and Oi had triggered, within the scope of Africatel's shareholders' agreement, a put option in relation to Samba's share in Africatel Holdings B.V.. However, it is not possible to guarantee that Oi would succeed any and all liabilities and/or damages concerning the

arbitration procedure against Samba.

There are no significant agreements entering into force in the event of change in control in PT SGPS. Also, there are no measures requiring payment or assumption of fees by the Company in the event of change of control or change in the composition of the Board of Directors and which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members. PT SGPS therefore complies with CMVM Recommendation no. I.5.

## 5. RENOVATION / REVOCATION OF DEFENSIVE MEASURES, IN PARTICULAR THOSE PROVIDING FOR THE RESTRICTION OF THE NUMBER OF VOTES THAT MAY BE HELD OR EXERCISED BY A SINGLE SHAREHOLDER

PT SGPS' Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). The Bylaws do not provide any regime for the renovation or revocation of this rule.

## 6. SHAREHOLDERS' AGREEMENTS OF WHICH THE COMPANY IS AWARE AND MIGHT LEAD TO RESTRICTIONS IN THE TRANSFER OF SECURITIES OR VOTING RIGHTS

The Company has no knowledge of the existence of any shareholders' agreements that might lead to restrictions in the transfer of securities or voting rights.

## II. SHAREHOLDINGS AND BONDS

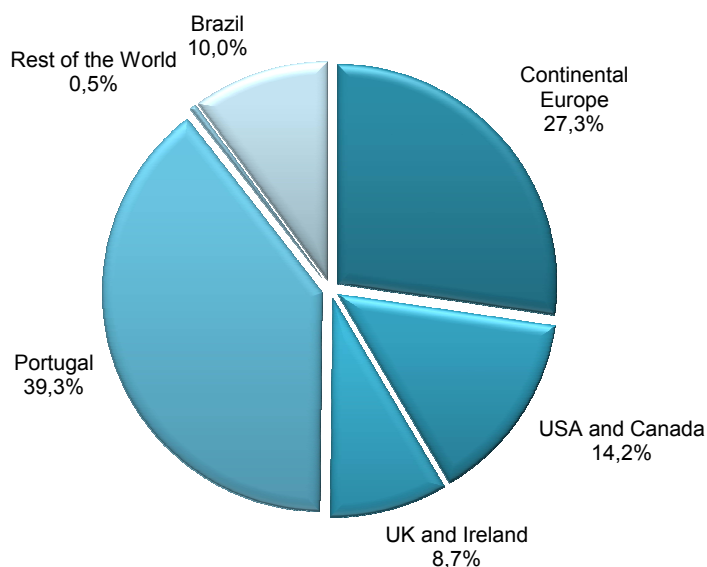
### 7. OWNERS OF QUALIFIED HOLDINGS, PERCENTAGE OF CAPITAL AND VOTES ATTRIBUTABLE, SOURCE AND CAUSES FOR ATTRIBUTION

As at 31 December 2014, qualified holdings represented over 51% of PT SGPS' share capital, as follows:

Qualified Holdings				
Date of information	Entities	No. of shares	% of capital	% of voting rights
12-Nov-14	Novo Banco	112,702,533	12.60%	12.60% (a)
10-July-12	RS Holding	90,111,159	10.05%	10.05% (a)
31-May-12	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
6-Feb-12	Norges Bank	44,442,888	4.96%	4.96%
5-Dec-14	UBS Group AG (b)	31,888,104	3.56%	3.56%
2-Jan-14	Grupo Visabeira	23,642,885	2.64%	2.64%
3-Feb-10	Controlinveste International Finance, SA (c)	20,419,325	2.28%	2.28%
6-May-14	Instituto de Gestão de Fundos de Capitalização da Segurança Social (d)	20,260,743	2.26%	2.28%
18-Nov-14	Morgan Stanley (e)	19,400,557	2.16%	2.16%

(a) PT SGPS Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). As such, the voting rights that may be effectively exercised by Novo Banco, on the one hand, and RS Holding, on the other hand, should be considered as limited to 10%. (b) On 17 April 2015, PT SGPS informed that UBS Group AG became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (c) On 24 February 2015, PT SGPS informed that Olivedesportos – Publicidade, Televisão e Media, S.A. became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (d) On 17 March 2015, PT SGPS informed that Instituto de Gestão de Fundos de Capitalização da Segurança Social, IP became the holder of less than 2% of PT SGPS share capital and corresponding voting rights. (e) On 3 February 2015, PT SGPS disclosed that Morgan Stanley owned a qualified holding in PT SGPS equivalent to 30,566,011 shares, representing 3.41% of its share capital social and voting rights.

PT SGPS has a diversified shareholder structure, with around two-thirds of its share capital held by foreign shareholders, essentially divided between Europe and North America (US and Canada), representing 27.3% and 14.2% respectively of the shareholder basis. The Portuguese market represents around 39.3% of the shareholder basis.



For further information on the source and cause of the qualified holdings, please refer to the section called “Qualified holdings” on the annual individual management report.

Updated information on qualified holdings in the Company may be consulted at [www.ptsgps.pt](http://www.ptsgps.pt) and on CMVM website.

#### 8. NUMBER OF SHARES AND BONDS HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

Regarding this matter, please see item 17 of Part I below.

#### 9. SPECIAL POWERS OF THE MANAGEMENT BODY, NOTABLY AS REGARDS CAPITAL INCREASE RESOLUTIONS

The powers of PT SGPS’ Board of Directors are described in item 21 of Part I below.

PT SGPS’ Bylaws authorise the Board of Directors, upon a favourable opinion by the Audit Committee, to increase the share capital, one or more times, through contributions in cash in up to the amount of 15,000,000 Euros, provided however that this decision is preceded by a resolution of the General Meeting of shareholders establishing the parameters to which such increase or increases are subject, such definition to be made as provided for under the Bylaws. This authorisation was renewed by the shareholders at the Annual General Meeting of Shareholders held on 27 April 2012 and shall be in force for the maximum term set forth in law, *i.e.*, 5 years.

#### 10. SIGNIFICANT COMMERCIAL RELATIONSHIPS BETWEEN OWNERS OF QUALIFIED HOLDINGS AND THE COMPANY

On 8 September 2014, PT SGPS and Oi entered into a *Contrato de Permuta* (“Exchange Agreement”) and a *Contrato de Opção de Compra* (“Call Option Agreement”), both subject to the laws of Brazil, the most relevant terms and conditions of which are as follows:

- › An exchange between PT SGPS and Oi's wholly-owned subsidiaries PT Portugal and PTIF (both referred to as "Oi's Subsidiaries") whereby PT SGPS acquired a credit over Rio Forte, corresponding to all short-term applications subscribed for or acquired by Oi's Subsidiaries in the subscribed for amount of €897 million ("Rio Forte Instruments"), in consideration of the disposal by PT SGPS of 47,434,872(\*) ordinary shares and 94,869,744(\*) preferred shares in Oi representing around 16.9% of the share capital in Oi and 17.1% of the voting share capital in Oi (Oi's own shares excluded) ("Oi Shares Subject to Exchange") ("Exchange");
- › At the same time, PT SGPS was given an irrevocable non-transferrable call option ("Call Option") to repurchase the Oi Shares Subject to Exchange ("Oi Shares Subject to Option") with an exercise price of R\$20.104(\*) for ordinary shares and R\$18.529(\*) for preferred shares, which price will be adjusted by the Brazilian CDI rate added by 1.5% per year;
- › The Call Option became effective on the date of execution of the Exchange (i.e. 30 March 2015) and will have a 6-year maturity. The number of Oi Shares Subject to Option available to the exercise of the Call Option will be reduced in 10% on the first anniversary of the effective date of the Call Option and 18% on the following anniversaries;
- › Any amount received as a result of the monetization of the Call Option through the issue of derivatives or back-to-back instruments must be used for exercising the Call Option;
- › During the validity of the Call Option, PT SGPS may purchase Oi or CorpCo shares only through the exercise of the Call Option;
- › The Call Option may be extinguished on the initiative of Oi if (i) PT SGPS' bylaws are amended in order to suppress or change the provision establishing that the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total voting rights corresponding to PT SGPS' share capital shall not be counted, other than in compliance with a legal provision or relevant government order, (ii) PT SGPS carries out, whether directly or indirectly, any business that competes with any business kept by Oi or any of its controlled companies in countries where these latter operate, therefore compromising the purpose of the Business Combination between PT SGPS and Oi as originally established between the parties, or (iii) PT SGPS violates certain obligations derived from the Call Option Agreement (limitation to the purchase of shares in Oi/CorpCo only upon exercise of the Call Option; limitation to the transfer of the Call Option and creation or assignment of any rights derived from the Call Option without Oi's prior authorisation; engagement to immediately allocate any resources obtained from the monetization of the Call Option to the purchase of shares in CorpCo by exercising the Call Option);
- › Under the agreements, Oi and TmarPart have given Portugal Telecom and its directors, with the execution of the Exchange, acquittance as to the subscription of the applications in Rio Forte Instruments, their subsequent use for the purpose of contributing to the Oi Capital Increase (settled on 5 May 2014) and any omissions or incompleteness in information specifically related to the Rio Forte Instruments, their position and any risks involved.

(\*) As a result of the grouping of Oi shares approved at the general meeting of shareholders held on 18 November 2014, the number of shares and the exercise price were adjusted.

Taking into account that the Exchange implies the acquisition by the Oi Subsidiaries of Oi shares considered as own shares, the completion of the Exchange was submitted to the approval of the Brazilian Securities Commission (Comissão dos Valores Mobiliários – "CVM"), as well as keeping Oi shares (and after Oi's incorporation, of CorpCo shares) as own shares in a volume equivalent to the maximum number of Oi Shares Subject to Exchange, and the granting of the Call Option by the Oi Subsidiaries to PT SGPS in a volume equivalent to the maximum number of Oi Shares Subject to Option under the conditions provided for under the Call Option Agreement. On 4 March 2015, CVM authorised the Exchange and the Call Option

in accordance with the terms of the agreements entered into on 8 September 2014, and the implementation of the Exchange and Call Option was subject to the following conditions: (i) the approval thereof by the general meeting of shareholders of Oi (“Oi GMS”), at which PT SGPS was not allowed to vote, and (ii) granting of voting rights to holders of preferred shares in Oi at the Oi GMS. The Oi GMS, which took place on 26 March 2015, approved the terms and conditions of the Exchange Agreement and Call Option Agreement entered into on 8 September 2014.

On 24 March 2015, Portugal Telecom entered into with Oi, the Oi Subsidiaries and CorpCo the *Instrumento Particular de Cessão de Direitos e Obrigações e Outras Avenças* (Private Act for Assignment of Rights and Obligations and Other Agreements) (the “Assignment Act”) whereby PT Portugal transferred the Rio Forte Instruments held by PT Portugal to PTIF and assigned to PTIF all rights and obligations related thereto under the Exchange Agreement (the “Assignment”).

The Assignment Act also provides that the delivery, upon the Exchange, of the Oi Shares Subject to Exchange could be implemented by means of transfer by PT SGPS of the Oi Shares Subject to Exchange or ADSs (American Depositary Shares) representing the Oi Shares Subject to Exchange, at the discretion of PT SGPS. Oi’s ADR Programmes are governed (i) by the Deposit Agreement (Ordinary Shares) entered into on 27 February 2012, as amended, between Oi, the Bank of New York Mellon, in its capacity as depositary (the “Depositary”) and all holders of ADSs (“ADSs ON”) issued under the said Agreement; and (ii) by the Deposit Agreement (Preferred Shares) entered into on 27 February 2012, as amended, between Oi, the Depositary and all holders of ADSs (“ADSs PN”) issued under the said Agreement.

The Exchange was consummated on 30 March 2015, and thereby PT SGPS (i) deposited the Oi Shares Subject to Exchange with the Depositary; and (ii) instructed the Depositary to record the transfer to PTIF of 47,434,872 ADSs ON and 94,896,744 ADSs PN (jointly, the “ADSs Subject to Exchange”) representing the Oi Shares Subject to Exchange.

In this way, on 30 March 2015, PT SGPS transferred the ADSs Subject to Exchange to PTIF, and PTIF transferred to PT SGPS the Rio Forte Instruments in the total amount of €897 million.

The *Primeiro Aditivo ao Contrato de Opção* (“1<sup>st</sup> Amendment to the Option Agreement”), dated 31 March 2015, established the possibility for PT SGPS to assign or transfer the option to purchase Oi shares, provided such assignment or transfer covers at least a quarter of the Oi Shares Subject to Option, regardless of prior consent by Oi (subject to the right of first refusal as described in the paragraph below), and use any resources derived from such transactions freely. On the other hand, PT SGPS cannot, without the express prior consent of Oi, either create or grant any rights derived from the Call Option or else grant any security over the Call Option.

Under the 1<sup>st</sup> Amendment to the Option Agreement, Oi will have a right of first refusal in the acquisition of any portion of the Call Option that PT SGPS may be interested in assigning or transferring. PT SGPS shall give notice to Oi in the event PT SGPS received a binding offer from a third party to dispose of the Call Option. Oi shall reply within no more than 20 days as from receipt of such notice.

The effectiveness of the 1<sup>st</sup> Amendment to the Option Agreement is subject to approval at a General Meeting of Shareholders of Oi, together with the granting of voting rights to holders of preferred shares, and to approval by CVM, as applicable. Oi’s General Meeting of Shareholders to resolve on the Amendment to the Option Agreement should be called by 31 August 2015, and be held by 30 September 2015.

The shareholders in TmarPart approved, also on 31 March 2015, an alternative structure for the Business Combination, which does not involve the incorporation of Oi's shares in CorpCo or the migration of CorpCo to the Novo Mercado segment of BM&FBOVESPA. The parties agreed upon a new shareholder and management structure for Oi (the "New Structure"), as detailed in the initial section of this report titled "Introduction – PT SGPS Structure", which is characterised, *inter alia*, the fact that all the corporate organisation and governance transformation takes place in Oi, and the need for creation of CorpCo is eliminated.

Relevant transactions executed during 2014 with other owners of qualified holdings, who are not related parties, are described on Note 42 to the consolidated financial statements included in the Report and Consolidated Accounts 2014. There are no other relevant commercial relations between owners of qualified holdings and the Company.



## B. CORPORATE BODIES AND COMMITTEES

### I. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of shareholders, composed of shareholders with the right to vote, ordinarily meets once a year or whenever its call is requested to the Chairman of Board of the General Meeting of shareholders by the Board of Directors, the Audit Committee or by shareholders representing at least 2% of the share capital.

The meetings are held at the registered office or other location as chosen by the Chairman of the Board pursuant to the law. They cannot take place by remote-access telematic means. The General Meeting of shareholders is called and conducted by the Chairman of its Board or, in his absence or impossibility to conduct the works, by the Vice- Chairman.

Shareholders may participate directly in the General Meeting or appoint their representatives, within the broadest terms provided for under the Portuguese Companies Code. A duly signed letter addressed to the Chairman of the Board of the General Meeting of shareholders is a sufficient instrument of representation.

For such purpose, shareholders may access the representation letter form made available on the website [www.ptsgps.pt](http://www.ptsgps.pt) in accordance with information disclosed by the Company in the relevant General Meeting notice, in compliance with article 23 of the Portuguese Securities Code.

In carrying out their duties, notably in the preparation, call and conduction of General Meetings of shareholders, as well as in replying to queries raised or requests submitted by the shareholders, the Chairman of the Board of the General Meeting of shareholders, in addition to being assisted by the Vice-Chairman and the Secretary of the Board of the General Meeting of shareholders, has the support of the services of the Company's General Secretariat, which is provided with human and technical resources as required for the General Meeting to be appropriately held, taking into account, *inter alia*, the number of participants and the agenda of each meeting. The Chairman of the Board of the General Meeting of shareholders is also provided with logistic support as required to carry out his duties, and the shareholders may contact the Board of the General Meeting of shareholders as follows:

Chairman of the Board of the General Meeting of Shareholders

Post Address:	Avenida Fontes Pereira de Melo, 40-10º piso, 1069-300 Lisboa
Telephone:	+351.800.207.369
Fax:	+351.215.001.890
E-mail:	<a href="mailto:assembleia.ptsgps@telecom.pt">assembleia.ptsgps@telecom.pt</a>

The members of the Board of the General Meeting of shareholders comply with the independence requirements of article 414,5 and incompatibility rules of article 414A,1, both of the Portuguese Companies Code, applicable by virtue of the provisions of article 374A of that same Code.

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## COMPOSITION OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

### 11. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS, COMMENCEMENT AND EXPIRATION OF TERM OF OFFICE

#### Board of the General Meeting of Shareholders

António Menezes Cordeiro	<i>Chairman</i>
Eduardo Vera-Cruz Pinto	<i>Vice-Chairman</i>
Francisco Leal Barona	<i>Secretary</i>

The members of the Board of the General Meeting of Shareholders were elected on 27 April 2012 for the 2012-2014 three-year term of office. Taking into account that their term of office ended on 31 December 2014, the Annual General Meeting of Shareholders of the Company to be held in 2015 will elect new members of the Board of the General Meeting of Shareholders for the 2015-2017 three-year term of office.

#### EXERCISE OF VOTING RIGHTS

### 12. POSSIBLE LIMITATIONS ON VOTING RIGHTS

Under the Company's Bylaws, each 500 shares grant the right to one vote. Shareholders holding a lesser number of shares may group together and be represented by one of the group members, so as to jointly accumulate the number of shares necessary to exercise the right to vote. Only shareholders entitled to vote on the record date (*i.e.*, on the fifth trading day prior to the General Meeting) and in compliance with the procedures and periods set forth in the notice for such purpose (in relation to the shareholders as well as the financial intermediaries with whom the respective individual securities accounts are open) may attend, participate and vote on a General Meeting of shareholders.

Within the framework of American Depositary Receipts (ADR) or Global Depositary Receipts (GDR) programmes having as their object Company shares, the holders of ADR or GDR are deemed to be the shareholders, while the entity in whose name the shares are registered is deemed a simple representative of the shareholders, provided however that such shareholders comply with the conditions set forth in the Bylaws for the exercise of such right. These conditions are communicated to the holders of the right to vote in each notice for the General Meeting of shareholders.

According to article 13 of the Company's Bylaws, the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total voting rights corresponding to the share capital shall not be counted. Shares held by a person in situations as provided for under article 20 of the Portuguese Securities Code shall be deemed to belong to the shareholder, and the limitation on the counting of votes cast by each person affected by the said provision shall be proportional to the number of votes held and cast.

There are no shares not granting voting rights, without prejudice to the limitations described above.

The Company Bylaws provide that the voting by correspondence or by electronic means may encompass all matters contained in the notice, under the terms and conditions set forth therein, and votes cast in this way shall be considered at the time of the counting by adding the same to the voting rights exercised in the course of the General Meeting.

The Bylaws further provide that the terms and conditions for voting by correspondence or by electronic means shall be defined by the Chairman of the Board of the General Meeting of shareholders on the notice, in order to ensure their authenticity, regularity, security, reliability and confidentiality up to the time of voting.

Correspondence vote authenticity shall be ensured before the Chairman of the Board of the General Meeting of shareholders by means of a communication with a legally acknowledged signature, in the case of corporations, or, in the case of individuals, with a simple signature together with a photocopy of the relevant identity card. In order to guarantee vote confidentiality, said communication shall be sent in a closed envelope that will only be considered at the time of vote counting.

In respect of voting by electronic means, and according to a practice implemented in the Company, shareholders may vote through the website [www.ptsgps.pt](http://www.ptsgps.pt) in observance of the requirements established thereon, provided that, by the time and date scheduled on the notice for the General Meeting of shareholders, they deliver to the Chairman of the Board of the General Meeting a communication, prepared in accordance with the form made available on that same website, with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and setting out the post address to where the password to be made available by the Company should be sent.

Additionally, the Bylaws provide that votes cast by correspondence or by electronic means are deemed as negative votes as to any resolution proposals submitted after such votes were cast. The presence at a General Meeting of a shareholder who had exercised his voting rights by correspondence or by electronic means, or of his representative, determines the revocation of the vote so cast.

According to PT SGPS' practice, the procedure for voting by correspondence shall be as follows:

- › Shareholders entitled to vote may, according to article 22 of the Portuguese Securities Code, exercise such vote by correspondence, provided that, by the time and date scheduled on the notice, a communication addressed to the Chairman of the Board of the General Meeting is delivered to the latter, such communication to be with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and set out the address to where voting papers and other documentation should be sent. In reply, the voting papers and other relevant documentation will be sent to such shareholders, who shall send to the Chairman of the Board of the General Meeting, in such a way as to be received by the time and date scheduled on the notice for the General Meeting a closed envelope containing another closed envelope with the duly filled in voting papers;
- › Notwithstanding the possibility of downloading the voting papers from the Internet according to the next paragraph, there are voting papers available to shareholders at the offices of the Company, and the same may also be provided by hand delivery, by post or by electronic mail;
- › As an alternative, shareholders may also download the voting papers from the website [www.ptsgps.pt](http://www.ptsgps.pt), and send the same, addressed to the Chairman of the Board of the General Meeting, duly filled in and in a closed envelope, in such a way as to be received, together with an envelope containing a copy of the identity card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.

The period of time implemented for receipt of declarations of vote by correspondence according to PT SGPS' practice since the 2008 Annual General Meeting of Shareholders is 3 business days prior to the date of the General Meeting.

PT SGPS' Bylaws do not provide for any system of detachment of patrimonial rights pertaining to the shares.

Considering the above described mechanisms for the participation and vote at the General Meeting, PT SGPS fully complies with CMVM Recommendation no. I.1, (i) promoting shareholder participation through voting by correspondence, by electronic means and by duly appointed representative in accordance with the legal and bylaw rules above, and (ii) determining a minimum number of 500 shares for voting purposes, which is not excessively high and promotes the General Meeting's efficient functioning.

### 13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT MAY BE EXERCISED BY A SINGLE SHAREHOLDER OR BY SHAREHOLDERS CONNECTED TO THE FORMER THROUGH ANY OF THE RELATIONSHIPS SET FORTH IN ARTICLE 20,1 OF THE PORTUGUESE SECURITIES CODE

Regarding this matter, please see item 12 of Part I above.

### 14. SHAREHOLDER RESOLUTIONS WHICH, ACCORDING TO THE BYLAWS, CAN ONLY BE ADOPTED WITH QUALIFIED MAJORITY, APART FROM THOSE LEGALLY PROVIDED FOR

Under article 14 of the Company's Bylaws, the General Meeting of shareholders resolves, on a first or subsequent call, by a majority of votes cast, without prejudice to any qualified majority as required in cases as provided for by law.

In this way, the constitutive and resolute quorum of the General Meeting of shareholders established under PT SGPS' Bylaws is no different from that established under the Portuguese Companies Code. PT SGPS therefore complies with CMVM Recommendation no. I.2.

## II. MANAGEMENT AND SUPERVISION

### *COMPOSITION*

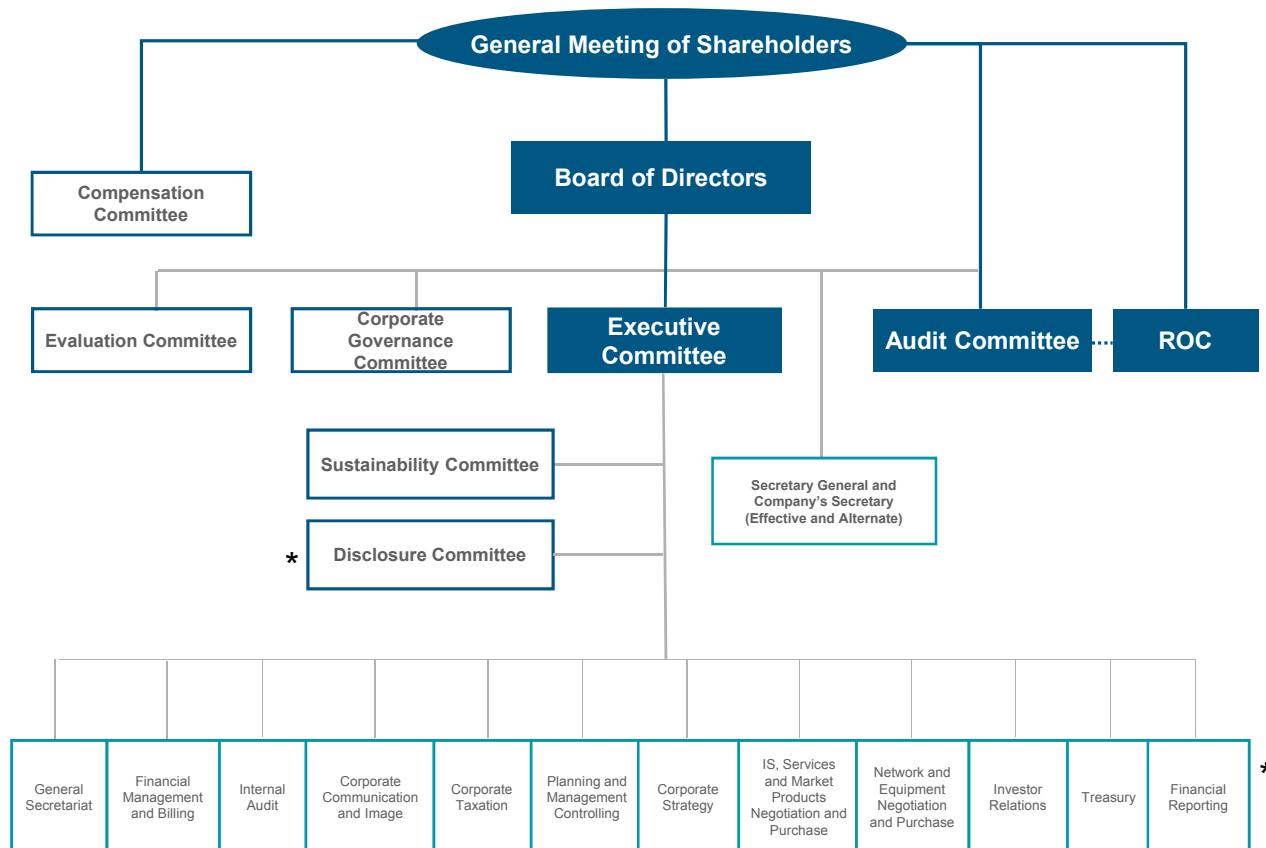
#### 15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL

PT SGPS follows an Anglo-Saxon-type 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 SGPS' 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.

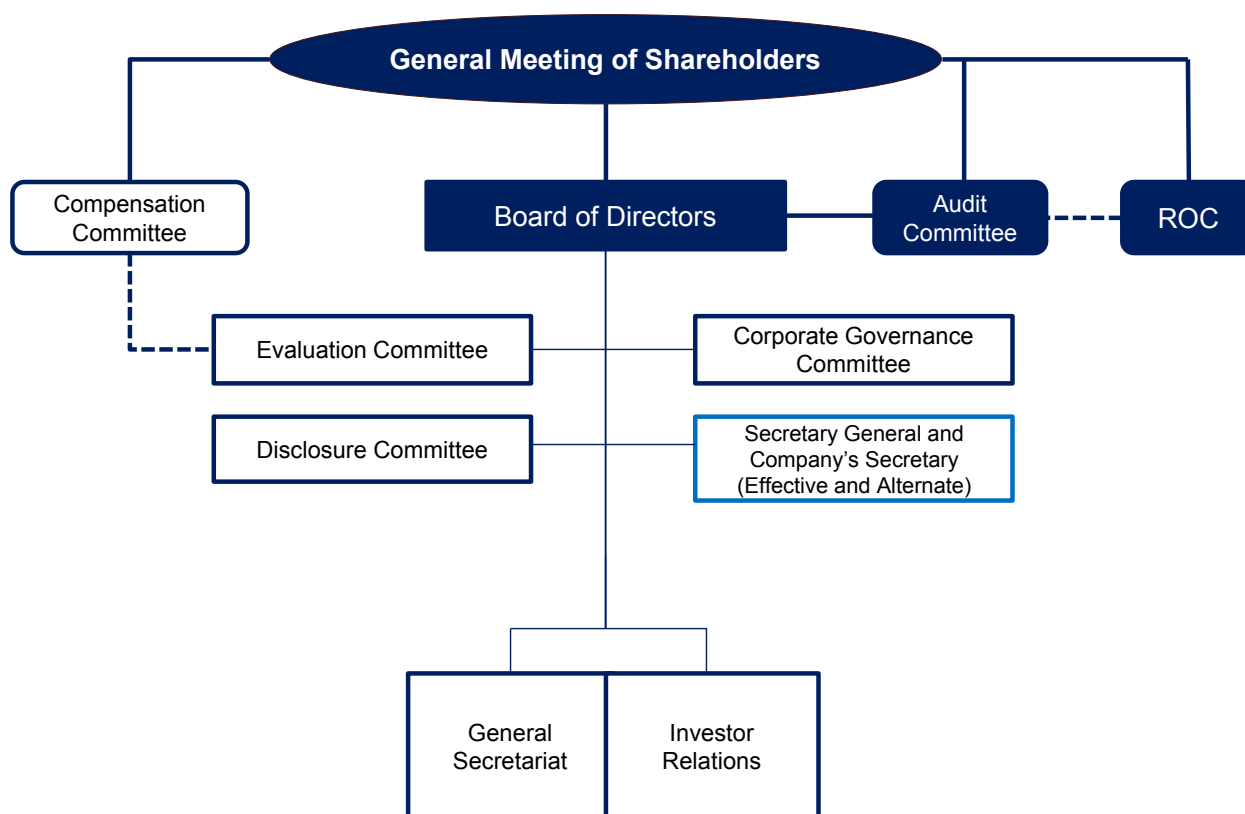
The members of the corporate bodies and of the Board of the General Meeting of Shareholders are elected for a three-year term of office, and they may be re-elected one or more times within the limits of the law.

Up to 30 September 2014, PT SGPS' governance model could be schematised as follows:



\* Upon the merger of the business of PT SGPS into PT Portugal and the transfer of the latter to Oi, within the framework of Oi's capital increase that was settled on 5 May 2014, the majority of the Corporate Departments were emptied of duties (except for the General Secretariat and Investor Relations), and the Disclosure Committee also ceased its functions.

As from 1 October 2014, PT SGPS' governance model can be schematised as follows:



Up to 30 September 2014, PT SGPS' governance structure relied on an Executive Committee with powers delegated by the Board of Directors, which acted on a predominantly operational basis. However, after the Oi Capital Increase that was settled on 5 May 2014 (in which a portion of the newly issued shares was subscribed for by PT SGPS by means of a contribution in kind represented by 100% of PT SGPS' shareholding in PT Portugal, a company that held, at that time, 100% of the operational assets representing the business of the Portugal Telecom group (other than the shares directly or indirectly held in Oi itself, in Contax Participações, S.A. and in Bratel B.V.) and the corresponding liabilities on the date of the contribution), and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors.

In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, as mentioned under article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws:

<i>Facilities and Services</i>	João Mello Franco
<i>Protection of Credits over Rio Forte</i>	João Mello Franco, Rafael Mora Funes, Paulo Varela <sup>(1)</sup> and Milton Silva Vargas
<i>Follow-up of Performance of Agreements with Oi</i>	João Mello Franco, Rafael Mora Funes, Paulo Varela <sup>(1)</sup> , Milton Silva Vargas and Francisco Cary
<i>Relations with Markets and Supervisory Entities</i>	João Mello Franco
<i>Finance and Taxation</i>	João Mello Franco

(1) Resigned from his duties in PT SGPS on 16 March 2015.

Following the said Board resolution to take on all the powers of the management in the normal course of the Company, the Sustainability Committee also ceased its functions as a support structure for the Executive Committee. Regarding the Disclosure Committee, however, and since the Company remains a foreign private issuer with securities registered with the U.S. Securities and Exchange Commission (“SEC”), in April 2015 the Board decided to reinstate the Disclosure Committee, which is entrusted with defining, documenting and disclosing procedures as appropriate for the proper collection, processing and reporting of information, as well as reviewing all information disclosed by PT SGPS, all within the framework of the 2014 annual management report, balance sheet and accounts, together with the 20-F Form. The Disclosure Committee is currently (and until the corporate bodies for the 2015-2017 three-year term of office are appointed) composed by Mário Gomes, Luís Sousa Macedo, Pedro Guterres and Shakhaf Wine.

Following the appointment of new members for PT SGPS’ corporate bodies for the 2015-2017 three-year term of office, to take place at the Annual General Meeting of Shareholders to be held in 2015, the Board of Directors will redefine the composition and duties of the Disclosure Committee.

PT SGPS’ Board of Directors currently relies on a Corporate Governance Committee and an Evaluation Committee, each such internal committee acting within the scope of its specific powers delegated by the management body.

The Audit Committee, together with the Chartered Accountant, perform the supervision functions set forth in the applicable laws and regulations. In particular, the Audit Committee is responsible for representing the Company in its relations with the external auditors and for monitoring PT SGPS’ internal control and risk management system.

PT SGPS’ General Meeting of shareholders, in its turn, resolves on matters as specially assigned by law or the Company’s Bylaws, as well as on matters not comprised within the responsibilities of the other corporate bodies.

Considering the changes occurred in 2014, both in the chain of PT’s subsidiaries and affiliates and as to the businesses conducted by PT, and following the appointment of new members for PT’s corporate bodies for the 2015-2017 three-year term of office, to take place at the Annual General Meeting of Shareholders to be held in 2015, a revision of the current corporate governance mechanisms should be carried out in order to accommodate the same to the specificities of the Company, and to ensure, on the one hand, that this governance model guarantees an effective performance of the duties of PT’s corporate bodies and their articulation, and on the other hand, contributes to the accountability of the Company and its management vis-à-vis its shareholders, investors and the market.

## 16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

The members of the Board of Directors are elected by the General Meeting of shareholders as described in item 17 of Part I below.

PT SGPS' Evaluation Committee was assigned powers within the director appointment procedure as best described in item 21 of Part I below.

The Bylaws determine that the absence of any director from more than half the ordinary meetings of the Board of Directors during one financial year, in a consecutive way or not, without a justification acceptable to the Board of Directors, shall be deemed as a definitive absence of such director. Such definitive absence shall be declared by the Board of Directors, and the director in question shall be replaced as provided for by law and the Bylaws.

## 17. COMPOSITION OF THE BOARD OF DIRECTORS

The members of the Board of Directors were elected on 27 April 2012 for the 2012-2014 three-year term of office. Taking into account that their term of office ended on 31 December 2014, the Annual General Meeting of Shareholders of the Company to be held in 2015 will elect new members of the Board of Directors for the 2015-2017 three-year term of office.

As of 31 December 2014, the composition of the Company's Board of Directors was as follows:

<i>Members (date of first appointment)</i>	<i>Board of Directors</i>	<i>Audit Committee</i>	<i>Corporate Governance Committee</i>	<i>Evaluation Committee</i>	<i>Independence (1)</i>	<i>No. of shares</i>
João de Mello Franco (1998)	Chairman		Chairman	Chairman		13,308 (2)
Alfredo Baptista (2011)	Member	Member				8,193
Eurico Teles Neto (2014)	Member					
Francisco Ravara Cary (2014)	Member		Member			22,000
Francisco Soares (2006) (3)	Member		Member	Member	Yes	
Gerald S. McGowan (2003)	Member		Member		Yes	60,000
Jorge Cardoso (2014)	Member					
José Xavier de Basto (2007)	Member	Chairman			Yes	
Luís Pacheco de Melo (2006) (4)	Member					45
Marco Schroeder (2014)	Member					
Maria Helena Nazaré (2009) (5)	Member				Yes	
Mário João de Matos Gomes (2009)	Member	Member			Yes	
Milton Silva Vargas (2009)	Member		Member	Member	Yes	
Nuno de Almeida e Vasconcellos (2006)	Member					11,190
Paulo Varela (2009) (6)	Member		Member	Member		7,134
Rafael Mora Funes (2007)	Member		Member	Member		501 (7)
Rolando Oliveira (2014)	Member			Member		5,000



Shakhaf Wine  
(2009) Member

- (1) Evaluation of independence made in accordance with Service Orders no. 2.14 and 4.08 of PT SGPS' Board of Directors and Audit Committee, article 414-5 of the Portuguese Companies Code and item 18 of the form attached to CMVM Regulation no. 4/2013, as the case may be.
- (2) 322 of which are held by his spouse.
- (3) He resigned from his duties in PT SGPS on 27 February 2015.
- (4) He resigned from his duties in PT SGPS on 18 March 2015.
- (5) She resigned from her duties in PT SGPS on 31 March 2015.
- (6) He resigned from his duties in PT SGPS on 16 March 2015, and João Manuel Pisco de Castro was co-opted, on 17 March 2015, to replace him up to termination of the current term of office.
- (7) 100% held by his spouse.

Since PT SGPS has no issued bonds, none of the members of the corporate bodies holds bonds issued by the Company.

The Board of Directors of PT SGPS is composed of a minimum of 15 and a maximum of 25 members, who are elected by a majority of the votes cast at the General Meeting of shareholders. According to corporate law, a minimum of shareholders representing at least 10% of the share capital and voting against the winning proposal in the election of the Board of Directors may appoint a member of the management body.

PT SGPS' directors are appointed for a three-year term of office, the election year being considered as a full calendar year. There are no restrictions on the re-election of directors.

On 30 June 2014, Fernando Portella and Otávio Marques de Azevedo resigned from their duties as non-executive directors. On 30 July 2014, Amílcar Morais Pires resigned from his duties as non-executive director. On 4 August 2014, Joaquim Goes resigned from his duties as non-executive director. On 7 August 2014, Henrique Granadeiro resigned from his duties as Chairman of the Board of Directors and Chief Executive Officer. On 28 November 2014, Carlos Alves Duarte, Manuel Rosa da Silva and Pedro Durão Leitão resigned from their duties as directors.

At the Board meeting commenced on 16 September and ended on 18 September 2014, Francisco Ravara Cary and Rolando Oliveira were co-opted onto the Board of Directors. On 16 October 2014, Marco Schroeder and Eurico Teles Neto were also co-opted onto the Board of Directors. On 5 November 2014, Jorge Cardoso was co-opted onto the Board of Directors.

After the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors. In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, as mentioned under item 15 of Part I above.

On 3 October 2008, the Board of Directors approved its Internal Regulation, whereby non-executive members of this corporate body must correspond to, at least, the majority of the directors in office. On 31 December 2014, taking into account that the Executive Committee was terminated during the 2014 year, there was no distinction between executive directors and non-executive directors (save as regards the directors incorporated in the Audit Committee who, in such capacity and according to the law, are forbidden from exercising executive duties). This notwithstanding, the directors who were assigned the specific charges mentioned in item 15 of Part I above follow up closely the relevant matters, and actually report to all other members of the Board of Directors any developments occurred within the scope of such

charges. In this way, the provisions of CMVM Recommendations no. II.1.6 and II.1.8 are deemed materially complied with.

In accordance with the above mentioned regulation, each Director shall timely inform the Chairman of the Board of Directors and the Corporate Governance Committee of any conflict of interest, being in such case restrained from discussing and voting the matters in question.

## 18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA

As referred to in item 17 of Part I above, as of 31 December 2014 there was no distinction between executive and non-executive directors in the Company as a result of the termination of the Executive Committee during the 2014 year. Also in item 17 of Part I above, those directors that are considered independent are identified.

Bearing in mind the criteria established in CMVM Recommendation no. II.1.7, the Board of Directors of Portugal Telecom considers that it has a suitable number of independent directors, corresponding to one third of the total number of members of the Board – 6 independent members from among 18 directors as of 31 December 2014.

To this purpose, PT SGPS considered the criteria recommended by the CMVM relating to: (i) the governance model, *i.e.*, with the company having adopted an Anglo-Saxon model, all members of its supervisory body are independent directors except for the member Alfredo Baptista, whose independence is deemed affected as a result of his exercise of executive duties in the Company up to the end of September 2014; (ii) the scale of the Company, also considering that PT SGPS' business in the telecom sector is now essentially exercised through its relevant interest in Oi; (iii) the shareholder structure and free float of Portugal Telecom, bearing in mind that, even though the Company does not have a concentrated capital structure, the same included, as of 31 December 2014, three reference shareholders with an interest equal to or in excess of 10% of the share capital and voting rights and six institutional shareholders with qualified holdings of between 2% and 5% of the share capital and voting rights.

Thus, in accordance with the criteria established in CMVM Recommendation no. II.1.7, the management body of Portugal Telecom considers that it has a suitable number of independent members considering the particularities of the Company explained above.

The evaluation of independence of directors incorporating the Audit Committee was conducted by this corporate body, in accordance with Service Order no. 4,08 approved by the Board of Directors and the Audit Committee on 31 January 2008, and article 414,5 of the Portuguese Companies Code, as detailed in item 32 of Part I below.

The evaluation of independence of directors not incorporating the Audit Committee was carried out by the Board of Directors, upon proposal by the Corporate Governance Committee, in accordance with criteria as defined in Internal Regulation no. 2,14 approved by the Board of Directors on 29 January 2014, which provides for criteria in line with item 18 of the form attached to CMVM Regulation no. 4/2013 and CMVM Recommendation no. II.1.7. It should be stressed that, taking into account that there was no distinction between executive and non-executive directors as of 31 December 2014, the evaluation of independence of directors did not consider the fact of all directors, other than the members of the Audit Committee, having executive powers in the Company as affecting their independence.

All directors deemed independent by PT SGPS, as of 31 December 2014, as set out in item 17 of Part I above, meet the conditions required for the performance of their duties and compliance

with their obligations to act diligently and in the interest of the Company in an independent manner. Thus, the Board of Directors considers that the Company's management body includes a number of independent members that is appropriate to its size and shareholder structure, capable of playing the supervisory and accountability role that is specially entrusted to them.

According to Internal Regulation no. 2,14, the members of the Board of Directors of the Company, other than members of the Audit Committee, must send to the Chairman of the Board, within 10 business days as from their election or co-optation, and no later than 31 January of each year, declarations prepared in accordance with an Appendix to the said Internal Regulation.

Where the independence situation of any member of the Board of Directors is subsequently changed, the director in question must send to the Chairman of the Board an updated declaration, in the 10 business days following such subsequent change.

The Board of Directors assesses the independence of its non-executive members, other than the members of the Audit Committee, on the basis of such declarations, as well as of any other information of which the Board may be aware.

Independence criteria as provided for under Internal Regulation no. 2,14 are applicable to the members of the Corporate Governance Committee and of the Evaluation Committee as such. The Audit Committee, in its turn, adopts specific independence criteria, considering article 414,5 of the Portuguese Companies Code, as described in item 32 of Part I below.

## 19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS

The *curricula* of PT SGPS' directors are shown in Appendix I.

## 20. FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS

Among the directors of PT SGPS, the following maintain family, professional or commercial relationships, frequent and significant, with owners of qualified holdings in excess 2% of PT SGPS' voting rights:

- › João Mello Franco: he is a member (alternate) of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS.
- › Eurico Teles Neto: he performs his professional duties in Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS.
- › Francisco Ravara Cary: he performs his professional duties in various companies incorporated in Grupo Novo Banco, S.A. (among which, director of Novo Banco, S.A.), and Novo Banco, S.A. has a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS.
- › Jorge Freire Cardoso: he is a director for the financial area of Novo Banco, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS.
- › Marco Schroeder: he performs his professional duties in Oi, S.A. and in PT Portugal, SGPS, S.A. (this latter company being 100% controlled by Oi, S.A., and Oi, S.A. has a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS).

- > Nuno de Almeida e Vasconcellos: he is a direct relative of the beneficial owner of a qualified holding above 2% of PT SGPS' share capital and voting rights through the company RS Holding SGPS SA, and he maintains a professional relationship with the beneficial owner of a qualified holding in excess of 2% of PT SGPS' share capital and voting rights through the company RS Holding SGPS S.A.
- > Rafael Mora Funes: up to February 2015, he maintained a professional relationship with an entity dependent on the beneficial owner of a qualified holding in excess of 2% of PT SGPS' share capital and voting rights through the company RS Holding SGPS S.A.; he is a member of the Board of Directors of Oi, S.A., an entity to whom a qualified holding in excess of 2% of the PT SGPS' share capital and voting rights is attributable.
- > Rolando Oliveira: he is a direct relative of the beneficial owner of a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS through the company Controlinveste International Finance, S.A., and he maintains a professional relationship with the beneficial owner of a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS through the company Controlinveste International Finance, S.A.
- > Shakhaf Wine: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PT SGPS.

## 21. DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY

### MANAGEMENT BODY

#### Board of Directors

Pursuant to the Bylaws, the Board of Directors is the corporate body responsible for managing the Company's businesses and practicing all acts regarding the corporate scope that are not within the powers of other corporate bodies. It establishes the strategic orientation of PT SGPS and monitors the day-to-day management of the Executive Committee.

In order to guarantee the existence of a structure as appropriate for PT SGPS' management needs, the Board of Directors, at the beginning of the 2012-2014 term of office, delegated day-to-day management powers to the Executive Committee, and retained the duties of supervision and control. Within said delegation of powers, the Board of Directors assigned the Executive Committee all powers required for such purpose, without prejudice to the Board's authority to take on any of the delegated powers, other than those in respect of the matters listed hereinafter:

- > Co-opting directors;
- > Request for the call of General Meetings of Shareholders;
- > Annual reports and accounts to be submitted to the approval of the Annual General Meeting of Shareholders;
- > Posting bonds and personal guarantees or guarantees *in rem* by the Company, the authority for which is reserved to the Board of Directors, without prejudice to the provisions of article 15(h) of the Bylaws;
- > Change of the Company's registered office;
- > Projects for spin-off, merger and conversion of the Company, to be proposed to the General Meeting of Shareholders, as well as acquisitions, disposals, mergers, spin-offs and strategic partnership agreements involving companies of the PT Group, where, in such situations, these transactions do not constitute simple internal reorganisations of the PT Group within the framework of the general goals and fundamental principles approved by the General Meeting of Shareholders;
- > Plans for share capital increases to be proposed to the General Meeting of Shareholders;

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- > Amendments to the Bylaws to be proposed to the General Meeting of Shareholders;
  - > Definition of the general goals and of the fundamental principles of the policies of the PT Group to be submitted for approval at the General Meeting of Shareholders, notably the definition of the sectors of investment and disinvestment, the policy for geographical expansion of its businesses and the strategic options pertaining, *inter alia*, to the technology to be adopted, network development and service rendering;
  - > Important extensions or reductions in the Company's business and important modifications to the Company's organisation;
  - > Business plans, budgets and annual investment plans;
  - > Definition of the amount to be annually proposed to the General Meeting of Shareholders for issuance of bonds or other securities that may be subsequently resolved by the Executive Committee.

The Board of Directors thus considered that the CMVM Recommendation no. II.1.2 was complied with, as no authority of the Board of Directors was delegated as regards: (i) the determination of the Company's general strategy and policies, (ii) the definition of the PT SGPS' corporate structure, and (iii) strategic decisions due to their amount, risk or special features, notably, regarding this latter, as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its Internal Regulation.

Such evaluation is not affected by the fact that the subscription of the Rio Forte Instruments was made without the intervention of the Board of Directors, since the Board considers that treasury applications of high amount and risk should not be deemed as being included in the powers delegated to the Executive Committee within the management in the normal course of the Company.

As per the resolution of the Board of Directors at the meeting commenced on 16 September and ended on 18 September 2014, and effective as from 1 October 2014, the Board of Directors resolved to take on all the powers of the management in the normal course of the Company delegated to the Executive Committee and also to specifically entrust certain corporate charges to certain directors, as described in item 15 of Part I above.

In addition, during the term of office ended on 31 December 2014, the Board of Directors granted specific powers to the Corporate Governance Committee in the follow up of the corporate governance system and to the Evaluation Committee in the matter of remunerations, evaluation of director performance and within the scope of selection procedures, as described herein.

Notwithstanding the Audit Committee's powers, the Board of Directors is also responsible for ensuring the Company has effective internal control, risk management and internal auditing systems implemented.

Other than any matters excluded by law, the Board of Directors is forbidden from passing resolutions on matters assigned by the Bylaws to the General Meeting of shareholders. Shareholders, in their turn, may only resolve on management matters at the request of the management body.

However, the Board of Directors is authorised to increase the share capital, following an opinion in favour issued by the Audit Committee and a resolution approved by the General Meeting of shareholders, as described in item 9 of Part I of this report.

In addition to its strategic definition role, and according to its internal regulation, PT SGPS' Board of Directors is responsible for ensuring the Company has effective internal control, risk

management and internal audit systems. The structures responsible for the implementation of these systems are described in C.III of Part I hereto.

In this connection, it should be mentioned that, particularly as regards the subscription of the debt instruments issued by Rio Forte, and following the subsequent default as to the reimbursement of such instruments by the issuer, it was deemed necessary to reformulate the internal control and risk management rules and structures in force at the Company.

In this way, some of those rules have already been revised, seeking not only to reformulate the said mechanisms in light of the default as to the reimbursement of the Rio Forte Instruments, but also to accommodate the same to the new specificities of the Company, after the Oi Capital Increase and the changes made to the Business Combination announced on 2 October 2013.

In particular, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, pursuant to article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws, as referred to in item 15 of Part I hereof. This situation is considered transitory, and we expect, following the end of the current term of office (2012-2014 three-year term) and the appointment of new members for PT SGPS' corporate bodies for the 2015-2017 three-year term of office, to take place at the Annual General Meeting of Shareholders to be held in 2015, to resume the management in the normal course delegation model in an Executive Committee or Managing Directors, according to which proves more appropriate for the current size and business of the Company.

Additionally, the Board has already approved a set of internal rules that determine, notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

Similarly, the rules establishing the procedures for contracting and disclosing related party transactions, on the one hand, and transactions with owners of qualified holdings, on the other hand, have already been revised in order to clarify the scope of application of the control and report procedures, as well as limit the exceptions defined, respectively, for those transactions.

### **Powers of the Chairman of the Board of Directors**

Pursuant to the Bylaws and to the Board of Directors' internal operating rules, the Chairman of the Board of Directors is entrusted with the following duties:

- > To represent the Board of Directors, and to promote communication between the Company and its shareholders;
- > To coordinate the activity of the Board of Directors, and to distribute matters among its members where advisable in light of management conveniences;
- > To call and conduct the meetings of the Board of Directors;
- > To watch over the correct implementation of the Board of Directors' resolutions;
- > To ensure that resolutions on matters within the powers of the Board of Directors are adopted by this corporate body.

Additionally, since the approval of the internal operating rules of the Board of Directors, on 3 October 2008, the powers of the Chairman of the Board of Directors include, notably, to chair the Evaluation Committee.

### **Executive Committee / Assignment of special charges**

During most of the 2014 financial year, the Board of Directors had delegated the management in the normal course of the Company to an Executive Committee, and retained the duties of supervision and control. During such period, the Executive Committee was assigned all powers required for such purpose, without prejudice to the Board's authority to take on any of the delegated powers, other than those in respect of the matters listed above.

However, after the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors. In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Within the scope of the said Board resolution, there are certain corporate charges that were specifically entrusted to certain directors, as mentioned under item 15 of Part I above. For such reason, CMVM Recommendation no. II.1.1 is not complied with.

## **SUPERVISORY BODIES**

### **Audit Committee**

As a supervisory body, the Audit Committee has, in addition to all other powers established in the law or the Bylaws, the following specific powers:

- › To approve and disclose the annual report of its supervisory activity, expressly mentioning any constraints faced;
- › To approve an annual action plan contemplating, *inter alia*, the measures required for compliance with its powers and duties in the following year;
- › To inform and discuss with the Board of Directors and the Executive Committee, as the case may be, any situations identified in the exercise of their powers and duties;
- › To discuss and issue its prior opinion to the management body and External Auditors on any reports, documentation or information to be disclosed to the competent authorities;
- › To adopt procedures to ensure compliance by PT SGPS with the legal and regulatory provisions applicable to the Company;
- › To check the accuracy of financial statements and generally supervise the quality and integrity of the financial information contained in the Company's financial statements;
- › To control the preparation and disclosure of financial information, and to give its prior opinion, within the framework of its powers and duties as established by law and the Bylaws, and whenever it so deems necessary or fit, on any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities;
- › To analyse and issue its opinion on relevant matters connected to accounting and auditing aspects and impact on financial statements of changes to the accounting rules applicable to the Company and to its accounting policies;
- › To control the auditing to the Company's financial statements performed by the Chartered Accountant and the auditors, as well as to supervise and assess internal procedures on accounting and auditing matters;

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- › To propose the appointment of the Chartered Accountant to the General Meeting of shareholders;
  - › To control the independence of the Chartered Accountant, notably as regards the rendering of additional services;
  - › Direct and exclusive responsibility as to the appointment, hiring, confirmation or termination of duties and determination of remuneration of the Company's External Auditors, as well as to the control over their qualifications and independence, and approval of audit and/or other services to be rendered by such External Auditors or by any entities associated to the same; the External Auditors of the Company must report and be subject to the direct and exclusive supervision of the Audit Committee, which, each year, shall obtain from and review with the external auditors an external audit report;
  - › To settle any differences between the management body and the External Auditors in respect of the financial information to be included in the financial statements to be reported to the competent authorities, as well as in respect of the procedure of preparation of the audit reports to be issued by the said external auditors;
  - › To control the quality, integrity and efficiency of the PT Group's internal control and risk management systems, as well as of its internal audit systems, including an annual review of the adequacy and efficiency of the same;
  - › To receive reports of irregularities, claims and/or complaints submitted by shareholders, Company employees or others, and to implement procedures aimed at receiving, recording and processing the same when related to accounting and auditing aspects or to internal control procedures on such matters;
  - › To issue its prior opinion in favour of proposals for relevant transactions of the Company or its subsidiaries with related parties or with owners of qualified holdings, as described in item 89 of Part I hereof.

Additionally, and by virtue of the amendments to the Portuguese Companies Code made by Decree-Law no. 185/2009 of 12 August 2009, it is further the duty of the Audit Committee to verify whether the Company's governance report disclosed each year includes all legally required data, as well as to express its agreement as to the annual management report and accounts for the financial year.

The Audit Committee further decides on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the Company (compliance services), and it is the recipient of reports made by these services at least when it concerns matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties.

The Company therefore complies with CMVM Recommendations no. II.2.2 to II.2.5.

### **Chartered Accountant**

Under articles 420,1(c), (d), (e) & (f) and 446,3 of the Portuguese Companies Code, it is the duty of the Chartered Accountant to control the regularity of the books, accounting records and documents supporting the same, as the Chartered Accountant deems fit and appropriate, the extension of cash and inventory of any kind of assets or values owned or received as collateral, deposit or otherwise by the Company, and furthermore the accuracy of individual and consolidated financial statements, as well as that the accounting policies and criteria adopted by the Company lead to a correct assessment of its assets and results.

Following entry into force of Decree-Law no. 185/2009 of 12 August 2009, similarly to the Audit Committee, it also became the duty of the Chartered Accountant to verify whether the Company's governance report disclosed each year includes all legally required data as regards, *inter alia*, qualified shareholdings in the Company capital, identification of shareholders of



special rights and description of such rights, any restrictions in respect of voting rights, rules applicable to appointment and replacement of directors, Bylaw amendment and powers and resolutions of the management body, and the main constituents of the internal control and risk management systems implemented in the Company in connection with the financial information disclosure procedure.

## COMMITTEES AND SUPPORTING STRUCTURES

### **Evaluation Committee**

The Evaluation Committee has the duties, powers and responsibilities as required to assist the Board of Directors in the following areas:

- › Evaluation of the overall performance of the Board of Directors;
- › Evaluation of the performance of the members of the Executive Committee, based on criteria as approved by the Compensation Committee appointed by PT SGPS' General Meeting of shareholders.

Additionally, the Evaluation Committee has the duties and powers required to perform consulting functions in respect of criteria for selection of the members of the management bodies of PT SGPS and its most relevant subsidiaries, as well as of the members of specific committees created within the Board of Directors of the Company.

In particular, and in line with CMVM Recommendation no. II.1.4, the Evaluation Committee is entrusted with:

- › Submitting to the Board of Directors and Compensation Committee, as applicable, a communication on the level of compliance by the Company with the legal and regulatory provisions, recommendations and guidelines issued by the competent authorities in the specific areas of evaluation, remuneration and selection, and studying and recommending the adoption of measures that prove to be required or appropriate in order to ensure compliance with such rules;
- › Assisting the Board of Directors within the framework of the annual evaluation of the performance of such body, submitting for such purpose a written annual performance evaluation report, and evaluating the performance of the members of the Executive Committee each year, in accordance with the objective criteria approved by the Compensation Committee for purposes and within the framework of the procedure of determining the variable component of the remuneration of executive directors, after the Chief Executive Officer has been heard;
- › In view of the determination of the relevant remuneration criteria by the Compensation Committee, defining, for each term of office and each year, the goals of the Executive Committee, taking into account the plans approved by the Board of Directors;
- › Proposing and discussing with the Compensation Committee the remuneration policy for members of the management and supervisory bodies of the Company, and issuing an opinion on the annual remuneration policy declaration to be submitted by the Compensation Committee to the Annual General Meeting of Shareholders;
- › Discussing the standard draft management contracts and the contracts with other members of the corporate bodies, and negotiating their respective individual conditions;
- › Preparing and periodically revising the selection criteria and qualification, knowledge and professional experience summary deemed as the appropriate profile for the performance of functions as a member of the management body of PT SGPS' most relevant subsidiaries;
- › Assisting the Board of Directors in the performance of its duties and powers in respect of co-optation of the Company's directors, selection of directors (even if upon the initiative of shareholders having the capacity to submit lists to voting) and appointment and substitution

of directors that compose specialised committees of the Company's Board of Directors, as well as the directors composing the Executive Committee, in this latter case upon proposal of the Chief Executive Officer;

- > Advising the Executive Committee in the matter of selection and relevant criteria for determination of the remuneration of the members of management bodies of PT SGPS' most relevant subsidiaries.

During the 2014 financial year, within the powers delegated by the Board of Directors and as a technical support structure to the Compensation Committee, the Evaluation Committee developed the following main activities:

- > Preparation and approval of a communication to be addressed to the Board of Directors and Compensation Committee on the level of compliance by the Company in 2013 of the rules, recommendations and guidelines applicable in specific evaluation, remuneration and selection areas;
- > Preparation of the 2013 self-evaluation report, including the evaluation of the operation regulation of the Evaluation Committee;
- > Approval of a recommendation to the Compensation Committee on the declaration on remuneration policy for the management and supervisory bodies, for purposes of submission to the Annual General Meeting of Shareholders and in connection with the 2012-2014 term of office;
- > Approval of a recommendation to the Compensation Committee on the calculation methodology of the variable remuneration for the current term of office and development of a study on the matter by a workgroup within this committee;
- > Approval of a recommendation to the Compensation Committee on the remuneration policy for the current term of office and assignment, calculation and determination of remunerations in view of the changes made to the Business Combination with Oi during the second half of the year;
- > Approval of a recommendation to the Compensation Committee on the remuneration to be earned by the Directors that composed the Executive Committee and by the current Chairman of the Board of Directors, following the changes to the Company's governance model, whereby the Board of Directors resolved (i) to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, resulting in the Executive Committee ceasing its existence in PT SGPS' corporate governance structure as from such date, and (ii) to replace the Chairman of the Board of Directors following the resignation of the director who was in such position.

### **Corporate Governance Committee**

The Board of Directors has delegated to the Corporate Governance Committee the duties, powers and responsibilities as required to assist the Board in the performance of its supervision function as to the Company's business in the following areas:

- > Adoption, review and permanent evaluation of the corporate governance model, of internal rules and procedures on the Company's structure and governance, as well as of the PT Group's conduct principles and practices in compliance with the Bylaws and the legal and regulatory provisions, and furthermore of national and international recommendations, standards and best practices on this matter – the Corporate Governance Committee sends to the Board of Directors, until the date of approval of the annual report and accounts to be submitted to the Annual General Meeting of Shareholders, a written communication on the level of compliance with such rules by the Company;
- > Evaluation and control of the Company's governance practices.

In particular, and also in line with CMVM Recommendation no. II.1.4, the Corporate Governance Committee has the following assignments:

- › To propose to the Board of Directors, to review and to re-evaluate the Company's corporate governance model, including the organisation structure, operation, responsibilities and internal rules of the Board of Directors;
- › To study, review and re-evaluate the Group's corporate governance principles and practices, notably concerning Group relations, and particularly Company relations with the market, the shareholders and other stakeholders, qualifications, independence and responsibility of directors, as well as prevention and management of conflict of interest and information discipline;
- › To assist the Board of Directors in evaluating its performance as to governance practices (carrying out an annual evaluation of the practices of the Board as a whole and its committees, of the contribution of the several members for its good functioning, as well as its relationship with the other corporate bodies) in order to contribute to efficiency, transparency and improvement in this procedure, materializing in an annual report on the Company's governance practices addressed to the Board and constituting an innovative practice by PT SGPS;
- › To study, review and re-evaluate the values, principles and practices that must govern the conduct of the PT Group's employees, including the study, review, interpretation and supervision of application of the codes of ethics or conduct approved or to be approved by the Company.

During the 2014 financial year, the Corporate Governance Committee carried out the following main activities:

- › Drafting of a report on the Company's governance practices and a statement on the degree of compliance by the Company with prevailing regulations on matters of corporate governance, and an opinion on the governance report for 2013;
- › Drafting of the 2013 self-evaluation report, including an evaluation of the respective operating regulations;
- › Analysis of the degree of compliance by the Company with the recommendations appearing in the CMVM and IPCG Governance Codes published in 2013.
- › Taking into account the participation of PT SGPS in the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of the Company, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors. In this way, the Corporate Governance Committee proposed to the Board of Directors a reformulation of the organisation model of the Board for the current term of office (2012-2014) consisting in:
  - ▶ recomposing, even though partially, the Board of Directors by means of co-opting members onto the Board following the resignation submitted, especially during the second half of the year, by several PT SGPS directors;
  - ▶ replacing the Chairman of the Board of Directors following the resignation of the director who was in such position;
  - ▶ the Board taking on all the powers delegated by the Board of Directors to the Executive Committee, considering the changes occurred in the PT SGPS universe structure; and
  - ▶ entrusting certain special charges and powers of representation to some directors, under article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws.

## Supporting Structures

Upon the merger of the business of PT SGPS into PT Portugal and the transfer of the latter to Oi, within the framework of Oi's capital increase that was settled on 5 May 2014, the Disclosure Committee, as a support structure for the Executive Committee, ceased its functions. In addition, following the Board resolution to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company – resulting in the Executive Committee ceasing its existence in PT SGPS' corporate governance structure as from such date – the Sustainability Committee also ceased its functions as a support structure for the Executive Committee.

However, and since the Company remains a foreign private issuer with securities registered with SEC, in April 2015 the Board decided to reinstate the Disclosure Committee, which is entrusted with defining, documenting and disclosing procedures as appropriate for the proper collection, processing and reporting of information, as well as reviewing all information disclosed by PT SGPS, all within the framework of the 2014 annual management report, balance sheet and accounts, together with the 20-F Form. The Disclosure Committee is currently composed by Mário Gomes, Luís Sousa Macedo, Pedro Guterres and Shakhaf Wine.

In view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, and following the appointment of new members of PT SGPS' corporate bodies for the 2015-2017 three-year term of office that is to take place at the Annual General Meeting of Shareholders to be held in 2015, a revision of the Company's governance model and structures should be carried out in order to implement mechanisms as more appropriate for PT SGPS' current and future reality and challenges.

## 22. OPERATING RULES OF THE BOARD OF DIRECTORS

On 3 October 2008, the Board of Directors adopted its internal operation regulation. The full text of this regulation may be consulted on the Company's website, link: [http://www.telecom.pt/NR/rdonlyres/50C3FC4F-93E5-486B-8419-9FEED7879675/1449456/RegulamentoCA\\_4abr10e1.pdf](http://www.telecom.pt/NR/rdonlyres/50C3FC4F-93E5-486B-8419-9FEED7879675/1449456/RegulamentoCA_4abr10e1.pdf).

Under the terms of article 24 of the Bylaws and the Board's Internal Regulation, the Board of Directors shall meet every month and will meet extraordinarily whenever called upon by its Chairman, by two directors or by the Audit Committee.

The Board of Directors may not work without the presence of the majority of its members in office. The Chairman of the Board of Directors may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or through a power of attorney, although a director may not represent more than one other director.

The resolutions of the Board of Directors are passed by a majority of votes cast, and the Chairman has a casting vote.

## 23. NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2014 financial year, 22 meetings of the Board of Directors took place. The degree of attendance of each member to these meetings was 100%.

The Chairman of the Board of Directors sends all notices and minutes of the Board meetings to the Chairman of the Audit Committee in order to allow for the proper information of such officer. In this way, and since there was no Executive Committee within the Company as of 31

December 2014, CMVM Recommendation no. II.1.9 – as well as evaluation of compliance in material terms – are understood as applicable to PT SGPS' management body and its Chairman.

#### 24. INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

The Compensation Committee determines the remunerations of the executive members of the management body based on objective criteria as approved by such committee and on the evaluation of the performance of executive directors carried out by the Evaluation Committee, within the framework of its specific powers, upon hearing the Chief Executive Officer.

Similarly, executive directors are evaluated within the scope of the performance evaluation of the Board of Directors itself.

Furthermore, pursuant to the law, the General Meeting of shareholders makes an annual general appraisal of the management (and supervision) of the Company.

Finally, it should be mentioned that the Corporate Governance Committee has powers that, although delegated by the Board of Directors, determine that such committee evaluates the governance practices adopted by the Company and its management body.

After the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors. In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, as mentioned under item 15 of Part I above.

#### 25. PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

According to the statement on the remuneration policy for the members of PT SGPS management and supervisory bodies in force during the 2014 financial year set out in Appendix III, the determination of the variable remuneration to be allocated for the performance of the year was based on a percentage of the annual fixed remuneration calculated by using a weighted average of the level of achievement of a combination of indicators associated to performance and sustainability of the Company, provided that at least 85% of the goals established for each such indicator must be achieved.

The performance evaluation was made taking into account the evolution of the following indicators:

- › The total shareholder return (TSR), considered as such the return generated by the PT SGPS share, including not only the trading price variation but also any payments made (dividend);
- › The global earnings of the PT Group;
- › The overall EBITDA – CAPEX of the PT Group;
- › PT SGPS' sustainability index (using the Dow Jones Sustainability Index methodology);

- and
- › The achievement of the strategic goals at a national and international level.

As mentioned above, there were no executive directors appointed as at 31 December 2014, and the Board of Directors chose to entrust certain corporate charges to certain directors mentioned in item 15 of Part I above.

On 3 September 2014, PT SGPS' Compensation Committee, under proposal by the Evaluation Committee, and considering notably PT SGPS' current situation and the changes made to the Business Combination with Oi, resolved to instruct the Company's corporate bodies, committees and relevant services not to make any payments in connection with variable remunerations and/or any other form of performance and/or office termination bonus or compensation (other than any fixed remuneration due), even if under past resolutions adopted by the Compensation Committee (notably, amounts pending calculation/allocation and/or deferred), until the Compensation Committee, supported by the Evaluation Committee would identify and examine the situations in question and resolve as to the same.

## 26. AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS

The functions exercised by the PT SGPS' directors in other companies as well as their other relevant activities are shown in Appendix I. The duties performed and the attendance and active participation of the directors in the meetings of the Board of Directors (in respect of all its members) – see item 23 of Part I above – evidence the availability of each member of the Board of Directors to perform duties as director of the Company.

## *COMMITTEES WITHIN THE MANAGEMENT OR SUPERVISION BODIES AND DELEGATED DIRECTORS*

## 27. COMMITTEES CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF THEIR OPERATING RULES

### **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, PT SGPS' 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, as well as consulting functions regarding the selection of the members of the management bodies of the most relevant companies within the PT Group.

It should be stressed, in fact, that since the 2009 Annual General Meeting of Shareholders PT SGPS has been adopting a practice that is innovative among Portuguese companies admitted to trade, *i.e.* submitting to the shareholders at elective General Meetings a report prepared by the Evaluation Committee on the selection procedure for directors whose election is proposed at such General Meetings.

As provided for under the corresponding operating regulation, the Evaluation Committee shall be composed of the Chairman of the Board of Directors, the Chief Executive Officer (a position that is currently vacant, following the taking on by the Board of Directors, effective as from 1 October 2014, all the powers of the management in the normal course of the Company resulting in the Executive Committee ceasing its existence), 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.

As of 31 December 2014, the composition of the Evaluation Committee was as follows:

#### *Composition*

João de Mello Franco	<i>Chairman</i>
Francisco Soares <sup>(1)</sup>	<i>Member</i>
Milton Silva Vargas	<i>Member</i>
Paulo Varela <sup>(2)</sup>	<i>Member</i>
Rafael Mora Funes	<i>Member</i>
Rolando Oliveira	<i>Member</i>

<sup>(1)</sup> He resigned from his duties at PT SGPS on 27 February 2015, and was replaced by director Francisco Cary on 29 March 2015.

<sup>(2)</sup> He resigned from his duties at PT SGPS on 16 February 2015, and was replaced by director João Manuel Pisco de Castro on 29 March 2015.

#### **Corporate Governance Committee**

In compliance with the applicable legal and regulatory requirements, and in order to adopt the existing recommendations and best international practices, as of 31 December 2014 and the date hereof, in addition to the Evaluation Committee, the Board of Directors comprises a committee responsible for assessing and developing the corporate governance model: the Corporate Governance Committee.

The Corporate Governance Committee is composed of six to nine non-executive members of the Board of Directors, including the Chairman of the Board of Directors, having experience and knowledge as appropriate to reflect on the corporate governance model and permanently following up the adoption of the best corporate governance practices within PT SGPS, in light of the specific features of the Company, and at least one third of independent members.

The Corporate Governance Committee is presided over by the Chairman of the Board of Directors.

As of 31 December 2014, the composition of the Corporate Governance Committee was as follows:

#### *Composition*

João de Mello Franco	<i>Chairman</i>
Francisco Cary	<i>Member</i>
Francisco Soares <sup>(1)</sup>	<i>Member</i>
Gerald S. McGowan	<i>Member</i>
Milton Silva Vargas	<i>Member</i>
Paulo Varela <sup>(2)</sup>	<i>Member</i>
Rafael Mora Funes	<i>Member</i>

<sup>(1)</sup> He resigned from his duties at PT SGPS on 27 February 2015.

<sup>(2)</sup> He resigned from his duties at PT SGPS on 16 February 2015, and was replaced by director João Manuel Pisco de Castro on 29 March 2015.

## Operation of the Evaluation Committee and Corporate Governance Committee

Each such committee meets ordinarily once every quarter and whenever called upon by its Chairman on his own initiative or at the request of any one of its members. These committees may not function without the presence or due representation of the majority of its members, and their resolutions are taken by a majority of votes cast, the Chairman having a casting vote.

In addition to the above rules, the operating rules of the Board of Directors provide for the provision of information by the Evaluation Committee and Corporate Governance Committee to the members of the Board of Directors not incorporating the same.

The operation regulations of the Evaluation Committee and Corporate Governance Committee are available for consultation on the PT SGPS website at the following links respectively: [http://conteudos.ptsgps.pt/Documents/site/investidores/governo\\_sociedade/comissao-interna/Comissao\\_Avaliacao/PT/Comisso\\_Avaliao\\_mar2011p.pdf](http://conteudos.ptsgps.pt/Documents/site/investidores/governo_sociedade/comissao-interna/Comissao_Avaliacao/PT/Comisso_Avaliao_mar2011p.pdf) and [http://conteudos.ptsgps.pt/Documents/site/investidores/governo\\_sociedade/informacao-adicional/RegulamentoComissaoGovernoSet2013.pdf](http://conteudos.ptsgps.pt/Documents/site/investidores/governo_sociedade/informacao-adicional/RegulamentoComissaoGovernoSet2013.pdf).

Following the appointment of new members of PT SGPS' corporate bodies for the 2015-2017 three-year term of office that is to take place at the Annual General Meeting of Shareholders to be held in 2015, and in the context of the intended revision of the corporate governance mechanisms currently in force, the rules on the composition and operation and the powers of the Evaluation Committee and Corporate Governance Committee should be examined and redefined taking into account the current size and business of the Company.

## 28. COMPOSITION OF THE EXECUTIVE COMMITTEE AND/OR IDENTIFICATION OF MANAGING DIRECTORS

According to the Bylaws, the Board of Directors appoints the Chief Executive Officer ("CEO") and all other members of the Executive Committee. These members are appointed upon proposal by the CEO.

The Bylaws also provide that the Executive Committee schedules the dates and periodicity of its own ordinary meetings, and shall meet extraordinarily whenever called upon by its Chief Executive Officer, by two of its members or by the Audit Committee.

The Executive Committee may not work without the presence of the majority of its members in office. The Chief Executive Officer may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or through a power of attorney, although a member of the Executive Committee may not represent more than one other member of the same, and also by conference call and videoconference.

The resolutions of the Executive Committee are passed by a majority of votes cast, and the Chief Executive Officer has a casting vote.

After the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors. In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive



Committee ceased its existence in PT SGPS' corporate governance structure as from such date.

Additionally, within the scope of that same Board resolution, certain corporate charges were specifically entrusted to certain directors pursuant to article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws:

<i>Facilities and Services</i>	João Mello Franco
<i>Protection of Credits over Rio Forte</i>	João Mello Franco, Rafael Mora Funes, Paulo Varela <sup>(1)</sup> and Milton Silva Vargas
<i>Follow-up of Performance of Agreements with Oi</i>	João Mello Franco, Rafael Mora Funes, Paulo Varela <sup>(1)</sup> , Milton Silva Vargas and Francisco Cary
<i>Relations with Markets and Supervisory Entities</i>	João Mello Franco
<i>Finance and Taxation</i>	João Mello Franco

(1) Resigned from his duties in PT SGPS on 16 March 2015.

In this way, CMVM Recommendation no. II.1.2 is deemed complied with, as no authority of the Board of Directors is delegated as regards: (i) the determination of the Company's general strategy and policies, (ii) the definition of the PT SGPS' corporate structure, and (iii) strategic decisions due to their amount, risk or special features, notably, regarding this latter, as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its Internal Regulation.

Following the appointment of new members of PT SGPS' corporate bodies for the 2015-2017 three-year term of office that is to take place at the Annual General Meeting of Shareholders to be held in 2015, and in the context of the intended revision of both the corporate governance mechanisms currently in force and the Company's Bylaws, we expect PT SGPS to resume its power delegation in an Executive Committee (and the resulting redefinition of such committee's composition and operation rules) or Managing Directors, according to which proves more appropriate for the current size and business of the Company.

## 29. DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES

Regarding this matter, please see items 21 and 27 of Part I above.

## III. SUPERVISION

### COMPOSITION

#### 30. IDENTIFICATION OF THE SUPERVISORY BODY

The supervisory body corresponding to the governance model adopted by the Company is the Audit Committee. For more information, please refer to item 21 of Part I above.

#### 31. COMPOSITION OF THE AUDIT COMMITTEE

In observance of the requirements of article 423B of the Portuguese Companies Code and PT SGPS' Bylaws, the Audit Committee is exclusively composed of non-executive directors meeting the requirements of independence defined under article 414-5 & 6 of the same Code, as further explained in item 32 of Part I below, and having higher education as appropriate to

carry out their duties, with at least one member having knowledge of auditing and accounting matters.

The members of the Audit Committee are appointed by the General Meeting of shareholders together with all other directors and, in accordance with the Company's Bylaws, the lists proposed for the composition of the Board of Directors must specify the members to be appointed to the Audit Committee and its Chairman.

The members of the Audit Committee were elected on 27 April 2012 for the 2012-2014 three-year term of office. Taking into account the end of such term of office on 31 December 2014, the Annual General Meeting of Shareholders to be held in 2015 will elect new member for PT SGPS' supervisory body for the 2015-2017 three-year term of office.

As at 31 December 2014, the Company's Audit Committee was composed as follows:

#### *Composition*

*(date of first appointment)*

José Guilherme Xavier de Basto <i>(22/06/2007)</i>	<i>Chairman*</i>
Alfredo José Silva de Oliveira Baptista <i>(13/11/2014)</i>	<i>Member*</i>
Mário João de Matos Gomes <i>(27/03/2009)</i>	<i>Member</i>

\* Following the resignation of João de Mello Franco from his office as Chairman of the Audit Committee in the context of his appointment as Chairman of the Board of Directors of PT SGPS, director Alfredo Baptista was co-opted, by resolution of the Audit Committee dated 13 November 2014, onto this committee. José Xavier de Basto took office as Chairman of the Audit Committee as from that same date.

## 32. IDENTIFICATION OF THE MEMBERS OF THE AUDIT COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE

Taking into consideration the internal rules on independence issues and the communications made by this corporate body's members, as at 31 December 2014, the Audit Committee complies with the provisions of article 423B-4 & 5 of the Portuguese Companies Code, since all its members are independent (except for Alfredo Baptista, whose independence is deemed affected as a result of his exercise of executive duties in the Company up to the end of September 2014), pursuant to article 414-5 of the same Code and item 18 of the form attached to CMVM Regulation no. 4/2013, and have appropriate training and expertise, and therefore CMVM Recommendation no. II.2.1 is also complied with.

It should be stressed that as of 31 December 2014 *(i)* independence of the members of the Company's Audit Committee was also assessed in accordance with SEC rules applicable to PT SGPS' Audit Committee, which rules are described in Appendix II hereto, and *(ii)* all the members of the Audit Committee were independent according to such rules, including the member of the Audit Committee Mário João de Matos Gomes, who is the audit committee financial expert according to the provisions of Item 16A of Form 20-F submitted to SEC each year. It should also be stressed that, as at 31 December 2014, the Audit Committee member Alfredo Baptista was deemed independent in the light of SEC rules (Rule 10A-3, Listing Standards Relating to Audit Committees), and that the NYSE rules applicable to the Company as at that same date required no more than compliance with such rule; however, the said Director did not comply with the additional rules of independence of NYSE Section 303A.02 (Corporate Governance Standards – Independence Tests), which were voluntarily applied by the Company to Audit Committee members in the past, because the Director in question had exercised duties of executive director in the Company up to 30 September 2014.

For purposes of assessment of independence, non-existence of incompatibility situations and specialisation of the members of the Audit Committee as such, the Audit Committee and the Board of Directors of PT SGPS adopted, on 31 January 2008, Service Order no. 4,08, which was prepared on the basis of the independence concept set out under article 414,5, the list of incompatibilities provided for under article 414A, and the specialisation concept set out under article 414,4, all of the Portuguese Companies Code and applicable by virtue of article 423B of that same Code. All other applicable market rules, including the rules in force in the US market, notably the Securities Exchange Act of 1934, the Sarbanes-Oxley Act, Rule 10A-3, Listing Standards Relating to Audit Committee of SEC and under Section 303A on Corporate Governance Standards of NYSE, were also taken into account. It should be stressed that, as from 30 March 2015, PT SGPS is no longer subject to the rules set out in Rule 10A-3, Listing Standards Relating to Audit Committees of SEC applicable to companies with shares traded on the NYSE due to the withdrawal from trading on the NYSE of the Company's American Depositary Receipts (ADRs).

In accordance with said Service Order no. 4,08, the members of the Audit Committee must send to its Chairman, within the 10 business days following their appointment and no later than 31 January of each year, declarations prepared in accordance with an Appendix to such Service Order.

Additionally, where a member of the Audit Committee is or should be aware that a subsequent change regarding the independence, incompatibility and specialisation requirements applicable to such member has occurred or will occur, the member in question must send an updated declaration to the Chairman of the Audit Committee, reasonably in advance or, if not possible to send it in advance, immediately after the fact.

The Audit Committee assesses, from time to time, the compliance of its members with applicable rules on incompatibilities, independence and specialisation on the basis of such declarations, as well as of any other information of which the Audit Committee may be aware.

Furthermore, should the Audit Committee conclude that, at a certain point in time, a member fails to comply, or may eventually fail to comply, with the requirements as to incompatibilities, independence or specialisation as provided for under the Portuguese Companies Code, the Audit Committee will trigger the necessary mechanisms for replacement of such members as required for the composition of this corporate body to be in conformity with the applicable legal and bylaw provisions.

### 33. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE AUDIT COMMITTEE

The *curricula* of the members of PT SGPS' Audit Committee are shown in Appendix I.

## OPERATION

### 34. OPERATING RULES OF THE AUDIT COMMITTEE

The Audit Committee has adopted its Internal Regulation, which may be consulted on the following electronic address:

[http://conteudos.ptsgps.pt/Documents/site/investidores/governo\\_sociedade/comissao-auditoria/Regulamento\\_Comisso\\_de\\_Auditoria\\_PT.pdf](http://conteudos.ptsgps.pt/Documents/site/investidores/governo_sociedade/comissao-auditoria/Regulamento_Comisso_de_Auditoria_PT.pdf).

According to such Regulation, the Audit Committee meets at least once every two months, on the day and at the place established by its Chairman, although extraordinary meetings may be called upon by its Chairman or at the request of a majority of the members of the Committee.

Additionally, the Audit Committee may meet, on its own initiative, at least once every quarter of each financial year, separately with the Executive Committee, the Internal Audit Department and the Company's External Auditors. Its members shall participate in the meetings of the Executive Committee / Board of Directors in which financial statements are reviewed.

The Audit Committee shall not function without the presence of the majority of its members in office. Its Chairman may, when clearly urgent or there is a justified impossibility, waive the presence of that majority if the same is ensured through voting by correspondence or by power of attorney, although no member may represent more than one other member of the Audit Committee.

The Audit Committee's resolutions are approved by a majority of the votes cast, and its Chairman has a casting vote.

### 35. NUMBER OF MEETINGS OF THE AUDIT COMMITTEE AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2014 financial year, 14 meetings of the Audit Committee took place. The degree of attendance of each member to these meetings was 100%.

### 36. AVAILABILITY OF EACH MEMBER OF THE AUDIT COMMITTEE AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE AUDIT COMMITTEE

The functions exercised by the members of PT SGPS' Audit Committee in other companies as well as their other relevant activities are shown in Appendix I. The duties performed and the attendance and active participation of the members of the Audit Committee in the meetings of the Board of Directors and of the Audit Committee (see items 23 and 35 of Part I above, as well as the Report of the Audit Committee's Activities which is made available at the Company's website) evidence the availability of each member of the Audit Committee to perform such duties.

### *COMPETENCES AND DUTIES*

### 37. PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR

The services other than auditing services provided to the Company and to companies in a control relationship with PT SGPS by the External Auditor and entities in a holding relationship with or incorporated in the same network as the External Auditor were previously approved by the Audit Committee, upon review of each specific service, which considered the following aspects: (i) such services having no effect on the independence of the External Auditor and any safeguards used; and (ii) the position of the External Auditor in the provision of such services, notably the External Auditor's experience and knowledge of the Company.

Furthermore, although hiring services other than auditing services to the External Auditor is admissible, it is envisaged as an exception. In this way, in 2014, such services reached only around 1% of the total amount of services provided by Deloitte & Associados, SROC S.A. as

External Auditor, both to the Company and to the entities that were incorporated in the PT Group (in the case of the companies of the PT Group that were transferred to Oi in the context of Oi's capital increase, the values in question correspond only to services provided up to 5 May 2014, the date of settlement of the said capital increase).

Therefore, PT SGPS believes to comply with CMVM Recommendation no. IV.2.

#### 38. OTHER DUTIES OF THE SUPERVISORY BODIES

Regarding this matter, please see item 21 of Part I above.

### IV. CHARTERED ACCOUNTANT (REVISOR OFICIAL DE CONTAS / ROC)

#### 39. IDENTIFICATION OF THE CHARTERED ACCOUNTANT AND OF ITS REPRESENTING PARTNER

The 2012-2014 three-year term of office of the Chartered Accountant commenced on 27 April 2012, its effective member being the firm P. Matos Silva, Garcia Jr., P. Caiado & Associados, Sociedade de Revisores Oficiais de Contas, Lda., registered in the Chartered Accountant's Professional Association ("OROC") under no. 44 and at CMVM under no. 1054, represented by its partner and manager Pedro João Reis de Matos Silva, registered at OROC as Chartered Accountant under no. 491, who was responsible for the guidance of individual and consolidated account auditing of PT SGPS since this firm was firstly appointed in 2007.

Given that article 54-2 of the Regulation of the Chartered Accountant's Association determines a mandatory rotation period of seven years for the Chartered Accountant partner representing the firm, in 2014 the firm P. Matos Silva, Garcia Jr., P. Caiado & Associados, Sociedade de Revisores Oficiais de Contas, Lda. appointed its partner and manager João Paulo Raimundo Henriques Ferreira, ROC no. 851, for purposes of guidance of individual and consolidated account auditing of the Company.

Taking into account the end of the term of office on 31 December 2014, the Annual General Meeting of Shareholders to be held in 2015 will elect, under proposal by the Audit Committee, a Chartered Accountant for the 2015-2017 three-year term of office.

#### 40. NUMBER OF YEARS DURING WHICH THE CHARTERED ACCOUNTANT PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

the firm P. Matos Silva, Garcia Jr., P. Caiado & Associados, Sociedade de Revisores Oficiais de Contas, Lda., performs duties as Chartered Accountant in the Company consecutively since 2007, *i.e.*, for eight years.

Pursuant to its duties, PT SGPS' Audit Committee confirmed the independence of the Chartered Accountant, and appraised its work during the 2014 financial year as positive.

The remuneration of the Chartered Accountant for 2014 was 259,125 Euros, including the services rendered up to 5 May 2014 to the following companies that incorporated the PT Group, in addition to PT SGPS, up to that date, when they were transferred to Oi within the scope of the contribution by PT SGPS of PT Portugal to the Oi Capital Increase: PT Investimentos Internacionais, PT Ventures, PT Participações, TPT – Telecomunicações Públicas de Timor and PT Imobiliária.

#### 41. OTHER SERVICES RENDERED TO THE COMPANY BY THE CHARTERED ACCOUNTANT

In 2014, the Chartered Accountant did not render to the PT Group any services other than auditing services.

#### V. EXTERNAL AUDITOR

#### 42. IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM

PT SGPS' current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 1122, and it is represented by its partner and director Rui Carlos Lourenço Helena, registered at OROC as Chartered Accountant under no. 923.

#### 43. NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

The previous External Auditor to PT SGPS, Deloitte & Associados, SROC SA (a company that was formerly called António Dias & Associados, SROC, SA), registered at OROC under no. 43 and at CMVM under no. 231, started its duties in mid-2004. Therefore, it performed its duties in the Company for ten consecutive years.

The duties of representation of Deloitte & Associados, SROC, S.A. as External Auditor to the Company were performed for 5 consecutive years (2009-2013) by its partner and director João Luís Falua Costa da Silva, registered at OROC as Chartered Accountant under no. 883.

By letter dated 18 December 2014, Deloitte & Associados, SROC, SA submitted its resignation from its duties as the Company External Auditor for the 2014 financial year, since, upon the decision taken by the Oi group, in October 2014, to appoint another Auditor for PT Portugal and its Portuguese relevant subsidiaries, Deloitte direct auditing was reduced to an insignificant portion of PT SGPS' consolidated assets and profits, and therefore Deloitte deemed it lacked the technical conditions required to continue to answer for the certification of PT SGPS' consolidated accounts for the 2014 financial year.

In March 2015, the Audit Committee approved the award to BDO & Associados – SROC, Lda. the integrated auditing of PT SGPS' financial statements for the 2014 financial year.

#### 44. POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER

There is no internal policy for the External Auditor's mandatory rotation, apart from the one legally applicable to public interest entities. The mandatory rotation period applicable to the chartered accountant that represents the External Auditor in the performance of its duties results from article 54,2 of the OROC Statutes (7 years) and the more strict requirement set forth in letter (j) of Section 10A of US Securities Exchange Act of 1934, with the wording provided by Section 203 of Sarbanes-Oxley Act of 2002 (5 years), applicable to US Foreign Private Issuers.

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Following the resignation of Deloitte & Associados, SROC, SA from its duties as PT SGPS' External Auditor, BDO & Associados, SROC, Lda. was engaged to carry out such duties for the year 2014, and therefore CMVM Recommendation no. IV.3 is observed.

#### 45. CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION

The Audit Committee is the corporate body responsible for the evaluation of the External Auditor.

In 2014, the External Auditor's independence was safeguarded, in particular, by the implementation of the Company's policy on pre-approval of the services to be hired to External Auditors (or any entity in a holding relationship with or incorporating the same network as the External Auditors), which results from the application of legal rules and the rules issued by SEC on this matter. According to such policy, the Audit Committee makes an overall pre-approval of the services proposal made by the External Auditors and a specific pre-approval of other services that will eventually be provided by the External Auditors, particularly tax consultancy services and services other than "audit and audit related" services.

It should also be stressed that, in accordance with SEC rules, the Audit Committee, within its responsibilities, has defined the rules on the limitations and restrictions the PT Group must comply with should there be an intention to hire persons currently employed by the External Auditing company.

The Audit Committee annually evaluates the External Auditor's performance and independence, as described in the annual Report of the Audit Committee's activities which is made available at the Company's website. Pursuant to its duties and in line with CMVM Recommendation no. II.2.3, the Company's Audit Committee assessed and confirmed the independence of BDO & Associados, SROC, Lda., and appraised its work relating to the Company's 2014 financial accounts audit as positive.

#### 46. SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSES OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING

The services other than auditing services provided to the Company and to companies in a control relationship with PT SGPS by the External Auditor and entities in a holding relationship with or incorporated in the same network as the External Auditor are summed up in the table referred to in item 47 of Part I below.

These services were previously approved by the Audit Committee, upon specific review of each service, which considered the following aspects: (i) such services having no effect on the independence of the External Auditor and any safeguards used; and (ii) the position of the External Auditor in the provision of such services, notably the External Auditor's experience and knowledge of the Company.

Furthermore, although hiring services other than auditing services to the External Auditor is admissible, it is envisaged as an exception. In this way, in 2014, such services reached only around 1% of the total amount of services provided by Deloitte & Associados, SROC S.A. as External Auditor, both to the Company and to all the entities that incorporated the PT Group (in the case of the companies of the PT Group that were transferred to Oi in the context of Oi's

capital increase, the values in question correspond only to services provided up to 5 May 2014, the date of settlement of the said capital increase).

In 2014, no amounts were paid to PT SGPS' current External Auditor, BDO & Associados, SROC, Lda..

**47. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE**

During 2014, the annual remuneration paid to the former PT SGPS' External Auditor, Deloitte & Associados, SROC SA, and to companies pertaining to Deloitte's international network was 907,136 Euros. This amount was paid for the provision of the following services (including the auditing of consolidated and individual accounts):

<b>By PT SGPS</b>	<b>2014</b>		<b>2013</b>	
	<b>Amount (€)</b>	<b>%</b>	<b>Amount (€)</b>	<b>%</b>
Auditing services	203,000	25	261,000	55
Other reliability guarantee services	602,100	75	163,100	35
Tax consultancy services	-	-	650	0
Services other than auditing services	-	-	46,431	10
<i>Total</i>	<i>805,100</i>	<i>100</i>	<i>471,181</i>	<i>100</i>

**By PT SGPS and other entities incorporating the Group up to 5 May 2014 (\*)**

Auditing services	203,000	22	1,401,320	77
Other reliability guarantee services	695,121	77	240,662	13
Tax consultancy services	-	-	65,459	4
Services other than auditing services	9,015	1	114,139	6
<i>Total</i>	<i>907,136</i>	<i>100</i>	<i>1,821,580</i>	<i>100</i>

(\*) In the case of the companies that incorporated the PT Group and were transferred to Oi within the scope of Oi's capital increase, the above values are only for services rendered up to 5 May 2014, the date of settlement of the said capital increase.



## C. INTERNAL ORGANIZATION

### I. BYLAWS

#### 48. RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY

##### **Constitutive quorum for the General Meeting of Shareholders**

Where an amendment to the Bylaws is at issue, the General Meeting of shareholders may only resolve, on a first call, if shareholders owning shares corresponding to at least one-third of the share capital are present or represented. On a second call, no such requirement exists, and the General Meeting may resolve on any matter whatever the number of shareholders present.

##### **Resolution quorum for the General Meeting of Shareholders**

Where an amendment to the Bylaws of the Company is at issue, the General Meeting of shareholders resolves by a majority of two-thirds of the votes cast.

However, if shareholders holding at least half the share capital are present or represented at a General Meeting held on second call, an amendment to the Bylaws may be resolved by a majority of the votes cast, and no two-third majority is therefore required.

Thus, PT SGPS' Bylaws establish no quorum other than established by the law for the General Meeting to be held or to approve resolutions.

The Board of Directors is, however, authorised to increase the share capital, subject to an opinion in favour issued by the Audit Committee and following a resolution of the General Meeting of shareholders, according to the terms described in item 9 of Part I above. The Board of Directors may also move the registered office of the Company within the national territory upon authorisation by the General Meeting of shareholders.

### II. WHISTLEBLOWING

#### 49. WHISTLEBLOWING

In January 2014, PT SGPS revised a set of procedures called "System for Qualified Communication of Undue Practices", or Whistleblowing, which was implemented in 2005.

Within this System, "undue practices" mean all acts or omissions, wilful or negligent, performed within the activities of the companies pertaining to the PT Group, that may have an impact on the financial statements or information sent to the Portuguese regulatory authority, CMVM, or the US regulatory authority, SEC, or those that cause damage to PT SGPS' assets and reputation.

Taking this framework into account, Whistleblowing is any report of an event or of a justified suspicion of a fact, made by who knows or has consistent reasons to believe that there is evidence of any of the following:

- > Violation of any law, rule or regulation;
- > Fraud;
- > Bad management;
- > Abuse of authority;

- > Fund squandering;
- > Banking and financial crime.

Upon implementation, the existence of the System for Qualified Communication of Undue Practices was made public through personal communication addressed to each employee and by the uploading of a text on PT SGPS' website.

Any employee or person outside the PT Group (meaning a person that does not belong to the Company's staff – for instance, a shareholder, customer or supplier) may report undue practices through the following means:

- > By e-mail, classified as "confidential", addressed to the Qualified Communication Analysis Team (*NAPQ – Núcleo de Análise de Participações Qualificadas*) at <https://napq.telecom.pt>;
- > By telephone, to the phone numbers indicated in PT Group's institutional website <http://www.ptsgps.pt>;
- > By registered mail, classified as "confidential", addressed to the Qualified Communication Analysis Team at Av. Fontes Pereira de Melo nº 40, 10º, nº 10.23, 1069-300 Lisboa.

Suitable safety measures were implemented for the protection of information and data contained in communications. In particular, restricted access will be guaranteed, from a physical and logical perspective, to the System servers, and the means for gathering and filing information must be exclusive to the System.

Both confidentiality of the communication and anonymity of the person reporting will be ensured at all times, unless the person concerned unequivocally intends and declares otherwise.

In no case is any kind of retaliation against those that make the said communications tolerated.

The Audit Committee ensures the receipt, analysis and subsequent treatment of accusations or charges, which are first received by the Qualified Communication Analysis Team, who process the communications and send them to the Audit Committee. The Audit Committee has powers to make the required decisions, reporting them to the CEO and CFO, as well as to other internal or external entities whose involvement is required or justified. Each quarter, the NAPQ submits to the Audit Committee a report on the activities carried out, setting out recommendations in relation to each process concluded and received in such quarter.

### III. INTERNAL CONTROL AND RISK MANAGEMENT

As at 31 December 2014 and up to 30 March 2015, PT SGPS was an issuer of securities admitted to trading on NYSE, qualifying as a foreign private issuer, and as such PT SGPS was subject to the mandatory rules set forth, notably, in Rule 10A-3, Listing Standards Relating to Audit Committees, issued by the SEC for regulation purposes under Section 10A(m) of the Securities Exchange Act, as amended by the Sarbanes-Oxley Act, and to the Final Rules approved by NYSE on corporate governance (Section 303A on Corporate Governance Standards), all as described in Appendix II hereto. Currently, PT SGPS is no longer subject to the rules set forth in Rule 10A-3, Listing Standards Relating to Audit Committees, issued by the SEC or to the Final Rules approved by NYSE under Section 303A on Corporate Governance Standards.

PT SGPS has defined as a priority commitment the implementation of the internal control and risk management systems corresponding to the demands to which PT SGPS is subject as a foreign private issuer, and simultaneously complying with CMVM Recommendations in this matter, notably CMVM Recommendations no. II.2.4 and no. II.2.5, which recommend that the

Company structure said systems in an adequate way considering its size and the complexity of the risks inherent to its business and strategic plan.

The default by Rio Forte, in July 2014, as to its reimbursement liabilities derived from the Rio Forte Instruments, and the repercussions thereof, led PT SGPS to engage the services of an independent entity, PricewaterhouseCoopers (“PwC”), for the purpose of reviewing all procedures and actions carried out within the framework of the Rio Forte Instruments, as well as all relevant aspects related to treasury applications in entities of the Espírito Santo Group.

As such, PwC identified the main internal control policies underlying the treasury management model of PT SGPS, as well as the significant alterations occurred between 1 January 2001 and 30 June 2014, notably in respect of the management of treasury surpluses, based on the data made available by the PT Group services. The work performed also included the revision of the internal control systems in force during 2012 and 2013 at the level of the sub processes deemed relevant for the PT Group treasury management, based on the typical approach for Sarbanes-Oxley compliance. As a result of this analysis, PwC concluded, *inter alia*, that certain internal control and risk management systems implemented in PT SGPS were appropriate, as mentioned below.

Firstly, within the framework of PT SGPS’ internal control procedures as to treasury management, PwC concluded that there was a formalised control in PT SGPS, in the cycle of financial report internal control, which consisted in filling in a disclosure checklist by comparing financial statement disclosures with disclosures as required by international accounting rules in order to ensure compliance with the latter, and that such control was actually carried out during 2013 and 2012.

Additionally, as regards PT SGPS’ risk management and Internal Audit planning model as to short-term applications, PwC considered that the approach to risk assessment made by PT SGPS’ Internal Audit Department for purposes of planning its works was appropriate and in line with the rules of The International Professional Practices Framework (IPPF) of The Institute of Internal Auditors (IIA).

In fact, according to IPPF, the Internal Audit Department should establish a plan, based on the risk evaluation, determining auditing priorities, which should be consistent with the goals of the organisation. In this way, the planning of internal auditing work should take into account (i) significant risks for business, (ii) business goals, as well as (iii) any means whereby the potential risk impact is kept at an acceptable level. Additionally, risk assessment should be supported by the strategic goals defined and approved by management.

Similarly, Auditing Standard no. 9 – Audit Planning issued by the Public Company Accounting Oversight Board (PCAOB) mentions that audit planning should include an overall auditing strategy and the development of an auditing plan containing, in particular, the risk assessment procedures and the planning of responses to material distortion risks.

According to IPPF, the planning of the auditing work should include the goals, scope, time line and allocation of resources, as follows:

- > Goals: For determination of work goals, internal auditing should carry out a preliminary assessment of relevant risks for business and consider the probability of existence of significant errors, fraud, non-compliance with legislation or procedures and other kinds of exposure to an entity.
- > Scope: The scope of the work should take into consideration the systems, records, personnel and relevant physical assets, even those that are in possession of a third party.

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- > Resources: internal auditing should determine which resources are appropriate and sufficient to reach the work goals based on the assessment of the nature and complexity of such work, as well as limitations as to time and resources.

Each year, PT SGPS' Internal Audit Department prepared and submitted to the Audit Committee and Executive Committee the "Internal Audit Plan". The "2014 Internal Audit Plan", submitted to PT SGPS' Audit Committee on 18 December 2013, evidenced the following procedures to be carried out by PT SGPS' Internal Audit Department:

- > Risk assessment, taking into account the strategic goals defined and approved by PT SGPS' Board of Directors.
- > Definition of the work scope, taking into account the preliminary risk assessment, the definition of materiality and the audit results of previous years.
- > According to the scope of the work, teams were created as deemed suitable for the work to be carried out, and a time schedule of the plan was prepared in order to avoid a potential overload in each area.

However, the subscription of the debt instruments issued by Rio Forte and the subsequent default as to the reimbursement of such instruments by the issuer, led the Board of Directors, considering the results of the independent analysis performed by PwC on the procedures and actions carried out within said framework, as well as all relevant aspects related to treasury applications in entities of the Espírito Santo Group, as per the summary included in the communication disclosed by the Company on 8 January 2015, to which we refer, to deem prudent to reformulate the internal control and risk management rules and structures in force at the Company.

In this way, some of those rules have already been revised, seeking not only to reformulate the said mechanisms in light of the default as to the reimbursement of the Rio Forte Instruments, but also to accommodate the same to the new specificities of the Company, after the Oi Capital Increase and the changes made to the Business Combination announced on 2 October 2013.

In particular, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, pursuant to article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws. This situation is considered transitory, and we expect, following the end of the current term of office (2012-2014 three-year term) and the appointment of new members for PT SGPS' corporate bodies for the 2015-2017 three-year term of office to take place at the Annual General Meeting of Shareholders to be held in 2015, to resume the management in the normal course delegation model in an Executive Committee or Managing Directors, according to which proves more appropriate for the current size and business of the Company.

Additionally, the Board has already approved a set of internal rules that determine, notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

Similarly, the rules establishing the procedures for contracting and disclosing related party transactions, on the one hand, and transactions with owners of qualified holdings, on the other

hand, have already been revised in order to clarify the scope of application of the control and report procedures, as well as limit the exceptions defined, respectively, for those transactions.

Considering the foregoing, the Board of Directors understands that currently, and after the implementation of the described changes to the internal control and risk management mechanisms, there are conditions for the Company to consider the CMVM Recommendation II.1.5 as complied with.

Finally, it should be mentioned that the internal control and risk management system implemented in the Company is submitted to certification by the External Auditors each year, in accordance with the stipulations of Section 404 of the Sarbanes-Oxley Act, and that in respect of the 2013 year no deficiencies classified as Material Weakness were reported by the External or Internal Auditors that might put into question the effectiveness of the system as implemented or its suitability to the needs of the Group. In respect of the 2014 year, the task of certifying the financial reporting internal control system is still being performed. Additionally, in order to fully comply with CMVM Recommendation no IV.1, the External Auditors have also verified the application of the remuneration policies and systems in force in the Company during the 2014 financial year. For any additional information on this subject, we recommend that you read the Activity Report of the Audit Committee which is available at PT SGPS' website.

### **Internal Control System**

The Internal Control System implemented at PT SGPS was based on an internationally acknowledged model – COSO (Committee of Sponsoring Organisations of the Treadway Commission) – making use of the layers established according to such model, notably: *(i)* Entity Level Controls; *(ii)* IT Level Controls; and *(iii)* Process Level Controls. In addition, taking into consideration the SEC requirements, goals were identified as required to ensure that any business units and within such units any business cycles and systems having an impact on the steps conducive to the financial reporting have appropriate and operational controls.

PT SGPS designed a manual and implemented controls for the most representative business cycles within the Company. As to smaller size procedures, and within the framework of improvement of internal control and risk management environment, PT SGPS defined a set of minimum internal control requirements.

Additionally, the Company designed a specific manual to address one of the identified operational risks: fraud risk. The purpose of this manual is documenting usual frauds in the business sector where PT SGPS is inserted, in order to permit a better management of this specific risk.

PT SGPS internal control manuals and most relevant business cycles may be summarised on the table below. It should be stressed that PT SGPS 2014 Internal Control Manual comprises the whole 2014 period, although it was adjusted, where applicable, in order to reflect three different periods:

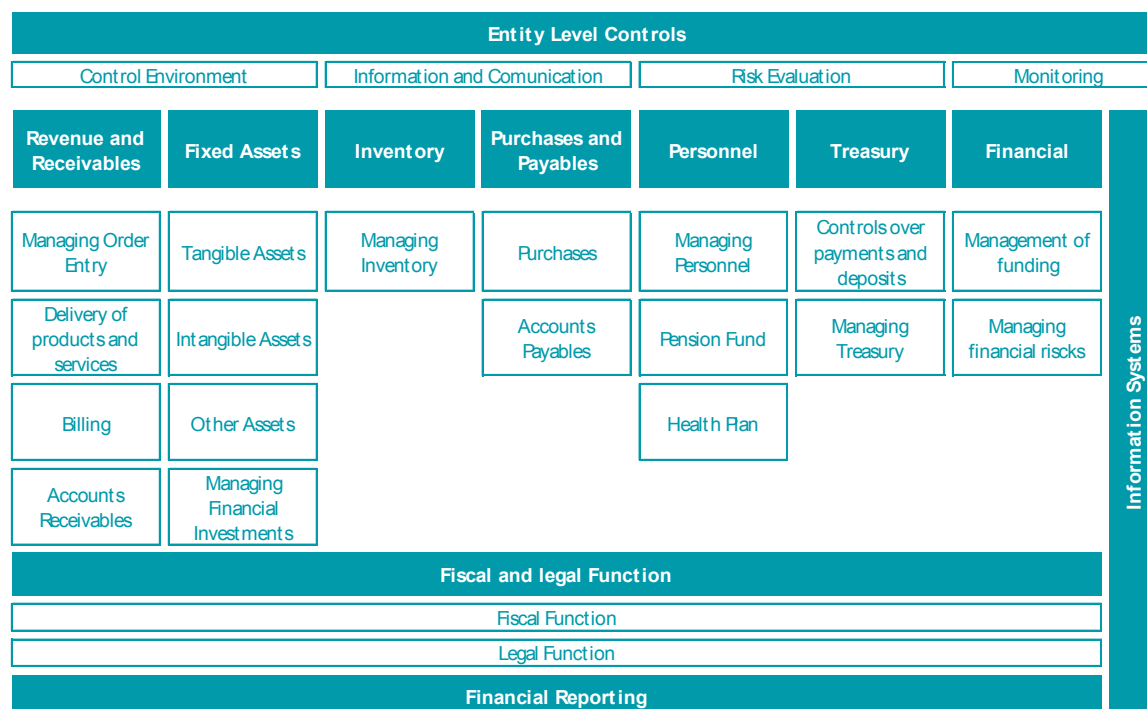
- a. Up to 5 May 2014, date on which PT Portugal ceased to be incorporated in PT SGPS;
- b. Up to 30 September 2014, date of the modification of the corporate governance model, upon termination of the Executive Committee;
- c. After 30 September 2014.

It is important to point out that, in the period after 5 May 2014, as a result of the contribution to Oi of all operational assets of PT SGPS then held by PT Portugal, the complexity of the operations of PT SGPS significantly decreased, given that PT SGPS no longer held assets with

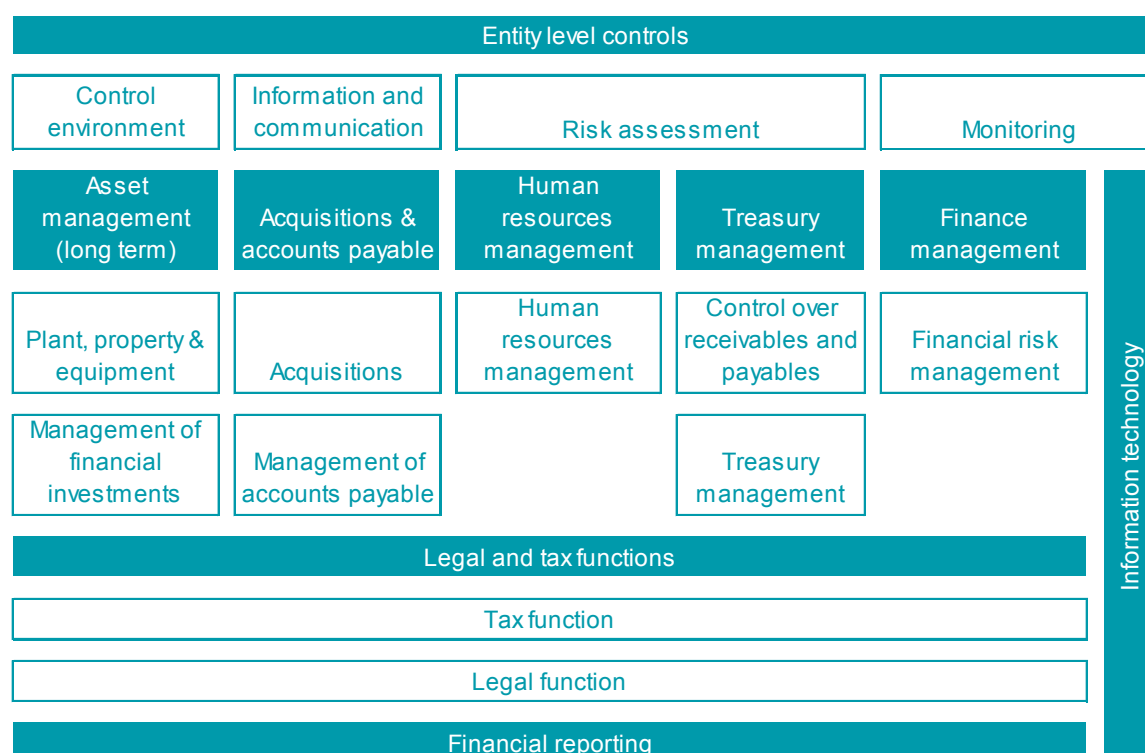
operational activities, and only held a direct and indirect shareholding of 39.7% in Oi, directly and through its subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A..

On 30 March 2015, after the consummation of the Exchange, PT SGPS became the holder of a direct and indirect shareholding of 27.48% in Oi, the Rio Forte Instruments in the total amount of €897 million and the Call Option over 47,434,872 ordinary shares and 94,869,744 preferred shares of Oi.

Until 5 May 2014, PT SGPS' internal control structure could be schematized as follows:



After 5 May 2014, as a result of the alteration to the structure of the balance sheet, considering the contribution to Oi of all operational assets of PT SGPS then held by PT Portugal, PT SGPS' internal control structure can be schematized as follows:



The identification and design of the controls that are relevant to financial reporting, whether preventive or detective or corrective, are documented on the proper manual according to the layers established by COSO. The manual is revised where changes in the processes occur or periodically, in order to attest their adhesion to the reality of PT SGPS' operations.

At control typology level, and as mentioned above, the following controls were identified:

- **29 Entity Level** controls, the purpose of which is to ensure a general supervision and guarantee that internal control environment exists, and which are carried out essentially by the Board of Directors, Audit Committee and high management;
- **117 Process Level** controls, executed according to the business cycles and classes of transactions identified on the table above. Processes are designed end-to-end, taking into account the intervention of the various Group companies where the same are executed.

Currently, PT SGPS has already identified around 9 processes and 146 critical controls for financial reporting.

As to **Information systems**, the controls were performed by external service providers. It was ensured that their reference was the CobiT (Control Objectives for Information and Related Technology) Governance framework, also based on COSO, and which includes controls for applications that are identified as critical.

As to information systems, PT SGPS has identified 2 critical systems, used by its accounting service provider, notably the SAP and the consolidation system.

## 50. PERSONS, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITING AND/OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS

Effective as from 1 October 2014, the Board of Directors has taken on all duties and responsibilities that were previously delegated to the Executive Committee, which includes the responsibility for the Internal Control System and Risk Management System.

Under an operational viewpoint, and subsequent to the concentration of PT SGPS activity in PT Portugal and the transfer of the latter to Oi, within its share capital increase, settled on 5 May 2014, the responsibility for testing the Internal Control System was outsourced to a team engaged under outsourcing (supported by internal personnel, where applicable), whose duties include, but are not limited to:

- a) Independently evaluating PT SGPS' internal control system;
- b) Identifying financial risks in the Company, the results of the risk management process, the materiality of the processes at a financial reporting level and any legal requirements;
- c) Making tests to the design and operational efficiency of existing controls; and
- d) Proposing the implementation of improvements to instituted processes and procedures.

The activities and duties assigned to the above subcontractor are performed in accordance with Internal Audit Professional Standards issued by the Institute of Internal Auditors (IIA). During 2011, such subcontractor was submitted to a quality assessment through which it renewed its quality certification issued by IIA.

Finally, the Audit Committee is entrusted, under legal terms, with permanently monitoring PT SGPS and assessing internal procedures on accounting and auditing matters, as well as the efficiency of the Risk Management System under the fiscal, legal, economic and financial viewpoint, the Internal Control System and the function of the Internal Auditing that was subcontracted under outsourcing.

## 51. HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCE RELATIONS VIS-À-VIS OTHER CORPORATE BODIES OR COMMITTEES

The Internal Audit function hierarchically reports to the Board of Directors and functionally reports to the Audit Committee.

The internal audit plan prepared by the Internal Audit and Risk Management function is annually approved by the Audit Committee of PT SGPS, wherein are defined the audits to be performed and the scope of internal control reviews. The objective of the audit assignments is to assess the internal control mechanisms in place to ensure the reliability and integrity of the financial and operational reports, operational efficiency and compliance with applicable laws and regulations.

The results of the Risk Management process are integrated in the annual audit plan, in order to ensure that audits carried out address the main areas and risk factors that might materially affect PT SGPS' activity.

Within this context, up to 5 May 2014, operational, compliance, financial and information system audits were carried out in the main business and operations units of PT SGPS worldwide, in order to ensure the following goals:

- Operational Audits – assessment of operational risk management procedures and of mechanisms aimed to guarantee operational efficiency with a relevant impact on the



pursuance of PT SGPS' strategy and on key value drives, in the different geographies where PT SGPS operated;

- Compliance Audits – ensuring compliance with laws, regulations and internal policies that might materially affect the Company strategy;
- Financial Audits – ensuring the effectiveness of control mechanisms associated to the collection, processing and disclosure of financial and accounting information. Within this framework, audits are carried out to ensure compliance with the Sarbanes Oxley Act, which requires the assessment of control procedures associated to the preparation of the financial statements. These evaluations are subject to certification by the External Auditor;
- Information Systems Audits – verification of the effectiveness of the controls addressing the risks associated to Information Systems, and which allow for ensuring security, integrity and availability of information that is critical for the business and recovering the systems in the event of interruption of operations.

In the period after 5 May 2014, as a result of the contribution to Oi of all operational assets of PT SGPS then held by PT Portugal, the audits mentioned above were adjusted in conformity to the reduction of operations.

The progress of the execution of the internal audit plan as defined, as well as the aggregate results of audits carried out, are reported to the Audit Committee for the follow-up of the progress of the internal control and risk management system and definition of action plans for mitigation and resolution of risks detected.

Internal control reviews are based on the COSO Framework (Committee of Sponsorship Organisations of the Treadway Commission), COBIT Framework (Control Objectives for Information and Related Technology), requirements of SEC and PCAOB, since the Company, as at 31 December 2014, had to comply with Section 404 of the Sarbanes Oxley Act.

As referred to above, the Company considers therefore to comply with CMVM Recommendations no. II.2.4 and no. II.2.5.

## 52. OTHER FUNCTIONAL AREAS HAVING RISK CONTROL POWERS

Risk Management is promoted by the Board of Directors in such a way as to identify, assess and manage uncertainties, threats and opportunities that might affect the pursuance of the plan and strategic goals, to decide on the level of exposure and overall risk limits to be undertaken by PT SGPS in its different activities and to ensure that management risk policies and procedures are followed.

PT SGPS risk level results from the degree of the Board's "appetite" for risk, which is kept within limits according to criteria as agreed between the Board of Directors and the Audit Committee, this latter committee being, under legal terms, responsible for the efficiency of the Risk Management System under the fiscal, legal, economic and financial viewpoint.

Risk Management is entrusted to the Board of Directors, although it depends on the supervision of the Audit Committee.

It is important to point out that, in the period after 5 May 2014, as a result of the contribution to Oi of all operational assets of PT SGPS then held by PT Portugal, the complexity of the operations of PT SGPS significantly decreased, given that PT SGPS no longer held assets with operational activities, and only held a direct and indirect shareholding of 39.7% in Oi, directly and through its subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A..

On 30 March 2015, after the consummation of the Exchange, PT SGPS became the holder of a direct and indirect shareholding of 27.48% in Oi, the Rio Forte Instruments in the total amount of €897 million and the Call Option over 47,434,872 ordinary shares and 94,869,744 preferred shares of Oi.

### 53. MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS TO WHICH THE COMPANY IS EXPOSED IN THE CONDUCT OF ITS BUSINESS

Among the various risks that may adversely affect the business of PT SGPS, the following should be highlighted:

Relevant Risks		
Economic Risks	Oi's Performance	<p>The international financial crisis may extend the recession at Portuguese, Brazilian and world economy level and delay economic recovery.</p> <p>As regards the business of PT SGPS, the main risk to which the Company is subject derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends. Oi has a substantial amount of debt, which may possibly cause restrictions to its operational and financial flexibility.</p> <p>Such risk impacts on PT SGPS' ability to obtain cash inflows derived from dividend payment and on Oi's share fluctuation as a potential trigger for recording any imparity in measuring PT SGPS' holding in Oi.</p> <p>Given the joint control PT SGPS exercises over Oi, the Board of Directors of PT SGPS monitors closely and regularly Oi's business and is engaged in supporting Oi's implementation of its turnaround plan and the exploration of consolidation opportunities in the Brazilian market.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
		<p>Foreign currency exchange rate risks relate mainly to PT SGPS' investments in foreign operations, particularly in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the translation of the results attributable to PT SGPS, and therefore impact PT SGPS' results and asset position.</p> <p>The Company does not have a hedging policy regarding the value of these investments. However the Board of Directors can analyse the execution of cash flow hedging of the dividends and other capital income between the time of allocation and actual receipt.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
Financial Risks	Exchange rates	<p>Interest rate risks basically impact the Group's financial expenses and income on the floating interest rate debt and cash applications. PT SGPS is exposed to this risk primarily in the Euro zone and in Brazil. It is important to point out that, at the end of 2014, PT SGPS has no debt.</p> <p>Oi's debt is consolidated under the equity method in PT SGPS Financial Statements.</p> <p>Market interest rates also affect discount rates used for purposes of testing imparities as to the Company's various assets.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
	Interest rates	<p>The exchange and interest rate financial instruments subscribed by Oi are consolidated under the equity method in PT SGPS' financial statements.</p> <p>For a detailed information on levels of exposure to this risk and financial instruments, see Notes to Financial Statements of the Annual Report.</p>

Relevant Risks	
	<p>Credit risks relate mainly to the risk that a third party fails on its contractual obligations, resulting in a financial loss for the Company. PT SGPS is mainly subject to credit risks in its treasury activities.</p> <p>Risks related to treasury activities result mainly from the cash deposits on investments made by PT SGPS. In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications based on the following principles:</p> <ol style="list-style-type: none"> <li>Applications in the form of bank deposits, to the exclusion of all other forms;</li> <li>Third party financial institutions must be rated;</li> <li>Definition of a limit per third party, which limit cannot exceed 34% of total amount of deposits.</li> </ol> <p>This criterion, although reducing PT SGPS' exposure to greater risk assets, makes it impossible for PT SGPS to achieve more attractive remunerations for its treasury surplus.</p>
	<p><b>Liquidity</b></p> <p>These risks may occur if funding sources, such as available funds credit lines and cash flows or cash inflows, such as dividend obtained, fail to meet cash outflows, such as paying salaries, suppliers or taxes.</p> <p>In order to mitigate this risk, PT SGPS seeks to keep a liquidity position permitting it to settle all its contractual obligations.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
	<p><b>Default by Rio Forte as to the reimbursement of the instruments that PT SGPS holds following the execution of the Exchange</b></p> <p>The Rio Forte Instruments were not reimbursed on maturity date, and so Rio Forte is in default and in a liquidation process.</p> <p>PT SGPS will debate the steps to take in order to maximise the reimbursement of the Rio Forte Instruments. Among the possible scenarios, there is the possibility to trigger all legal proceedings against Rio Forte, the relevant related parties and others. It is possible however that PT SGPS may not be able to obtain payment of any amounts pending by virtue of such instruments.</p> <p>The Rio Forte Instruments currently held by PT SGPS following the execution of the Exchange on 30 March 2015 are not secured by assets. Therefore, even if there were any amounts available for the reimbursement of Rio Forte's creditors, PT SGPS' right to reimbursement would be shared <i>pro rata</i> with all other unsecured creditors of Rio Forte, and only after reimbursement of all debts to secured creditors.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
	<p><b>Exercise of the call option on Oi's shares</b></p> <p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, which price will depend, in its turn, on Oi's performance, including its operations, financial position and business outlook.</p> <p>Given the joint control PT SGPS exercises over Oi, the Board of Directors of PT SGPS monitors closely and regularly Oi's business and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p> <p>For a detailed information on levels of exposure to this risk, see Notes to Financial Statements of the Annual Report.</p>
<b>Legal Risks</b>	<p><b>Agreements with Oi / Business Combination</b></p> <p>The implementation of the Business Combination is still subject to uncertainty and may not generate the benefits that PT SGPS and Oi intend to achieve, including the possible inability for Oi to migrate to the Novo Mercado segment in the future.</p> <p>Given the joint control PT SGPS exercises over Oi, the Board of Directors of PT SGPS monitors closely and regularly Oi's business and is further engaged in periodically following up CVM's decisions and notices. Additionally, certain PT SGPS directors are empowered to follow up all the process related to Oi according to strategic decisions taken by the Board of Directors.</p> <p>For a detailed information on levels of exposure to this risk, see Notes</p>

Relevant Risks	
	to Financial Statements of the Annual Report.
<b>Court proceedings</b>	<p>Risk of occurrence of court proceedings with a significant impact on PT SGPS and its financial capacity.</p> <p>The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, so as to know, for each claim, their assessment as to PT SGPS' liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PT SGPS' interests.</p>
<b>Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</b>	<p>Although the agreements entered into with Oi include an express waiver, under Brazilian law, of any claim that TmarPart, Oi and Oi's Subsidiaries might file in any jurisdiction against PT SGPS in connection with the Rio Forte Instruments and the contribution of these instruments within the scope of the Oi Capital Increase settled on 5 May 2014, such waiver does not affect the rights of any third parties, including the shareholders of PT SGPS and the shareholders of Oi and TmarPart, who may file court proceedings against PT SGPS in connection with the Rio Forte Instruments or the Business Combination, nor does it prevent investigations from governmental or regulatory entities.</p> <p>Additionally, the agreements entered into with Oi do not limit the right of recourse, under the laws of Brazil, of TmarPart, Oi and Oi's Subsidiaries against PT SGPS in the event of third party claims. Therefore, PT SGPS may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PT SGPS' financial position and the capacity to fully implement the Business Combination.</p> <p>On 13 January 2015, Portugal Telecom received a subpoena ("Subpoena") from SEC in relation to a private inquiry demanding that Portugal Telecom delivered documents and other information on several topics, including the Rio Forte Instruments and treasury applications in entities pertaining to the Espírito Santo Group, the Business Combination between Portugal Telecom and Oi, communications made by Portugal Telecom, internal controls and the investigation conducted by PwC in relation to the procedures adopted and the actions undertaken by Portugal Telecom in respect of the Rio Forte Instruments and other investments in entities pertaining to GES. Portugal Telecom is cooperating with SEC in respect of the investigation and the Subpoena.</p>
<b>SEC's comments on Form 20-F for 2013</b>	<p>Form 20-F for 2013 is still subject to revision by SEC, which has requested additional information for its analysis. SEC's comments include topics related to the Rio Forte Instruments, the communication of information on related party transactions, communications on the concentration of credit risks, the accounting treatment of the investment in Unitel as of 31 December 2013 and other aspects. SEC's comments may lead to the amendment of Portugal Telecom's consolidated accounts for 2013 and previous years and other disclosures in Form 20-F. PT SGPS cannot predict when SEC's revision and comments will end.</p> <p>PT SGPS' Audit Committee and General Secretariat have made efforts to respond to SEC's requests as fully and swiftly as possible. Additionally, a new timeline has been established with the new PT SGPS External Auditor for compliance with the reporting periods established both by CMVM and by SEC.</p> <p>As to the 2013 Form 20-F, the Board of Directors appointed a law firm for purposes of legal advice and follow up of the progress of the procedure.</p>

## 54. RISK IDENTIFICATION, ASSESSMENT, MONITORING, CONTROL AND MANAGEMENT PROCEDURE

### **Risk Management Procedure**

The Risk Management procedure implemented in PT SGPS 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.

PT SGPS' priority commitment consists in the implementation of mechanisms for assessment and management of risks that might affect its operations. 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.

The whole process is monitored and supervised by the Audit Committee, an independent supervisory body composed by independent directors, except for the member Alfredo Baptista, whose independence is deemed affected as a result of his exercise of executive duties in the Company up to the end of September 2014. Within the functions of this body regarding the supervision of the efficiency of the risk management system, the following duties should be highlighted:

- Supervise the adoption of principles and policies for the identification and management of the main risks of a financial or operational nature or other relevant risks in connection with PT SGPS' business, as well as of measures intended to monitor, control and disclose such risks;
- Evaluate, each year, all internal procedures on the matters of risk detection and safeguarding of Company assets;
- Monitor the analysis, revision and implementation of measures and plans in order to follow up, improve and/or correct the internal control system and the measures and plans proposed within the framework of the Company's risk management systems.

### **Risk Management Methodology**

Considering PT SGPS' need for clear assessment and management mechanisms for the risks affecting its businesses, the following components were defined in the implementation of the risk assessment and management procedure:

- **Risk Dictionary**, which defines the risk factors that might generally affect PT SGPS.
  - **Strategic Risks:** These correspond to risks that depend on external factors to PT SGPS that might affect its performance, strategy, operations and organisation. Due to their nature, the origins of environment risks imply that their associated impact must be appropriately anticipated and the materialisation of their associated risk factors and mitigation strategy in the event of a crisis must be timely identified;
  - **Operational Risks:** These result from and are inherent to business activities and internal processes, and Management may ensure their control at their origin, in a preventive manner;
  - **Financial Risks:** Associated to the PT SGPS' financial performance and to the transparency in its communication to the market.
- **Risk Management**, which formalises the relevant risk identification, analysis, mitigation and report processes and procedures.

### Identified risks

The table below shows the risks currently identified at the level of the Risk Management Model of PT SGPS on which all the risk management procedure is developed.

<b>Economic Risks</b>	<ul style="list-style-type: none"> <li>▪ Oi's Performance</li> </ul>
<b>Financial Risks</b>	<ul style="list-style-type: none"> <li>▪ Exchange rates</li> <li>▪ Interest rates</li> <li>▪ Credit</li> <li>▪ Liquidity</li> <li>▪ Default by Rio Forte as to the reimbursement of the instruments that PT SGPS holds following the execution of the Exchange</li> <li>▪ Exercise of the call option on Oi's shares</li> </ul>
<b>Legal Risks</b>	<ul style="list-style-type: none"> <li>▪ Agreements with Oi / Business Combination</li> <li>▪ Court proceedings</li> <li>▪ Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</li> <li>▪ SEC's comments on Form 20-F for 2013</li> </ul>

### Risk assessment

In its risk assessment, the Board of Directors considers the existence of predictable and unpredictable events. While most events are recurrent and have already been dealt with in already prepared management programs and budgets, there are events that are often unpredictable. The Board of Directors assesses the risks that may cause a significant impact on the Company, taking into account both the inherent risk of materialization of the risk and the residual risk (the risk that still exists after measures have been taken by the Board of Directors).

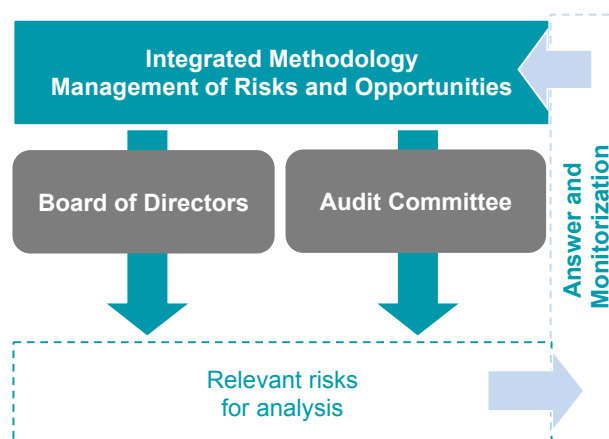
### Risk monitoring, control and management

The Board of Directors allocates responsibilities among directors/departments in order to formalise procedures that are aligned with the strategy and exposure level/risk tolerance determined for PT SGPS, in such a way as to identify:

- Monitoring procedures for mitigation actions for each risk, according to the risk management strategy adopted by the Board of Directors and supervised by the Audit Committee;
- Disclosure and reporting procedures for information issued from the risk management procedure.

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

Risk Management Methodology	
<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>Identifies main risks affecting PT SGPS;</li> <li>Decides on action &amp; prioritisation of mitigation actions</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>Supervises and evaluates risk management model;</li> <li>Proposes improvements &amp; changes to model</li> <li>Reviews the main risks</li> </ul>
<b>Internal Audit Function (subcontracted)</b>	<ul style="list-style-type: none"> <li>Evaluates the effectiveness of control mechanisms at reliability &amp; integrity level of financial &amp; operational reports, efficiency of operations &amp; compliance with laws &amp; regulations.</li> </ul>



During the 2014 financial year, a re-evaluation was carried out on the risk areas that might affect, in a more significant manner, PT SGPS' capacity to achieve its strategic goals.

In view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, and following the appointment of new members for PT SGPS' corporate bodies for the 2015-2017 three-year term of office, to take place at the Annual General Meeting of Shareholders to be held in 2015, a revision of the procedures adopted by the Company for risk identification, evaluation, monitoring and management should be carried out, so to implement the most appropriate mechanisms considering PT SGPS' reality and current and future challenges.

## 55. MAIN ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPLEMENTED IN THE COMPANY IN CONNECTION WITH THE FINANCIAL INFORMATION DISCLOSURE PROCEDURE

The wider scope of the internal control system implemented by Portugal Telecom includes existing controls both as to the accuracy and completeness of disclosures and as to compliance thereof with the Company's financial information. At the beginning of the procedure, the members of the Board in charge of the financial reporting, together with the Company services, the External Auditor and the Chartered Accountant, establish a timeline for the procedure and identify the participants/responsibility aimed at the preparation/disclosure of the financial information.

Before approval by the Board of Directors, financial information disclosures are submitted to opinion by the Disclosure Committee and the Audit Committee within the context of the Company's governance model. Both the Board's approval and the Audit Committee's opinion are preceded by a set of validation and accuracy procedures carried out by the Company services (both internal and external).

#### IV. INVESTOR SUPPORT

##### 56. INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS

It is PT SGPS' policy to supply clear and transparent information, on a regular basis, to its shareholders and other members of the financial community.

The purpose of the Investor Relations Office consists in ensuring adequate relations with shareholders, investors, analysts and financial markets generally, in particular with the Markets and Stock Exchanges where PT SGPS is listed and their respective regulatory entities: CMVM and SEC.

PT SGPS regularly prepares communications and press releases on quarterly, interim and annual results, as well as any inside information affecting the Company. It also provides all sorts of clarifications to the financial community in general – shareholders, investors and analysts.

Any interested party may have access to the Investor Relations Office through the following contacts:

Luís Sousa Macedo Investor Relations Director	
Telephone:	+351.21.500.1701
Fax:	+351.21.500.0800
E-mail:	luis-s-macedo@telecom.pt
Address:	Av. Fontes Pereira de Melo, 40-9º, 1069-300 Lisboa – Portugal
Company Switchboard:	+351.21.500.2000
Website:	pt-ir@telecom.pt

In addition to other information, PT SGPS keeps the following information updated on its website, in Portuguese and in English, therefore PT SGPS fully complying with CMVM Recommendation no. VI.1:

- › Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- › The Bylaws;
- › Operating rules of the corporate bodies and of the committees created within the Board of Directors;
- › The identity of the members of the corporate bodies and of the representative for relations with the market;
- › Duties of and access means to the Investor Relations Office as described above;
- › For a period of five years, the annual, interim and quarterly financial statements;
- › A schedule of corporate events, which includes, among other information, scheduled General Meetings of shareholders and disclosure of annual, interim and quarterly accounts;
- › Notices of the General Meetings of shareholders, as well as proposals to be submitted to discussion and voting by the shareholders, at least 21 days in advance of the meeting date;
- › Historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results, regarding the previous three years;



- > In general, information allowing an updated knowledge about the Company's evolution and reality in economic, financial and corporate governance terms.

#### 57. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Regarding this matter, please see item 56 of Part I above.

#### 58. INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS

The Investor Relations Office regularly receives calls with various questions, including clarifications on dividends, General Meetings of shareholders and others, typically answered immediately, when the information is public.

In addition, the Investor Relations Office regularly receives requests by e-mail or post, and depending on the technical complexity of the query it may take longer to answer, but typically it takes less than five business days.

Therefore, PT SGPS believes that its Investor Relations Office ensures a permanent contact with investors, analysts and the market in general as well as a treatment and record of investors' requests in compliance with CMVM Recommendation no. VI.2.

### V. INTERNET WEBSITE

#### 59. ADDRESS

PT SGPS makes available, through its website (<http://www.ptsgps.pt/>), all information of a legal nature or on corporate governance, updates on the conduct of the business of the Company, as well as a complete set of Company financial and operational data, in order to facilitate inspection and access to such information by PT SGPS' shareholders, financial analysts and other parties concerned.

#### 60. LOCATION OF INFORMATION ON THE COMPANY NAME, ITS NATURE OF PUBLIC COMPANY, REGISTERED OFFICE AND OTHER DATA PURSUANT TO ARTICLE 171 OF THE PORTUGUESE COMPANIES CODE

All information pursuant to article 171 of the Portuguese Companies Code may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-empresa-informacao-corporativa.html>

#### 61. LOCATION OF INFORMATION ON THE BYLAWS AND OPERATING RULES OF THE CORPORATE BODIES AND/OR COMMITTEES

The bylaws and operating rules of the corporate bodies and of the committees created within the Board of Directors may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-estatutos.html>

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-informacao-adicional.html>

62. LOCATION OF INFORMATION ON THE IDENTITY OF THE MEMBERS OF THE CORPORATE BODIES, THE REPRESENTATIVE FOR RELATIONS WITH THE MARKET, THE INVESTOR RELATIONS OFFICE OR EQUIVALENT, THEIR DUTIES AND ACCESS DETAILS

The identity of the members of the corporate bodies, the representative for relations with the market, the Investor Relations Office or equivalent, their duties and access details may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-conselho-administracao.html>

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-comissao-auditoria.html>

<http://www.ptsgps.pt/Paginas/contactos-ri.html>

63. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE FINANCIAL STATEMENTS, WHICH MUST BE ACCESSIBLE FOR FIVE YEARS AT LEAST, AS WELL AS A SCHEDULE OF CORPORATE EVENTS, DISCLOSED AT THE BEGINNING OF EACH HALF-YEAR, INCLUDING, AMONG OTHERS, GENERAL MEETINGS OF SHAREHOLDERS, DISCLOSURE OF THE ANNUAL, HALF-YEAR AND, IF APPLICABLE, QUARTERLY FINANCIAL STATEMENTS

The financial statements, as well as the schedule of corporate events may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-informacao-financeira-relatorios.html>

<http://www.ptsgps.pt/Paginas/investidores-calendario-financeiro.html>

64. LOCATION WHERE THE COMPANY MAKES AVAILABLE NOTICES OF THE GENERAL MEETING OF SHAREHOLDERS AND ALL PREPARATORY AND SUBSEQUENT INFORMATION RELATED TO THE SAME

Notices of the General Meeting of Shareholders and all preparatory and subsequent information related to the same may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-assembleia-geral.html>

65. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE HISTORICAL COLLECTION WITH THE RESOLUTIONS PASSED AT THE GENERAL MEETINGS OF SHAREHOLDERS, THE SHARE CAPITAL THEREIN REPRESENTED AND THE VOTING RESULTS, REGARDING THE PREVIOUS THREE YEARS

The historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results may be found on PT SGPS' website at:

<http://www.ptsgps.pt/Paginas/investidores-governo-sociedade-assembleia-geral.html>

## D. REMUNERATION

### I. COMPETENCE FOR DETERMINATION

#### 66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE OR MANAGING DIRECTOR AND COMPANY OFFICERS

The Compensation Committee is elected by the shareholders at a General Meeting and 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.

For the completion of this task, the Compensation Committee continuously follows up and evaluates the directors' and the Company's performance, checking the extent to which the proposed targets have been achieved. The Compensation Committee meets whenever necessary.

The remuneration policy applicable to the PT Group's officers (in the meaning of article 248B,3 of the Portuguese Securities Code), other than those incorporating the management and supervisory bodies, is determined by the Board of Directors.

### II. COMPENSATION COMMITTEE

#### 67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS

The current members of the Compensation Committee, elected for the 2012-2014 three-year term of office, are the following:

##### Composition

Álvaro Pinto Correia	<i>Chairman</i>
Francisco Esteves de Carvalho	<i>Member</i>
Francisco Barros Lacerda	<i>Member</i>
António Sarmento Gomes Mota <sup>(1)</sup>	<i>Member</i>

(1) Elected on 19 April 2003 to complete the current term of office.

Taking into account the end of the term of office on 31 December 2014, the Annual General Meeting of Shareholders to be held in 2015 will elect the new members of the Compensation Committee for the 2015-2017 three-year term of office.

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. PT SGPS therefore complies with CMVM Recommendation no. II.3.1.

In the performance of its exclusive powers in the matter of remuneration determination under article 399 of the Portuguese Companies Code, PT SGPS' Compensation Committee is supported by the Evaluation Committee, which, as described above, has consulting powers as required to provide technical support to the Compensation Committee as provided for under the Internal Regulation of the Evaluation Committee.

As an example, the Evaluation Committee shall:

- (a) Establish, for each term of office and each year, the goals for the Executive Committee of the Company, taking into account the plans approved by the Board of Directors and for purposes of establishment by the Compensation Committee of the relevant criteria in the matter of remuneration;
- (b) Propose to and discuss with the Compensation Committee the policy to be followed by the Company, for each term of office and in the long term, in the matter of fixed and variable remuneration;
- (c) Appraise, each year, the performance of the Executive Committee, according to objective criteria as approved by the Compensation Committee for purposes of fixing the variable component, upon hearing the Chief Executive Officer.

In this way, without prejudice to all legal and Bylaw powers of the Board of Directors and Compensation Committee, the Evaluation Committee, as a committee within the Board whose primary purpose consists in reinforcing transparency, accountability and specialisation of policy evaluation and definition processes and remuneration amounts, serves as a catalyst to the remuneration evaluation and determination system in PT SGPS.

Taking into account the high and growing level of complexity of these matters, primarily linked to attracting and retaining assets as well as to the implementation of strategic goals and risk undertaking, PT SGPS' Board of Directors has deemed the creation of this consulting committee as a material element to support the management body and the Compensation Committee.

In fact, the members of this specialised committee, having a specific knowledge of the business and the market, as well as of PT SGPS' strategy and goals, increase the potential for an enlightened and transparent decision-making process by the management body and the Compensation Committee.

In this connection, during the 2014 financial year, for the purpose of performance of its duties the Compensation Committee did not resort to the services of any physical person or legal entity, notably companies hired by PT SGPS or of the current consultants to the Company for the provision of other services. Therefore, PT SGPS complies with CMVM Recommendation no. II.3.2.

Furthermore, it should be stressed that the Evaluation Committee may hire, as provided for under its regulation, independent consultants, auditors, legal assistants or other experts to provide services and assistance as required for the fulfilment of its powers and duties.

## 68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy. Some of them belong or have belonged to compensation committees of other listed companies. Appendix I hereto sets out the most relevant curriculum elements of the members of the Compensation Committee.

### III. REMUNERATION STRUCTURE

## 69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the supervisory body) in force during the 2014 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2014 Annual General Meeting of Shareholders, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009. Such declaration is reproduced in Appendix III hereto.

The relative significance of the variable and fixed components of director remuneration, as well as an indication of the maximum limits for each component, that were in force during the 2014 financial year are described on the declaration on remuneration policy set out in Appendix III.

The Chairman of the Compensation Committee was present in the Company's 2014 Annual General Meeting, therefore being able to provide the clarification deemed necessary regarding the remuneration policy submitted.

In this way, the remuneration of executive directors for the 2012-2014 term of office was composed of a fixed remuneration and a single variable remuneration allocated each year but keeping the achievement of the Company's sustainability levels implied in the option for deferment of payment of 50% of such variable remuneration for a three-year period, subject to maintenance of a positive performance by the Company under conditions as defined.

The fixed remuneration was limited to an annual amount established by the Compensation Committee (to be paid 14 times per year), which is determined in accordance the functions performed, resulting in a different remuneration for the members of the Audit Committee (and amongst these the Audit Committee's Chairman and financial expert), all the other non-executive directors (and amongst these the members of specialised committees of the Board of Directors), as well as the Chairman and members of the Executive Committee.

The remuneration policy applicable to the non-executive members of the Board of Directors (including the members of the Audit Committee) did not include any variable component, *i.e.*, whose amount depends on the Company's performance or value. PT SGPS therefore complies with CMVM Recommendation no. III.2.

The possibility of granting a bonus to the Chairman of the Board of Directors as a function of the evaluation of the performance of his duties, as described in the statement contained in Appendix III, was not dependent on the Company's performance.

The variable remuneration of executive directors was dependent on achievement of pre-determined goals, and it might amount to 160% of the fixed remuneration (50% being deferred for a three-year period, as described below) in the event of a 100% pre-determined goal

achievement, in line with the values fixed for the remuneration policy during the previous term of office.

Following the determination of the variable remuneration according to this method, the Compensation Committee might increase or reduce in no more than 10% the variable remuneration of the Chief Executive Officer and all the other members of the Executive Committee, upon proposal by the Chairman of the Board of Directors and of the Evaluation Committee, respectively. In any case, and even if the level of achievement of pre-defined goals was in excess of 100%, the maximum potential amount of the variable remuneration would not exceed in over 12.5% the variable remuneration corresponding to 100% goal achievement added by the said grossing up.

The variable remuneration to be allocated for the performance of the year is determined by a percentage of the annual fixed remuneration calculated on the basis of a weighted average of the level of achievement of a combination of indicators associated to performance and sustainability of the Company, defined by the Compensation Committee elected at the 2012 General Meeting of shareholders, provided that at least 85% of the goals established for each such indicator must be achieved. The performance evaluation was made taking into account the evolution of the following indicators:

- › The total shareholder return (TSR), considered as such the return generated by the PT SGPS share, including not only the trading price variation but also any payments made (dividend);
- › The global earnings of the PT Group;
- › The overall EBITDA – CAPEX of the PT Group;
- › PT SGPS' sustainability index (using the Dow Jones Sustainability Index methodology); and
- › The achievement of the strategic goals at a national and international level.

Furthermore, upon preparation of the new corporate body remuneration policy in 2012, a benchmarking study was made covering around 140 companies, which enabled us to confirm that the relationship between fixed and variable remuneration as established for the members of the Executive Committee in the 2009-2011 and 2012-2014 terms.

From all the above mentioned resulted that overall the variable component *vis-a-vis* the fixed component of the remuneration present a reasonable relationship, and therefore PT SGPS considers that CMVM Recommendation no. III.3 was complied with.

Following the Oi Capital Increase and the change to the terms of the Business Combination announced on 2 October 2013, and considering that PT SGPS' business in the telecom sector is now exercised through its relevant interest in Oi, it is understood that this remuneration policy is no longer adequate, notably since the indicators foreseen are not the most appropriate to evaluate the Company's performance. As such, the Compensation Committee to be elected at the 2015 Annual General Meeting of Shareholders shall prepare and present to the shareholders a new remuneration policy for the management and supervisory bodies to be in force during the next term of office that considers the Company's current situation and activity.

#### 70. INFORMATION ON THE HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING

As results from the remuneration policy in force in 2014, described in item 69 of Part I above and Appendix III hereto, the remuneration consisted of a fixed component and a variable

component (with the attribution of the latter depending on the level of attaining pre-determined criteria and the payment of 50% of the same deferred for three years and conditioned to the maintenance of a positive performance during such period) and was structured in such a way as to permit the alignment of the interests of the management body's members with long-term interests of the Company, and it is based on performance evaluation and is a disincentive to excessive risk taking.

Considering the above, PT SGPS fully complied with CMVM Recommendation no. III.1 on 31 December 2014.

#### 71. REFERENCE, IF APPLICABLE, TO THE EXISTENCE OF A VARIABLE COMPONENT OF THE REMUNERATION AND INFORMATION ON THE WAY AS SUCH COMPONENT DEPENDS ON PERFORMANCE EVALUATION

Regarding this matter, please see items 70 above and 77 below, both of Part I.

#### 72. DEFERMENT OF PAYMENT OF THE VARIABLE COMPONENT OF THE REMUNERATION, MENTIONING THE DEFERMENT PERIOD

Under the remuneration policies in force during the last financial years, the payment of 50% of the overall variable remuneration allocated to each executive director in each financial year was deferred for a three-year period, subject to the positive performance by PT SGPS not being affected as mentioned under the remuneration policy in force.

For further information on the conditions of payment of deferred amounts, please see the remuneration policy for PT SGPS' corporate bodies as effective in 2014 attached hereto as Appendix III.

Additionally, during the 2012 financial year, the Compensation Committee elected at the 2012 Annual General Meeting of Shareholders has defined Company performance indicators to be verified at the time when payment of such deferred amounts is due. Such indicators were as follows:

- > Cash flow generation along the period in question as measured by the EBITDA-Capex metrical scanning must be positive;
- > The net worth for the  $n+3$  financial year, any extraordinary movements occurred after the end of the  $n$  financial year excluded, upon deduction, for each financial year, of a sum corresponding to a 40% pay-out over the net profit stricken in the consolidated accounts for each financial year of the deferment period (regardless of the actual pay-out) must exceed the net worth stricken at the end of the  $n$  financial year.

The following, *inter alia*, were deemed extraordinary movements in the period between the  $n$  financial year and  $n+3$  financial year: any proceeds from a share capital increase, purchase or sale of own shares, extraordinary allocation of dividend or any other form of shareholder remuneration, annual pay-out other than 40% of the consolidated result for the relevant year or other movements that while affecting the net worth did not result from Company operational results (including actuarial profits and losses and capital conversion adjustments).

The net worth for the  $n+3$  financial year should be stricken on the basis of the accounting rules followed for the  $n$  financial year in order to ensure comparability.

Thus, as results from the 2014 remuneration table, 50% of the total amount of variable remuneration attributed to the executive directors in such financial year, in relation to 2013, was

deferred, under the executive director remuneration policy in force, for a period of 3 years and subject to the conditions defined, with payment of the amounts thus deferred having to be made before the elapsing of the said period in the terms established in the remuneration policy (see the statement on the remuneration policy attached hereto as Appendix III).

Additionally, as described under the remuneration policy in force during the 2014 financial year and attached hereto as Appendix III, unless otherwise agreed or resolved by the Compensation Committee, PT SGPS and its directors shall act in compliance with the general principle according to which directors shall not execute any agreements, whether with the Company or with a third party, that might result in mitigating the risk inherent to the variability of the remuneration as determined for them by the Company.

PT SGPS thus complies with CMVM Recommendations no. III.4 and III.5.

73. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN SHARES IS BASED; EXECUTIVE DIRECTORS KEEPING ANY SHARES GRANTED THEM IN THE COMPANY; ANY AGREEMENT EXECUTED AS TO SUCH SHARES, NOTABLY HEDGING OR RISK TRANSFER AGREEMENTS, THE LIMIT THEREOF, AND THEIR RELATIONSHIP TO THE AMOUNT OF THE OVERALL ANNUAL REMUNERATION

Not applicable, since the remuneration policy in force does not include the allocation of a variable remuneration in shares. Please see item 77 of Part I below.

74. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN OPTIONS IS BASED, AND INDICATION OF DEFERMENT PERIOD AND EXERCISE PRICE

Not applicable, since the remuneration policy in force does not include the allocation of a variable remuneration in options.

75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS

In 2014, there were no significant bonus, annual bonus or non-pecuniary benefit systems of any nature whatsoever in force in PT SGPS.

76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS

No PT SGPS director is covered by complementary pension or early retirement system in force for PT SGPS' directors.

#### IV. REMUNERATION DISCLOSURE

77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY

Pursuant to Law no. 28/2009 of 19 June 2009, individual and global remunerations paid to the members of the management body and Audit Committee of the Company in 2014 are shown hereinafter:



		Remuneration paid in 2014			Committees as of 31 December 2014		
		Fixed 2014	Variable 2013 (1)	Total	Audit	Corporate Governance	Evaluation
<b>Board of Directors</b>							
Alfredo José Silva de Oliveira Baptista	(2)	487,226	215,325	702,550	Member		
Amílcar Carlos Ferreira de Morais Pires	(3)	25,176	-	25,176			
Carlos António Alves Duarte	(2), (8)	486,526	215,325	701,850			
Eurico de Jesus Teles Neto		9,155	-	9,155			
Fernando Magalhães Portella	(9)	15,735	-	15,735			
Francisco Ravara Cary		26,034	-	26,034		Member	
Francisco Teixeira Pereira Soares	(4)	132,174	-	132,174		Member	Member
Gerald Stephen McGowan		88,116	-	88,116		Member	
Henrique Manuel Fusco Granadeiro	(10)	616,379	430,649	1,047,028			
João Manuel de Mello Franco	(11)	271,404	-	271,404		Chairman	Chairman
Joaquim Aníbal Brito Freixial de Goes	(12)	75,528	-	75,528			
Jorge Telmo Maria Freire Cardoso		6,580	-	6,580			
José Guilherme Xavier de Basto		126,574	-	126,574	Chairman		
Luís Miguel da Fonseca Pacheco de Melo	(2), (5)	486,526	236,857	723,383			
Manuel Francisco Rosa da Silva	(2), (8)	486,526	215,325	701,850			
Marco Norci Schroeder		9,155	-	9,155			
Maria Helena Vaz de Carvalho Nazaré	(6)	44,058	-	44,058			
Mário João de Matos Gomes		183,736	-	183,736	Member		
Milton Almicar Silva Vargas		103,851	-	103,851		Member	Member
Nuno Rocha dos Santos de Almeida e Vasconcellos		44,058	-	44,058			
Otávio Marques de Azevedo	(9)	50,877	-	50,877			
Paulo José Lopes Varela	(7)	106,998	-	106,998		Member	Member
Pedro Humberto Monteiro Durão Leitão	(2), (8)	486,526	215,325	701,850			
Rafael Luís Mora Funes		132,174	-	132,174		Member	Member
Rolando António Durão Ferreira de Oliveira		26,034	-	26,034			Member
Shakhaf Wine	(2) (13)	488,045	215,325	703,370			
<b>Total</b>		<b>5,015,170</b>	<b>1,744,129</b>	<b>6,759,299</b>			

- (1) According to the remuneration policy in force, the amount in this column corresponds to 50% of the variable remuneration regarding the 2013 financial year and paid in April 2014. The payment of an equal amount was deferred (for all directors, except for director Shakhaf Wine), under the remuneration policy in force.
- (2) He was a member of the Executive Committee until 30 September 2014.
- (3) He resigned from his duties in PT SGPS on 30 July 2014.
- (4) He resigned from his duties in PT SGPS on 27 February 2015.
- (5) He resigned from his duties in PT SGPS on 18 March 2015.
- (6) She resigned from her duties in PT SGPS on 31 March 2015.
- (7) He resigned from his duties in PT SGPS on 16 March 2015, and João Manuel Pisco de Castro was co-opted, on 17 March 2015, to replace him up to termination of the current term of office.
- (8) He resigned from his duties in PT SGPS on 28 November 2014.
- (9) He resigned from his duties in PT SGPS on 30 June 2014.
- (10) He resigned from his duties as Chairman of the Executive Committee and Chairman of the Board of Directors of PT SGPS on 7 August 2014.
- (11) He resigned from his office as Chairman of the Audit Committee to perform duties as Chairman of the Board of Directors of PT SGPS, as per the resolution of the Board of Directors at the meeting commenced on 16 September and ended on 18 September 2014.
- (12) He resigned from his duties in PT SGPS on 4 August 2014.

(13) The remuneration of the director Shakhaf Wine is paid through PT Brasil and Bratel Brasil, PT SGPS' subsidiaries in Brazil, in local currency, with the corresponding amount in Euro being presented in the table above.

The variable remuneration paid to the members of the Executive Committee (up to 30 September 2014) in the 2014 financial year set out above refers to the performance of the executive directors during the financial year ended on 31 December 2013.

In addition, in April 2014, the following amounts (in euros), whose payment was deferred under the remuneration policy in force, were paid:

	Bonus Sale Vivo	Variable 2010
Carlos António Alves Duarte	87,500	420,575
Henrique Manuel Fusco Granadeiro	800,000	-
Luís Miguel da Fonseca Pacheco de Melo	237,500	420,575
Manuel Francisco Rosa da Silva	137,500	420,575
Shakhaf Wine	287,500	420,575
Zeinal Abedin Mahomed Bava (1)	1,000,000	660,904

(1) Chairman of the Executive Committee up to 4 June 2013.

Taking into account the termination of the Executive Committee within the Company's governance model as from 1 October 2014, as well as the Company's current situation, the Compensation Committee resolved, upon proposal by the Evaluation Committee, not to grant any variable remuneration regarding the year 2014.

As regards the Company's supervisory body and given that the Company follows an Anglo-Saxon governance model as referred to above, its members are non-executive directors who earn a monthly fixed remuneration taking into account the remuneration policy.

The remuneration earned by all other directors, who were non-executive directors, up to 30 September 2014 corresponds to a monthly fixed remuneration which amount takes into consideration the number of committees to which they belong, pursuant to the remuneration policy.

In the context of the changes occurred in 2014 in PT SGPS' corporate governance structure in 2014 – whereby (i) effective as of 1 October 2014, the Board of Directors took on all powers of management in the normal course delegated to the Executive Committee, and the Executive Committee ceased to exist in PT SGPS; and (ii) the Director who held the office of Chairman of the Audit Committee resigned such office and took office as Chairman of the Board of Directors –, the Compensation Committee, upon proposal by the Evaluation Committee, resolved that (i) the former members of the Executive Committee would keep, up to the end of the 2012-2014 term of office and as long as they would keep their capacity as Company Directors, the monthly fixed remuneration (thus excluding the variable remuneration) and all other benefits applicable during the current term of office; and (ii) the current Chairman of the Board of Directors would keep, up to the end of the 2012-2014 term of office, the remuneration he had been earning as Chairman of the Audit Committee, and that therefore he would earn no additional remuneration as a result of taking office as Chairman of the Board of Directors.

During the 2014 financial year, the Company neither adopted nor kept in force any share allotment or share call option plans to the benefit of members of the management or supervisory bodies (or any other officers in the meaning of article 248B of the Portuguese Securities Code).

Remunerations earned by the members of the management and supervisory bodies are listed in aggregate on Note 42 to the consolidated financial statements for the year of 2014.

#### 78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL

During the 2014 financial year, no amounts other than those referred to in item 77 of Part I above were paid to PT SGPS members of the Board of Directors by companies in a control or group relationship.

Additionally, it should be mentioned that, during the 2014 financial year, Brazilian companies integrated in Oi Group and Contax Group (both jointly controlled by PT SGPS) paid to four directors of PT SGPS, for the performance of executive duties in those companies, an overall amount in local currency, net of any deductions due under Brazilian law, corresponding to 223,325 Euros. This amount has been determined by those companies' competent corporate bodies under Brazilian law.

#### 79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED

The remuneration policy of the members of the Board of Directors does not provide for the allocation, in general terms, of this type of remuneration, without prejudice to the possibility of allocation of a bonus to the Chairman of the Board of Directors (please refer to the remuneration policy that was in force in the 2014 financial year and is attached hereto as Appendix III).

#### 80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF TERMINATION OF OFFICE DURING THE FINANCIAL YEAR

Pursuant to the management agreements executed with executive directors during their respective terms of office, there could be the following responsibilities for the termination of office:

- In respect of the former Chairman of the Executive Committee Zeinal Bava, the global amount of 5,773,758 euros, which included a compensation for non-competition;
- In respect of the former Chairman of the Board of Directors and then Chairman of the Executive Committee Henrique Granadeiro, the global amount of 3,532,505 euros, which included a compensation for non-competition;
- In respect of the former CFO Luís Pacheco de Melo, the global amount of 1,317,674 euros.

As at 31 December 2014, 50% of the variable remuneration of the above mentioned former directors in respect of former fiscal years, which was deferred under the remuneration policy in force, was also subject to payment.

However, considering notably (i) that the Company's sustainability and the Group's strategic goals established at the beginning of the Business Combination are compromised and also (ii) the facts known so far as to the intervention of said former directors in the subscription of debt instruments issued by ESI and Rio Forte, the Compensation Committee resolved, upon proposal by the Evaluation Committee, not to pay those former directors the variable remunerations in respect of the 2011, 2012 and 2013 fiscal years or the remaining exit clauses in the global amount of €15,327,294.

Former director Carlos Alves Duarte had also entered into a management agreement with the Company which granted him the right to the payment of a compensation on the termination of the performance of executive duties in the Company in the amount of 1,216,315 euros. Such responsibility and the amounts provisioned in relation thereto, as well as the responsibilities and other amounts regarding the variable remuneration that was deferred from former fiscal years in relation to former directors Carlos Alves Duarte, Manuel Rosa da Silva and Pedro Durão Leitão (who maintained the performance of their duties in PT Portugal following the Oi Capital Increase) were transferred to PT Portugal in 2015 within the agreements entered into with Oi/ PT Portugal.

In 2014, no indemnifications were paid to former directors, except for the indemnification paid in Brazil to director Shakhaf Wine, through a subsidiary of PT SGPS in Brazil, following the entering into on 29 January 2014 of an agreement regarding his termination of office, in the global amount of 2,678,974 euros, which includes the amount paid for the termination of office in PT Brasil, the remaining 50% of the variable remuneration regarding 2013 and 50% of the variable remunerations of the years prior to 2013 whose payment was deferred.

#### 81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY

Regarding this matter, please see item 77 of Part I above.

#### 82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

By determination of the Compensation Committee approved during the 2008 financial year, the annual remuneration of the Chairman of the Board of the General Meeting corresponds to 42,000 Euros.

### V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

#### 83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION

Without prejudice to the next paragraph, in 2014, no limits were contractually established for any compensation to be paid upon removal without just cause of a director, other than as provided for by law.

Nevertheless, as described under the remuneration policy attached hereto as Appendix III, which was in force during the 2014 financial year, unless otherwise agreed or resolved by the Compensation Committee, PT SGPS and its directors shall act in compliance with the general principle whereby, in the event of removal or termination by mutual agreement of the management relationship, no indemnification or compensation will be paid, apart from those set forth by law, where such removal or termination is provenly due to inappropriate performance.

Since such principle is included in its remuneration policy – which is submitted to the General Meeting of Shareholders each year – it is PT SGPS' understanding that such instrument is appropriate and sufficient to discipline this matter, and so there is no need to establish any other contractual special instruments forbidding the payment of indemnification or compensation, apart from those set forth by law, in case of inappropriate performance by the director.

In this way, PT SGPS deems CMVM Recommendation no. III.8 is complied with. In particular, the Company considers that all provisions of this CMVM recommendation are ensured by the remuneration policy in force at PT SGPS, which policy is submitted to the vote of the general meeting of shareholders each year. In addition, on 3 September 2014, PT SGPS' Compensation Committee resolved, upon proposal by the Evaluation Committee, notably taking into account PT SGPS' current situation and the changes to the Business Combination with Oi, to instruct the relevant corporate bodies, committees and services of the Company to refrain from making any payments in connection with variable remunerations and/or any other form of bonus or compensation for performance and/or termination of duties (other than fixed remunerations due), even though under past resolutions adopted by the Compensation Committee (notably, amounts pending calculation/allocation and/or deferred), until such time as the Compensation Committee, supported by the Evaluation Committee, would identify and review the situations in question and resolve on the same.

#### 84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL

There are no agreements between PT SGPS and the members of the management body or officers providing for compensation in the event of resignation, removal without just cause or termination of employment relationship following a change of control in the Company.

#### VI. SHARE ALLOTMENT OR STOCK OPTION PLANS

The information set forth in **items 85 to 87** of the form attached to CMVM Regulation no. 4/2013 is not applicable to PT SGPS, since during the 2014 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, regarding PT SGPS directors or employees or any third parties.

#### 88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES

Not applicable, since there is no system specifically providing for any share capital holding by employees in the Company.

## **E. RELATED PARTY TRANSACTIONS**

### **I. CONTROL MECHANISMS AND PROCEDURES**

#### **89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS (IAS 24)**

In December 2009 and December 2010, the Regulation on related party transactions was subject to some changes essentially aimed at adjusting it to the modifications made to IAS 24 and to the Corporate Governance Code issued by CMVM, as well as adopting the market best practices in this matter. In 2015, this Regulation was revised again in order to clarify the concepts used and also define the procedures applicable to transactions with related parties of PT SGPS and its subsidiaries, and exclude transactions with owners of qualified holdings from its scope. These latter transactions now have their own specific regulation, in additional and equivalent terms to the regulation for related party transactions.

As such, the most significant amendments are (i) the redefinition of the concept of “Related Parties” which is now based exclusively on the concept foreseen in IAS 24 (and therefore no longer includes the owners of qualified holdings in PT SGPS’ share capital) and (ii) the introduction of quantitative limits to the exceptions to the control mechanisms foreseen, as recommended by PwC in its analysis of the procedures and actions carried out within the Rio Forte Instruments and also the relevant aspects related to the treasury applications in entities pertaining to the Espírito Santo Group.

According to the current version of this Regulation, notwithstanding its exclusion of certain transactions (notably if not exceeding certain amounts), in case of transactions between PT SGPS, or any of its subsidiaries, and related parties (as redefined exclusively by reference to the concept in IAS 24), or any renewals thereof, the aggregate amount per party of which is in excess of 100,000 Euros (one hundred thousand Euros) per quarter, the execution of the same may be approved only upon a prior favourable opinion by the supervisory body.

For such purpose, the supervisory body shall be provided with relevant information on the transaction as to which it has to give its opinion, including sufficient information on the characteristics of the transaction in question, notably under the strategic, financial, legal and fiscal viewpoint, information on the nature of the relationship existing between PT SGPS and the other party in question, and the impact of the transaction on the financial position of the Company.

Currently, the following related party transactions are excluded from the scope of the mentioned internal regulation:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of Portugal Telecom and its subsidiaries, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) Made between companies in a control or group relationship with PT SGPS or between these and PT SGPS;

- d) In which the consideration is based on official price quotations (eg., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- e) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- f) The payment by the PT Group of the remuneration of the Key Corporate Members and Employees (as defined in the Service Order) for the performance of their duties;
- g) Operations available to all employees or shareholders of the PT Group in equivalent conditions;
- h) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- i) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PT Group.

As a result of the afore mentioned redefinition of the concept of “Related Parties” for the purposes of the respective internal regulation – which no longer includes the owners of qualified holdings in PT SGPS’ share capital, as opposed to what happened before, and now adopts the criterion resulting from IAS 24 – the Company considered it was convenient to create specific rules applicable to transactions with owners of qualified holdings, as detailed in item 91 below.

As such, PT SGPS considers that CMVM Recommendation no. V.2 is complied with.

## 90. TRANSACTIONS SUBJECT TO CONTROL

During the 2014 financial year, only one transaction, i.e. PT SGPS’ participation in the Oi Capital Increase by means of the contribution in kind of the PT Assets in the amount of 1,750 million euros, was submitted to the prior opinion of the Audit Committee. No other transactions with related parties were subject to control by the supervisory body.

## 91. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING

As mentioned in item 89 above, an autonomous regulation on the procedures applicable to transactions with owners of qualified holdings in PT SGPS’ share capital was approved in 2015.

As such, the execution (or renewal) of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 100,000 Euros per quarter, can only be approved after PT SGPS’ supervisory body has issued a prior favourable opinion.

In addition, the execution (or renewal) of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 1,000,000 Euros per year, are subject to approval by the Board of Directors, after the supervisory body has issued its prior favourable opinion.

Currently, the following situations are excluded from the rules applicable to transactions with owners of qualified holdings:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of Portugal Telecom, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) In which the consideration is based on official price quotations (eg., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- d) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- e) Operations available to all employees or shareholders of the PT Group in equivalent conditions;
- f) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- g) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PT Group.

It should be mentioned that the subscription of the Rio Forte Instruments, by certain companies that were then part of the Portugal Telecom Group, with Banco Espírito Santo, S.A. ("BES"), then a shareholder of PT SGPS, as described in Note 42 to the consolidated financial statements for the year of 2014, was not subject to prior opinion of the Audit Committee. In fact, under the Service Order in force as of the date of the subscription of the mentioned instruments, there was an exception to the submission to prior opinion of the Audit Committee in relation to banking operations agreed by PT SGPS or its subsidiaries with related parties (in the broad sense defined in said Service Order, which included the owners of qualified holdings), including notably collection, payment, deposits and other financial applications, provided the same were carried out under normal market conditions.

However, within the independent analysis performed by PwC on the procedures and actions carried out within the Rio Forte Instruments as well as all relevant aspects related to treasury applications in entities of the Espírito Santo Group ("GES"), PwC did not find evidence that consultations were made to other financial institutions in order to obtain price quotes for other securities, and therefore concluded that it was not possible to unequivocally show that the applications made with BES in securities issued by GES and commercialized by BES were indeed made at market prices (although evidence was obtained as to negotiations between PT SGPS and BES in order to obtain a better rate for applications to be made in securities issued by ESI), as per the summary of the results of the analysis performed by PwC included in the communication disclosed by the Company on 8 January 2015, to which we refer. In addition, and as per said communication, within the "accounts closing" quarterly presentations relating to



2012, 2013 and the first quarter of 2014 submitted to the Audit Committee, where, among other things, the relevant and unusual transactions occurred in the period were mentioned, the applications in securities issued by ESI or Rio Forte were never evidenced.

The transactions executed in 2014 between the Company and owners of qualified holdings (and entities related to them under article 20 of the Portuguese Securities Code) are described in Note 42 to the consolidated financial statements for the year of 2014. Apart from the subscription with BES of the debt instruments issued by Rio Forte, whose terms are described in said Note 42, and which was the subject of the independent analysis performed by PwC, whose results were disclosed in the communication issued by PT SGPS on 8 January 2015, there were no transactions between the Company and owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code which have not been demonstrably made under normal market conditions. However, the subscription of the mentioned instruments does not allow PT SGPS to consider CMVM Recommendation no. V.1 complied with in respect of the fiscal year ended on 31 December 2014.

## II. TRANSACTION DETAILS

### 92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE

Information on related party transactions is available on Note 41 to the consolidated financial statements for the year of 2014. There are no transactions with related parties shareholders to disclose in respect of the fiscal year ended on 31 December 2014.

Information on the transactions executed during the fiscal year ended on 31 December 2014 with owners of qualified holdings who are not related parties in accordance with IAS 24 is available in Note 42 to the consolidated financial statements for the year of 2014.

## PART II – CORPORATE GOVERNANCE EVALUATION

### 1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

Portugal Telecom complies with a significant number of recommendations set out on CMVM Corporate Governance Code as published in July 2013 (“CMVM Code” or “CMVM Recommendations”)<sup>1</sup> – which assessment is set out on this report –, which are reflected on its Anglo-Saxon-type corporate governance model as provided for under article 278,1(b) of the Portuguese Companies Code.

As better described in item 2 of this Part II below, considering the current transition stage of the Company’s situation, for the purpose of this report and the following compliance analysis – one recommendation at a time – PT SGPS has referred to the Corporate Governance Code approved by the CMVM in 2013.

The characteristics of PT SGPS’ governance model have been reinforced as well by the Company’s compliance with the binding rules and best practices applicable to foreign private issuers registered with SEC (such as certain provisions under the Sarbanes-Oxley Act), all as described in Appendix II hereto.

In this connection, it should be mentioned that, on 9 March 2015, the Company served notice that the Board of Directors had approved the withdrawal of PT SGPS’ ADSs from trading on NYSE. The last day of trading of PT SGPS’ ADSs on NYSE was 27 March 2015. Since 30 March 2015, the date of effective withdrawal of the ADSs on NYSE, the Company ceased to be subject to certain US rules related to the issuance of securities admitted to trading on NYSE (such as those set forth in the NYSE Listed Company Manual or Rule 10A-3, Listing Standards Relating to Audit Committees), still applicable as at 31 December 2014 and up to 30 March 2015, and became subject only to the rules applicable to issuers of securities registered with SEC, as mentioned above.

PT SGPS is also subject to other rules adopted at internal level, which are relevant in its corporate governance structure, particularly the Regulations of the Board of Directors and its internal committees, as well as the Audit Committee Regulation.

Additionally, PT SGPS has approved several internal conduct and transparency rules, namely the Code of Ethics, the Code of Ethics for Senior Financial Officers, rules on Officer Transactions, rules on Transactions with Related Parties and rules on Transactions with Owners of Qualified Holdings. A short description of all these rules is attached hereto as Appendix IV. PT SGPS further adopts rules and structures for internal control, risk management and whistleblowing.

As to the rules of conduct in force during the 2014 financial year, it should be mentioned that, particularly as regards the subscription of the debt instruments issued by Rio Forte, and following the subsequent default as to the reimbursement of such instruments by the issuer, it was deemed necessary to reformulate the internal control and risk management rules and structures in force at the Company.

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<sup>1</sup> Available on [www.cmvm.pt](http://www.cmvm.pt).  
(<http://www.cmvm.pt/CMVM/Recomendacao/Recomendacoes/Documents/Código%20de%20Governo%20das%20Sociedades%202013.pdf>).

In this way, some of those rules have already been revised, seeking not only to reformulate the said mechanisms in light of the default as to the reimbursement of the Rio Forte Instruments, but also to accommodate the same to the new specificities of the Company, after the Oi Capital Increase and the changes made to the Business Combination announced on 2 October 2013.

In particular, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, pursuant to article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws. This situation is considered transitory, and we expect, following the end of the current term of office (2012-2014 three-year term) and the appointment of new members for PT SGPS' corporate bodies for the 2015-2017 three-year term of office that is to take place at the Annual General Meeting of Shareholders to be held in 2015, to resume the management in the normal course delegation model in an Executive Committee or Managing Directors, according to which proves more appropriate for the current size and business of the Company.

Additionally, the Board has already approved a set of internal rules that determine, notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

Similarly, the rules establishing the procedures for contracting and disclosing related party transactions, on the one hand, and transactions with owners of qualified holdings, on the other hand, have already been revised in order to clarify the scope of application of the control and report procedures, as well as limit the exceptions defined, respectively, for those transactions.

## 2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

In 2013, the regulatory and recommended framework on corporate governance was subject to significant changes, providing listed companies with a chance to create more in-depth, consolidated governance practices and models.

On the one hand, the CMVM approved Regulation no. 4/2013 – applicable to 2013 corporate governance reports – which allows listed companies to decide to adopt the CMVM code or an alternative code issued by an entity intended for such purpose.

In turn, the *Instituto Português de Corporate Governance* (“IPCG”) issued a governance code which could constitute an alternative on the national panorama, where up to now rules on corporate governance had only been at the initiative of the CMVM. The disclosure of the IPCG Governance Code represents the culmination of a broad consultation process together with the market players and civil society in general, constituting an incentive towards a progressive construction of a regulatory model based on self-regulation.

Following the Business Combination between PT SGPS and Oi, which was announced in 2013, and subsequently to the changes made to the Business Combination, following the default as to the reimbursement of the Rio Forte Instruments, the Company has entered in a transition stage that it expects will culminate, upon completion of this transaction, in the admission to trading of the shares in Oi on the Novo Mercado segment of BM&FBOVESPA, as well as on the Euronext

Lisbon (Oi already has securities admitted to trading on the NYSE). The listing requirements of these stock exchanges will also underpin the highest standard of corporate governance.

Considering this transition stage of the Company's situation, PT SGPS feels it is appropriate to maintain a certain stability regarding recommendations which serve as a reference for the declaration of compliance to be included in this report referring to 2014, thus following to this end the CMVM Code.

Within this context, Portugal Telecom's current corporate governance model and principles:

- > Observe all legal rules of a binding content applicable to the Anglo-Saxon-type corporate governance model as provided for under article 278,1(b) of the Portuguese Companies Code;
- > Comply with mandatory rules and best practices applicable to foreign private issuers registered with SEC under US laws; and
- > Take in a significant set of recommendations and best practices in this field as established under the CMVM Code.

The Company adopts the CMVM Recommendations, except for Recommendations no. I.3, no. I.4, no. II.1.1, no. II.1.5, no. II.1.10, no. II.3.3 b) and no. V.1, which are not complied with for the reasons identified hereunder.

The items in Part I of this Corporate Governance Report that contain a description of the measures taken by the Company for compliance with the CMVM Recommendations are identified hereunder.

CMVM RECOMMENDATION		COMPLIANCE	REPORT
<b>I. VOTING AND CORPORATE CONTROL</b>			
I.1	Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Yes	Item 12
I.2	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than the one provided for by law.	Yes	Item 14
I.3	Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	No (a)	--
I.4	The company's articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or jointly with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals), on whether that statutory provision is to be amended or prevails – without	No (b)	--

CMVM RECOMMENDATION		COMPLIANCE	REPORT
	super quorum requirements as to the one legally in force – and that in said resolution all votes issued are to be counted without applying said restriction.		
I.5	Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Yes	Item 4
<b>II. SUPERVISION, MANAGEMENT AND OVERSIGHT</b>			
<b>II.1 SUPERVISION AND MANAGEMENT</b>			
II.1.1	Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	No (c)	--
II.1.2	The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: (i) define the strategy and general policies of the company, (ii) define business structure of the group, (iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Items 21 & 28
II.1.3	The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	Not Applicable	--
II.1.4	Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: (a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees; and (b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Yes	Items 21 & 27
II.1.5	The Board of Directors or the General and Supervisory Board, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with	No (d)	--

CMVM RECOMMENDATION		COMPLIANCE	REPORT
those goals.			
II.1.6	The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Yes	Item 17
II.1.7	<p>Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to:</p> <p>a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years;</p> <p>b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person;</p> <p>c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member;</p> <p>d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings;</p> <p>e. Being a qualifying shareholder or representative of a qualifying shareholder.</p>	Yes	Item 18
II.1.8	When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Yes	Item 17
II.1.9	The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	Yes	Item 23
II.1.10	If the chairman of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work	No (e)	--

CMVM RECOMMENDATION		COMPLIANCE	REPORT
	of other non-executive members and the conditions so these can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.		
<b>II.2 SUPERVISION</b>			
II.2.1	Depending on the applicable model, the Chairman of the Supervisory Board, the Audit Committee or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Yes	Item 32
II.2.2	The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, and is responsible, <i>inter alia</i> , for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Item 21
II.2.3	The supervisory board shall assess the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of its services when there is a valid basis for said dismissal.	Yes	Items 21 & 45
II.2.4	The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	Yes	Items 21 & 51
II.2.5	The Audit Committee, the General and Supervisory Board and the Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties are concerned.	Yes	Items 21 & 51
<b>II.3 REMUNERATION SETTING</b>			
II.3.1	All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	Item 67
II.3.2	Any natural or legal person that provides or has provided services in the past three years to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Item 67

CMVM RECOMMENDATION		COMPLIANCE	REPORT
II.3.3	<p>A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law no. 28/2009, of 19 June, shall also contain the following:</p> <p>a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies;</p> <p>b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable;</p> <p>d) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.</p>	<p>Partial compliance</p> <p>Yes</p> <p>No (f)</p> <p>Yes</p>	<p>Items 69 to 71</p> <p>--</p> <p>Item 80</p>
II.3.4	Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	Not Applicable	Items 73 & 74
II.3.5	Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said scheme.	Not Applicable	--
III. REMUNERATION			
III.1	The remuneration of the executive members of the board shall be based on actual performance and shall discourage excessive risk-taking.	Yes	Item 70
III.2	The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value.	Yes	Items 69 & 77
III.3	The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	Yes	Item 69
III.4	A significant part of the variable remuneration should be deferred for a period not less than three years, and the right to receive it shall depend on the continued positive performance of the company during that period.	Yes	Item 72
III.5	Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Yes	Item 72
III.6	Executive board members shall maintain the company's	Not Applicable	Items 73 & 74



CMVM RECOMMENDATION		COMPLIANCE	REPORT
	shares that were allotted to them by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their term of office.		
III.7	When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Not Applicable	Items 73 & 74
III.8	When the removal of a board member is not due to serious breach of his duties nor to his unfitness for the normal exercise of his functions but is yet due to inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Yes	Item 83
<b>IV. AUDITING</b>			
IV.1	The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.	Yes	C.III
IV.2	The company or any entity with which it maintains a control relationship shall not engage the external auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the supervisory board and explained in its Annual Report on Corporate Governance - said should not exceed more than 30% of the total value of services rendered to the company.	Yes	Item 37
IV.3	Companies shall support auditor rotation after two or three terms of office, depending on the term of office being of four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of the auditor's independence and the benefits and costs of its replacement.	Yes	Item 44
<b>V. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS</b>			
V.1	The company's business with holders of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code shall be conducted in normal market conditions.	No (g)	--
V.2	The supervisory or oversight board shall establish the necessary procedures and criteria to define the relevant level of significance of business with owners of qualified holdings or entities with which they are in any of the relationships described in article 20,1 of the Portuguese Securities Code. Execution of significant relevant business shall be dependent	Yes	Item 89

CMVM RECOMMENDATION		COMPLIANCE	REPORT
on prior opinion of said body.			
VI. INFORMATION			
VI.1	Companies shall provide, via their websites in both Portuguese and English language, access to information on their progress as regards the economic, financial and governance state of play.	Yes	Items 56 & 59
VI.2	Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion, and a record of the submitted requests and their processing shall be kept.	Yes	Items 56 to 58

**(a) CMVM Recommendation no. I.3 on the proportionality between voting and dividend rights and the subscription of new securities**

According to this recommendation, companies shall not establish mechanisms which have the effect of causing a misalignment between the right to receive dividends or to subscribe for new securities and the voting right of each ordinary share, unless duly grounded depending on the long-term interests of the shareholders.

PT SGPS does not adopt this recommendation because its Bylaws contain a limitation to vote counting, whereby votes cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the whole capital shall not be counted (article 13,10).

In addition, Portugal Telecom does not consider that this proportionality between corporate and economic rights is hindered by the bylaw provision for a minimum number of 500 shares to exercise one vote which differs from the “one share one vote” principle (article 13,5).

Consistently with what PT SGPS has defended in the past, it must be stressed that such principle is not established in other jurisdictions or reference markets, and the European Union has stopped, at the end of 2007, any efforts regarding its adoption (either by means of a directive or through mere recommendation).

Additionally, a bylaw provision for a minimum number of shares to exercise one vote is intended to make the General Meeting of shareholders function efficiently, and permit actual participation by shareholders reaching such threshold. This provision is not intended to create a defensive measure or a control enhancing mechanism, but rather attain the same objective as the one pursued by CMVM Recommendation no. I.3 with a view to promote General Meetings with an active shareholder participation.

Essentially, in respect of the vote counting limitation mentioned above, and as better explained in (b) below, such limitation represents a measure of expansion of shareholder democracy and contributes to the dissemination of share capital and greater transparency in the governance of the Company, thus not affecting the objective pursued by this recommendation but rather promoting an identical goal.

It should be stressed, in fact, that the issue concerning proportionality between ownership and control of the shares held in listed companies has been widely discussed in the European Union, and several studies were produced and concluded that it is impossible to establish a

clear causal connection between deviations from proportionality and the financial performance or corporate governance of a listed company.

**(b) CMVM Recommendation no. I.4 on bylaw limitations to voting right exercise**

As mentioned above, Portugal Telecom's Bylaws stipulate a limitation on the counting of votes, whereby the votes cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total capital shall not be counted. The Bylaws do not establish that this bylaw provision must be subject, every five years, to evaluation by the General Meeting of shareholders in order to resolve on its maintenance or not.

Therefore, Portugal Telecom does not adopt CMVM Recommendation no. I.4.

In truth, this provision, which intrinsically reflects – and which historically appeared in several European countries as – a measure of expansion of shareholder democracy (by reducing the voting power of major shareholders and correspondingly expanding the voting power of minorities) is also normally understood to possibly interfere with the success of takeover bids. However, notwithstanding the possible effect of reduction in the number of takeovers (as higher levels of shareholder participation are required to obtain control), such measure is also deemed as an incentive to the existence of more attractive conditions within the context of takeover bids, since only higher levels of acceptance by the addressees of such takeover bids allow the attainment of control thresholds.

Furthermore, within the context of the takeover bid to which PT SGPS was subject during the 2006 financial year, the abovementioned provision of the Bylaws (see reference to article 13 of the Bylaws above) was particularly visible. In fact, under the terms and conditions of the said takeover bid to acquire the shares representing PT SGPS' share capital, which preliminary announcement was published on 6 February 2006 by the companies Sonaecom, SGPS, SA and Sonaecom, BV, the removal of the said voting restriction was a condition to which the takeover bid was subject.

However, at the General Meeting of shareholders called for 2 March 2007 to vote for the said removal, even though exclusively within the context of the abovementioned takeover bid, the proposal was rejected by a majority of votes cast and without the opposition of the Class A shares.

Therefore, the situation remained unchanged, based on the conviction that limitations as provided for under the Bylaws contribute to share capital dissemination and a greater transparency in the Company's governance.

Portugal Telecom thus believes that this measure respects the interests of the Company and its shareholders, and also corresponds to their intent expressed in the General Meeting of 2 March 2007 (with no shareholder proposal having been presented since then, however, with a view to changing or removing this situation). In this sense, this limitation should not be considered contrary to, but rather convergent with, the objectives sought by CMVM Recommendation no. I.4.

**(c) CMVM Recommendation no. II.1.1 on the delegation of the daily management of the company**

During a large part of the 2014 financial year, the Company was actually compliant with this recommendation to the extent that there existed an Executive Committee with powers delegated by the Board of Directors to take action of a predominantly operational nature. In this

way, the Board of Directors had delegated the management in the normal course of the Company to the Executive Committee and retained the duties of supervision and control. For such purpose, the Board of Directors assigned to the Executive Committee all necessary powers, notwithstanding the Board's power to take on the delegated powers at any time, other than those in respect of the matters listed hereinafter:

- > Co-opting directors;
- > Request for the call of General Meetings of shareholders;
- > Annual reports and accounts to be submitted to the approval of the Annual General Meeting of Shareholders;
- > Posting bonds and personal guarantees or guarantees *in rem* by the Company, the authority for which is reserved to the Board of Directors, without prejudice to the provisions of article 15(h) of the Bylaws;
- > Change of the Company's registered office;
- > Projects for spin-off, merger and conversion of the Company, to be proposed to the General Meeting of Shareholders, as well as acquisitions, disposals, mergers, spin-offs and strategic partnership agreements involving companies of the PT Group, where, in such situations, these transactions do not constitute simple internal reorganisations of the PT Group within the framework of the general goals and fundamental principles approved by the General Meeting of Shareholders;
- > Plans for share capital increases to be proposed to the General Meeting of Shareholders;
- > Amendments to the Bylaws to be proposed to the General Meeting of Shareholders;
- > Definition of the general goals and of the fundamental principles of the policies of the PT Group to be submitted for approval at the General Meeting of Shareholders, notably the definition of the sectors of investment and disinvestment, the policy for geographical expansion of its businesses and the strategic options pertaining, *inter alia*, to the technology to be adopted, network development and service rendering;
- > Important extensions or reductions in the Company's business and important modifications to the Company's organisation;
- > Business plans, budgets and annual investment plans;
- > Definition of the amount to be annually proposed to the General Meeting of Shareholders for issuance of bonds or other securities that may be subsequently resolved by the Executive Committee.

However, after the participation of the Company in the Oi Capital Increase that was settled on 5 May 2014, and in view of the current framework of PT SGPS, whose business in the telecom sector is now exercised through its relevant interest in Oi, it was understood that there was no reason for keeping the corporate governance structure that existed until then, notably regarding the delegation of the management in the normal course of the Company to an Executive Committee and the corresponding mechanisms of articulation of such committee with all other directors.

In this way, the Board of Directors resolved to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, and so the Executive Committee ceased its existence in PT SGPS' corporate governance structure as from such date. Currently, there are certain corporate charges that were, according to a Board resolution, specifically entrusted to certain directors, pursuant to article 407-1 of the Portuguese Companies Code and articles 21-4 and 26 of the Bylaws, as detailed in item 15 of Part I above. This situation is considered transitory, and we expect, following the end of the current term of office (2012-2014 three-year term) and the appointment of new members for PT SGPS' corporate bodies for the 2015-2017 three-year term of office to take place at the Annual General Meeting of Shareholders to be held in 2015, to resume the management in the normal course delegation model in an Executive Committee or Managing Directors, according to which proves more appropriate for the current size and business of the Company.

**(d) CMVM Recommendation no. II.1.5 on the setting of goals in terms of risk-taking and the creation of systems for their control**

The Company understands that CMVM Recommendation no. II.1.5 is not complied with, considering the subscription of the Rio Forte Instruments, commercialized by BES, and the subsequent default as to their reimbursement by the issuer, which led, notably, to the performance of an independent analysis by PwC on the procedures and actions carried out within said framework, as well as all relevant aspects related to treasury applications in entities of the Espírito Santo Group.

However, and as mentioned in Part C.III hereof, PT SGPS understands that currently, after the implementation of certain changes resulting from a revision of the rules relating to the Company's internal control and risk management systems – with the aim of not only reformulating said mechanisms in light of the default of reimbursement by Rio Forte, but also suiting them to the new specificities of the Company, after the Oi Capital Increase and the amendments to the Business Combination with Oi, as detailed throughout this report – there are conditions for the Company to consider the CMVM Recommendation II.1.5 as complied with.

**(e) CMVM Recommendation no. II.1.10 on the appointment of an independent director in case the chairman of the board of directors carries out executive duties**

Within the scope of the resolution of the Board of Directors to take on, effective as from 1 October 2014, all the powers of the management in the normal course of the Company, as well as to entrust certain special charges to certain directors, the current Chairman of the Board of Directors was assigned responsibilities within the framework of the assigned special charges. Although the Chairman assumed executive duties as from 1 October 2014 – as well as all the other members of PT SGPS Board of Directors, as a result of the taking on of the management in the normal course powers delegated to the Executive Committee and subsequent termination of duties of the latter – it was considered that, in the current transition stage of the Company's situation, notably taking into account the end of the current term of office of the corporate bodies on 31 December 2014, it was not advisable to appoint an independent director to coordinate the job of non-executive directors and the conditions for non-executive directors to be able to decide in an independent and informed manner (also considering that the distinction between executive and non-executive directors no longer exists in the Company as a result of the termination of the Executive Committee).

This notwithstanding, the Company believes that the actual follow-up of the matters covered by the charges assigned, and the corresponding reporting to the Board of Directors by the directors entrusted with special charges is a mechanism that is appropriate and sufficient to ensure the goals of this recommendation, since it allows for all members of the Board of Directors – notably those not entrusted with special charges – to decide in an informed manner on the matters submitted to them.

**(f) CMVM Recommendation no. II.3.3 b) on the potential maximum remuneration amount to be included in the statement on the remuneration policy to submit to the General Meeting**

Under letters a) and b) of this recommendation, the statement on the remuneration policy of the management and supervisory bodies referred to under article 2 of Law n.º 28/2009, of 19 June, should contain (i) a description and explanation of the criteria for determining the remuneration to be given to the members of the corporate bodies, (ii) information on the maximum possible amount, in individual terms, and maximum possible amount, in aggregate terms, to be paid to

the members of the corporate bodies, and (iii) details of the circumstances under which these maximum amounts might fall due.

With this recommendation and, in particular, with the changes which were introduced into the same through a comparison with the CMVM Governance Code approved in January 2010, it is said statement shall explain not only the calculation method and payment conditions, but also a quantification of the agency fees which might possibly have to be borne, on an individual and aggregate basis, relating to the members of the corporate bodies.

PT SGPS believes that the Shareholders, investors and the market in general are in a position, considering the amounts of fixed remuneration disclosed in the 2012 governance report and the limits applicable to the variable remuneration included in the statements on the remuneration policy for the 2012-2014 term of office, both submitted to the General Meeting, to establish a potential maximum amount, on both an individual and aggregate basis.

In fact, the indication of potential amounts for the variable remuneration, when a quantification depending on maximum performance objectives is in question, especially aimed at encouraging the management team, can represent a distorted image of the agency fees on which the Shareholders will resolve, in general, by being separated from the imponderables of the business, sector, markets and particularities of the company and, in particular, regarding the individualized indication, by depending on the evaluation to be performed by the Compensation and the Evaluation Committees, at each moment.

Thus, PT SGPS believes that the provision of the maximum amounts of fixed remuneration of the members of the corporate bodies, together with the provision of the limits and criteria of the variable component (which are established precisely through reference to the fixed remuneration of each executive director), is not only sufficient in itself but also the most suitable means for the Shareholders to become aware of and resolve on the remuneration policy, with the Compensation and Evaluation Committees being responsible for analysing the suitability of the individual remuneration of each member of the management team, thus appearing as a mechanism fully ensuring compliance with the objectives sought by CMVM Recommendation II.3.3 b).

Finally, it should be mentioned that, on 3 September 2014, PT SGPS' Compensation Committee, under proposal by the Evaluation Committee, and considering notably PT SGPS' current situation and the changes made to the business combination with Oi, resolved to instruct the Company's corporate bodies, committees and relevant services not to make any payments in connection with variable remunerations and/or any other form of performance and/or office termination bonus or compensation (other than any fixed remuneration due), even if under past resolutions adopted by the Compensation Committee (notably, amounts pending calculation/allocation and/or deferred), until the Compensation Committee, supported by the Evaluation Committee, would identify and examine the situations in question and resolve as to the same.

**(g) CMVM Recommendation no. V.1 on the company's businesses with owners of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code being conducted in normal market conditions**

As mentioned in item 91 hereof, the Company understands that the subscription of the Rio Forte Instruments described in Note 42 to the consolidated financial statements for the year of 2014 does not allow PT SGPS to consider CMVM Recommendation no. V.1 as complied with in respect of the fiscal year ended on 31 December 2014. In any case, the Company's internal control and risk management rules and structures have been reformulated, in order to ensure

full compliance with this recommendation.

## APPENDIX I

Functions performed by members of the management body in other companies

The functions performed by each director in companies other than PT SGPS are as follows:

▶ **João de Mello Franco (Chairman of the Board of Directors)**

Alternate Member of Board of Directors of Oi, S.A.  
 Alternate Member of the Board of Directors of Telemar Participações, S.A.  
 Director and Member of the Audit and Control Committee of EDP Renováveis, S.A.  
 Chairman of the Appointment and Compensation Committee of EDP Renováveis, S.A.  
 Member of the Committee for Related Party Transactions of EDP Renováveis, S.A.  
 Director of the broker Villas Boas ACP – Corretores de Seguros, Lda. since 2012

▶ **Alfredo José Silva de Oliveira Baptista (Director and Member of the Audit Committee)**

Not applicable.

▶ **Eurico de Jesus Teles Neto (Director)**

Legal Manager of Grupo Oi, S.A.

▶ **Francisco Ravara Cary (Director)**

Executive Director of Novo Banco, S.A.  
 Chairman of the Board of Directors of Banco BEST, S.A.  
 Chairman of the Board of Directors of Espírito Santo Ventures, Sociedade de Capital de Risco, S.A.  
 Director of BESI Brasil, S.A.  
 Director of Banque Espírito Santo et de la Vénétie, S.A.  
 Director of EMPARK Aparcamientos y Servicios, S.A.  
 Director of Swan Street Limited (in liquidation)

▶ **Francisco T. Pereira Soares (Director) <sup>(1)</sup>**

Chairman of the Environment Committee of CEEP – Centro Europeu de Empresas com Participação Pública e de Interesse Económico Geral, Brussels  
 Consultant to Parpública, S.A.

(1) Resigned from his duties in PT SGPS on 27 February 2015.



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▶ **Gerald McGowan (Director)**

“Of Counsel” Lukas, Nace, Gutierrez & Sachs

▶ **Jorge Telmo Maria Freire Cardoso (Director)**

Member of the Board of Directors and CFO of Novo Banco, S.A.  
Non-Executive Member of the Board of Directors of Enternext, S.A.

▶ **José Guilherme Xavier de Basto (Director and Chairman of the Audit Committee)**

Member of the Audit Committee of Millenium BCP, SA since 2011  
Member of the Gabinete de Estudos da Ordem dos Técnicos Oficiais de Contas (OTOC)

▶ **Luís Pacheco de Melo (Director) <sup>(2)</sup>**

Not applicable.

(2) Resigned from his duties in PT SGPS on 18 March 2015.

▶ **Marco Norci Schroeder (Director)**

Manager of the International Operation Finance Department of Oi S.A. since July 2014  
CFO of PT Portugal SGPS S.A. since August 2014  
Manager of Investor Relations of PT Portugal SGPS S.A.  
Chairman of the Supervisory Board of Fundação Atlântico de Seguridade Social

▶ **Maria Helena Vaz de Carvalho Nazaré (Director) <sup>(3)</sup>**

Chair of European University Association (EUA) since March 2011  
Chair of the working group of the EUA on internationalisation and research  
Member of the Institutional Evaluation Group of the EUA since 2004  
Member of the Expert Group established by the European Commission for the Development of the European Research Area  
Member of the Steering Committee Institutional Evaluation EUA since 2005

(3) Resigned from her duties in PT SGPS on 31 March 2015.

▶ **Mário João de Matos Gomes (Director and Member of the Audit Committee)**

Chairman of the Supervisory Board of Previsão – Sociedade Gestora de Fundos de Pensões, SA

▶ **Milton Almicar Silva Vargas (Director)**

Adviser to Helbor Empreendimentos S.A. since April 2013

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Member of the Board of Directors of Cielo S.A. since July 2009  
Member of the Board of Directors of Monteiro Aranha S.A. since December 2009  
Member of CAF – Comité de Aquisições e Fusões

▶ ***Nuno Rocha dos Santos de Almeida e Vasconcellos (Director)***

Chairman of the Board of Directors of Rocha dos Santos Holding, SGPS, S.A.  
Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A.  
Chairman of the Board of Directors of Ongoing TMT  
Chairman of the Board of Directors of Ongoing Media  
Chairman of the Board of Directors of Ongoing Energy  
Chairman of the Board of Directors of Económica SGPS  
Chairman of the Board of Directors of RS Holding, SGPS  
Chairman of the Board of Directors of Insight Strategic Investments, SGPS, S.A.  
Chairman of the Board of Directors of Ongoing Comunicações – Participações, S.A.  
Chairman of the Board of Directors of Heidrick & Struggles

▶ ***Paulo José Lopes Varela (Director)*** <sup>(4)</sup>

Not applicable.

(4) Resigned from his duties in PT SGPS on 16 March 2015.

▶ ***Rafael Luís Mora Funes (Director)***

Member of the Board of Directors of Oi, S.A. since October 2014  
Chairman of Webspectator

▶ ***Rolando António Durão Ferreira de Oliveira (Director)***

Vice-Chairman of the Board of Directors of Grupo Controlinveste  
Director of Controlinveste, SGPS, S.A.  
Director of Sport TV Portugal, S.A.  
Director of Olivedesportos - Televisão, Publicidade e Media, S.A.  
Director of PPTV - Publicidade de Portugal e Televisão, S.A.  
Director of Cosmos - Viagens e Turismo, S.A.  
Director of Sportinveste Multimédia, S.A.  
Director of Global Notícias Media Group, S.A.  
Director of Global Notícias Publicações, S.A.  
Director of Global Notícias - Agência de Informação e Imagens, S.A.  
Director of Rádio Notícias - Produções e Publicidade, S.A.  
Member of the Directorate of APDC

▶ ***Shakhaf Wine (Director)***

Chief Executive Officer of Bratel Brasil, S.A.  
Chief Executive Officer of Istres Holdings / PTB2, S.A.  
Chief Executive Officer of Marnaz Holding, S.A.  
Member of the Board of Directors of Oi, S.A.

Member of the Board of Directors of Telemar Participações, S.A.

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Professional qualifications and professional activities performed during the last 5 years

*João de Mello Franco (Chairman of the Board of Directors)*

*Portuguese, 68 years old*

Co-opted onto Chairman of the Board of Directors in September 2014 | Elected for the first time for the Audit Committee in 2007, and non-executive Director since 1998. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Corporate Governance Committee since 2005, and Chairman of that same Committee between 2006 and 2009 | Member of the Evaluation Committee since 2008 and Member of the Compensation Committee between 2003 and 2008 | Since 2008, Non-Executive Director of EDP Renováveis, SA, of which he was Chairman of the Audit Committee up to 2014 | Chairman of the Supervisory Board of Sporting Clube de Portugal and of Sporting SAD from 2011 to 2013 | Graduate in Mechanical Engineering by the Instituto Superior Técnico | Additional Training in Strategic Management and High Business Management (PADE).

*Alfredo José Silva de Oliveira Baptista (Director and Member of the Audit Committee)*

*Portuguese, 63 years old*

Co-opted onto Member of the Audit Committee in November 2014 | Elected as Director for the first time in 2011. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Executive Committee of Portugal Telecom, SGPS S.A. from 2011 to September 2014 | Director of PT Portugal, SGPS S.A. from 2009 to 2014 | Director of PT Comunicações from 2004 to 2014 | Director of TMN from 2008 to 2014 | Director of Portugal Telecom Data Center, S.A. from 2011 to 2014 | Chairman of the Board of Directors da PT Sistemas de Informação, S.A. from 2012 to 2014 | Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, S.A. from 2006 to 2011 | Director of PT Sistemas de Informação in 2003 | Chief Executive Officer of PT Prime, S.A. from 2000 to 2002 | Vice-Chairman of PT Prime, S.A. from 1999 to 2000 | General Manager of Negócios Empresariais from 1996 to 1999 | Director of PT Internacional from 1996 to 1997 | Director of Portugal Telecom, S.A. from 1994 to 1996 | Graduate in Electrotechnical Engineering and Telecommunications by the Instituto Superior Técnico.

*Eurico de Jesus Teles Neto (Director)*

*Brazilian, 58 years old*

Elected as Director for the first time in 2014 | Attorney at the Tribunal de Justiça Desportiva in Rio de Janeiro from 2010 to 2012 | Graduate in Law and Economic Sciences by Universidade Católica de Salvador.

*Francisco Ravara Cary (Director)*

*Portuguese, 49 years old*

Elected as Director for the first time in September 2014 | Non-Executive Member of the Board of Directors of Espírito Santo Investimentos, S.A. (Brazil) from April 2014 to January 2015 | Vice-Chief Executive Officer of the Board of Directors of BES Investimento, S.A. (BESI) up to 2015 | Non-Executive Chairman of the Board of Directors of Espírito Santo Capital – SCR, S.A. up to 2015 | Non-Executive Member of the Board of Directors of BESI UK Limited up to 2015 | Non-Executive Member of the Board of Directors of Coporgest – Companhia Portuguesa de Gestão e

Desenvolvimento Imobiliário, S.A. | Member of the Supervisory Board of Casa da América Latina up to 2015 | Chairman of the Board of Directors of ESSI, SGPS, S.A. up to 2014 | Chairman of the Board of Directors of ESSI Investimentos, SGPS, S.A. up to 2014 | Non-Executive Chairman of SES IBERIA PRIVATE EQUITY, S.A. from June 2004 to 2014 | Non-Executive Member of the Board of Directors of 2b Capital, S.A. (Brazil) from September 2010 to 2014 | Non-Executive Member of the Board of Directors of Emparque – Empreendimentos e Exportação Parqueamentos, S.A. from 2009 to 2014 | Non-Executive Member of the Board of Directors of DORNIER, S.A. (Spain) from 2009 to 2014 | Non-Executive Member of the Supervisory Board of Sparex Developpement (France) from 2006 to September 2014 | Non-Executive Member of the Board of Directors of BRB Internacional, S.A. from March 2007 to February 2014 | Non-Executive Member of the Board of Directors of Screen Veintiuno, S.A. from January 2007 to February 2014 | Non-Executive Member of the Board of Directors of Apolo Films, S.L. from July 2007 to December 2013 | Non-Executive Member of the Board of Directors of Pro Sport Comercializaciones Deportivas, S.A. from January 2007 to June 2012 | Chairman of the Board of Directors of ESSI Comunicações, SGPS, S.A. up to 2014 | Non-Executive Member of the Board of Directors of Fomentinvest, SGPS, S.A. from September 2006 to January 2014 | Non-Executive Member of the Supervisory Board of Financière Mandel from October 2007 to June 2014 | Graduate in Business Administration and Management by Universidade Católica Portuguesa (1982-1988) | MBA Insead (Fontainebleau, France, 1993).

*Francisco T. Pereira Soares (Director)*  
*Portuguese, 65 years old*

Resigned from his duties in PT SGPS on 27 February 2015 | Elected as Director of Portugal Telecom, SGPS S.A. for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Director of Gadsa – Arquivo e Depósito, S.A. from October 2006 to October 2008 | Economic Consultant at the Civil House of the President of the Republic of Portugal, from 2001 to 2006 | Chief Executive Officer of API Capital, Sociedade de Capital de Risco, S.A. from January 2003 to October 2004 | Chairman of the Board of Directors of API Capital, Sociedade de Capital de Risco, S.A. from May 2004 to January 2005 | Director of NAER - Novo Aeroporto, SA from 2001 to 2002 | Director and Chief Executive Officer of I.P.E. – Tecnologias de Informação, SGPS S.A. from 2000 to 2001 | Executive Director of I.P.E. – Investimentos e Participações Empresariais, SA from 1996 to 2000 | Chairman of the Board of Directors of I.P.E. Capital, Sociedade de Capital de Risco, SA from 1996 to 2000 | Member of the Board of Ambelis – Agência para a Modernização Económica de Lisboa, SA from 1994 to 1996 | Graduate in Economics by the ISCEF (Universidade Técnica de Lisboa), 1972 | Master of Science in Management by Arthur D. Little Management Education Institute, Cambridge Massachusetts, USA (1979) | Master in Public Administration by Harvard University, John F. Kennedy School of Government, Cambridge Massachusetts, USA (1981).

*Gerald McGowan (Director)*  
*North-American, 68 years old*

Elected as Director for the first time in 2003. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Board of Directors of Virginia Center for Innovative Technology from 2004 to 2007 | United States Ambassador to Portugal from 1998 to 2001 | Member of the Board of Directors of “Overseas Private Investment Corporation” (OPIC) from 1996 to 1997 | Member of the Board of Directors of Virginia Port Authority from 2002 to 2003 | Member of the Board of Directors of Cellular Telecommunications Industry Association from 1992 to 1994 | Graduate in Law by the Georgetown University Law Center (J.D. 1974) and Georgetown University (B.S.B.A. 1968).

*Jorge Telmo Maria Freire Cardoso (Director)*  
*Portuguese, 43 years old*

Elected as Director for the first time in November 2014 | Member of the Board of Directors and Member of the Executive Committee of Caixa Geral de Depósitos, S.A. from July 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa – Banco de Investimento, S.A. from August 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Capital – Sociedade de Capital de Risco, S.A. from March 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Desenvolvimento, SGPS, S.A. from March 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of CGD Investimentos Corretora de Valores e Câmbio, S.A. from May 2012 to April 2014 | Non-Executive Chairman of the Board of Directors da Wolfpart, SGPS, S.A. from November 2013 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Geral – Brasil, S.A. from September 2013 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Totta Angola, S.A. from April 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors do Banco Nacional de Investimento, S.A. from May 2012 to December 2012 | Non-Executive Member of the Board of Directors of Caixa Seguros e Saúde, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Gerbanca, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Partang, SGPS, S.A. from September 2013 to September 2014 | Non-Executive Member of the Board of Directors of Visabeira from April 2014 to September 2014 | Chief Executive Officer of Caixa – Banco de Investimento, S.A. from May 2011 to August 2013 | Member of the Board of Directors of Caixa – Banco de Investimento, S.A. from March 2008 to May 2011 | Non-Executive Member of the Board of Directors of ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. from January 2008 to July 2012 | Non-Executive Member of the Board of Directors of Empark Portugal – Empreendimentos e Exploração de Parques, S.A. from February 2010 to June 2012 | Non-Executive Member of the Board of Directors da Dornier, S.A. from February 2010 to July 2012 | Manager of CaixaBI Brasil – Serviços de Assessoria Financeira Ltda. from May 2012 to November 2013 | Graduate in Economics by Universidade Nova de Lisboa | MBA Insead.

*José Xavier de Basto (Director and Chairman of the Audit Committee)*  
*Portuguese, 76 years old*

Appointed as Chairman of the Audit Committee in November 2014 | Elected as Director for the first time in 2007. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Tax Consultant | Retired lecturer at the Faculty of Economics of the University of Coimbra | Graduate in Law by University of Coimbra (1960). Complementary Course in Political and Economic Sciences (1961).

*Luís Pacheco de Melo (Director)*  
*Portuguese, 48 years old*

Resigned from his duties in PT SGPS on 18 March 2015 | Elected for the first time as member of the Board of Directors and Executive Committee in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012, and remained a member of the Executive Committee up to September 2014 | Chairman of the Board of Directors of PT SGPS Centro Corporativo, S.A. from 2006 to 2014 | Chairman of the Board of Directors da PT PRO, Serviços Administrativos e de Gestão Partilhados S.A. from 2003 to 2014 | Chairman of the Board of Directors of Portugal Telecom Imobiliária, S.A. from March 2012 to January 2014 | Chairman of

the Board of Directors of PT Prestações – Mandatária de Aquisições de Gestão de Bens, S.A. from 2009 to 2014 | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, S.A. from May 2009 to July 2014 | Chairman of the Board of Directors of PT Ventures, SGPS S.A. from 2008 to July 2014 | Chairman of the Board of Directors of Portugal Telecom – Associação de Cuidados de Saúde from May 2007 to July 2014 | Chairman of the Board of Directors of PT Pay, S.A. from March 2013 to July 2014 | Chairman of the Board of Directors of TPT – Telecomunicações Públicas de Timor, S.A. from March 2012 to July 2014 | Chairman of the Board of Directors of Timor Telecom, S.A. from March 2012 to July 2014 | Vice Chairman of the Board of Directors of PT Portugal, SGPS S.A. from June 2013 to July 2014 | Vice Chairman of the Board of Directors of PT Comunicações, S.A. from June 2013 to July 2014 | Vice Chairman of the Board of Directors of TMN – Telecomunicações Móveis Nacionais, S.A. from June 2013 to July 2014 | Vice Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS S.A. from July 2008 to July 2014 | Vice Chairman of the Board of Directors of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, S.A. from November 2008 to July 2014 | Vice Chairman of the Board of Directors of PT Participações, S.A. from November 2008 to July 2014 | Director of Portugal Telecom Data Center, S.A. from October 2011 to January 2014 | Director of PT Blueclip – Serviços de Gestão, S.A. from March 2012 to July 2014 | Director of Africatel Holdings B.V. from March 2007 to July 2014 | Director of Elta – Empresa de Listas Telefónicas de Angola, Lda. From March 2012 to July 2014 | Director of Unitel, S.A. from March 2012 to July 2014 | Director of Oi, S.A. from April 2014 to August 2014 | Chairman of the Board of Directors of CST – Companhia Santomense de Telecomunicações, S.A.R.L from March 2011 to October 2013 | Chairman of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, S.A. from April 2008 to April 2013 | Director of Tele Norte Leste Participações, S.A. from April 2011 to February 2012 | Member of the Board of Directors of UOL, S.A. from April 2010 to January 2011 | Chairman of the Board of Directors of PT Contact – Telemarketing e Serviços de Informação, S.A. from July 2008 to March 2009 | Member of the Board of Directors of Telemig Celular, S.A. from August 2008 to July 2010 | Member of the Board of Directors of Telemig Celular Participações, S.A. from August 2008 to November 2009 | Member of the Board of Directors of Vivo Participações, S.A. from July 2006 to July 2010 | Member of the Board of Directors of Brasilcel from July 2006 to July 2010 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS S.A. from June 2002 to April 2006 | Chairman of the Board of Directors of Cabo TV Açoreana, S.A. from December 2004 to October 2007 | Central Manager and Invited Member of the Executive Committee of BES Investimento from 1998 to 2002 | Associate and manager of UBS Warburg from 1994 to 1998 | Graduate in Civil Engineering by Instituto Superior Técnico with an MBA by IESE Barcelona.

*Marco Norci Schroeder (Director)*  
*Brazilian, 50 years old*

Elected as Director for the first time in 2014 | Manager of the Controladoria of Oi/Telemar from January 2002 to April 2011 | CFO and Manager for Investor Relations of Contax from April 2011 to October 2013 | Graduate in Economics by UFRGS (Universidade Federal do Rio Grande do Sul) and specialised in General Management Program by HBS (Harvard Business School).

*Maria Helena Vaz de Carvalho Nazaré (Director)*  
*Portuguese, 65 years old*

Resigned from her duties in PT SGPS on 31 March 2015 | Elected as Director for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chair of the Advisory Board of Fundação Galp Energia from 2010 to 2013 | Chair of the Portuguese Physics Society from 2010 to 2013 | Chair of the Specialised Committee for the Research and Transfer of Knowledge of the Council of Portuguese Universities' Principals from 2009 to 2013 | Chair of Fundação João Jacinto de Magalhães up to 2013 | Member of the Executive Board of Fundação das Universidades Portuguesas up to 2013 | Vice President of the European University Association (EUA) from 2009 to 2011 | Principal of the University of Aveiro from January 2002 to February 2010 | Chair of the Coordination Committee of the Institutional Evaluation Programme of the European University Association from 2007 to 2009 | Chair of the College of Health Sciences of the University of Aveiro from June 2000 to January 2002 | Member of the Board of Directors of Administração do Porto de Aveiro, S.A. from 1999 to 2000 | Chair of the Columbus Association: Network of European and Latin American Universities | Coordinator of the University research unit "*Física de Semicondutores em Camadas, Optoeletrónica e Sistemas Desordenados*" from 1996 to 1999 | Vice Principal of University of Aveiro from 1991 to 1998 | Chair of the Research Institute of the University of Aveiro from 1995 to 1998 | Chair of the Executive Board of Fundação João Jacinto de Magalhães from 1993 to 1998 | Member of the Coordination Committee of the International Conference of Defects in Semiconductors in 1997 | Vice-Chair of the University of Aveiro Scientific Board from 1990 to 1991 | Chair of the governing board of the Department of Physics from 1978 to 1980 and from 1986 to 1988 | Graduate in Physics by the Universidade de Lisboa in 1972 | Doctor of Philosophy: Solid State Physics, Wheatstone Physics Laboratory, by King's College London, University of London, in 1978 | PhD in Physics – speciality of solid state physics, University of Aveiro in 1979 | "*Agregação*" in Physics – University of Aveiro in 1987.

*Mário João de Matos Gomes (Director and Member of the Audit Committee)*  
*Portuguese, 67 years old*

Elected as Director for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Since 1971, and for approximately twelve years following his graduation/completing his degree, he worked in one of the biggest international auditing and management consulting firms (ARTHUR ANDERSEN & CO.), where he coordinated the audit and tax consulting department | Since January 1983 and for about four years, he worked as Permanent Consultant – Advisor to the Board of Directors of an important metal-electromechanical engineering company, particularly in issues relating to the improvement of its management information systems and operations control | From January 1974 to March 2009 he was Auditor of several industrial, commercial and service companies of a relevant dimension and importance either at a national or an international level and acquired experience in the performance of these activities in a public institute, as well as in the telecommunications, insurance, banking and capital market sectors | He currently takes part in the Registration Committee of the Association of Chartered Certified Accountants (OROC), with which he has also collaborated, as a Controller-Rapporteur, in the implementation of Quality Control Programmes in respect to the work of auditors and chartered accountant | In the OROC, he has participated for several years in the Internship Professional Training Committees, and he has also held the position of Chairman of the Technical Committee on Insurance Companies, with a relevant intervention in the drafting of Auditing Guideline 830 – Review of Financial and Statistical Elements of Insurance Companies and Pension Funds Management Companies | Between mid-1985 and 2001, he worked as *Assistente Convidado* in the ISEG, where he lectured Auditing | He prepared an Auditing Manual and Course within both his academic activities and trainings he performed for clients and other interested people. Upon by the



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Technical and Training Committee of OROC, he also conducted several trainings both for the preparation of candidates for their admission to the OROC and for the update of already registered members OROC | Graduate in Finance by ISEG (1971).

*Milton Almicar Silva Vargas (Director)*  
*Brazilian, 58 years old*

Elected as Director for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Effective member of the Board of Directors of Fleury S.A. from July 2009 to April 2013 | Effective member of the Board of Directors of Banco Espírito Santo (BES) – Portugal from July 2012 to April 2013 | Member of the Board of Directors of CPMBráxis from July 2009 to July 2012 | Graduate in Business Administration by UNIFIEO – Centro Universitário FIEO, Osasco.

*Nuno Rocha dos Santos de Almeida e Vasconcellos (Director)*  
*Portuguese, 50 years old*

Elected as Director for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chairman of the Board of Directors of Rocksun, SA from 2008 to 2012 | Member of the General Council of ISCTE from 2009 to 2011 | Member of the Board of Automóvel Clube de Portugal from 2007 to 2011 | Managing Partner in Portugal for consulting field of Heidrick & Struggles from 1995 to 2006 | Member of the Compensation Committee of a banking entity up to 2007 | Manager of Andersen Consulting (currently Accenture) from 1987 to 1995 | Graduate in Business Administration by the Curry College, Boston.

*Paulo José Lopes Varela (Director)*  
*Portuguese, 46 years old*

Resigned from his duties in PT SGPS on 16 March 2015 | Elected as Director for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | He was an executive at Grupo Visabeira – where he started performing his duties in 1992, in Portugal –, and he lived between 1995 and 2006 in Mozambique and Angola, where, in his capacity as Chairman of the Board of Directors of Visabeira Moçambique and Visabeira Angola, he was responsible for the institutional representation of the Group, general coordination of the activities of the Grupo Visabeira's subsidiaries in such countries, representation of the shareholder Grupo Visabeira in the management bodies of its subsidiaries and planning and strategy definition of the Group's businesses, including its integrated financial management | In 2002, he was appointed Vice Chairman of Grupo Visabeira, SGPS, S.A. | In 2008, he was appointed Chairman of the Board of Directors of Visabeira Global SGPS S.A. | In November 2009, he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, S.A. | In October 2014, he terminated all his duties at Grupo Visabeira and its subsidiaries | Graduate in Law by the Faculdade de Direito, Universidade de Coimbra, with several post-graduations in Management and Business Administration.

*Rafael Luís Mora Funes (Director)*  
*Spanish, 49 years old*

Elected as Director for the first time in 2007. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Vice Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A., Vice CEO of Ongoing Strategy Investments, SGPS S.A., Chairman of

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the Board of Directors of Realtime Corp., Chairman of the Board of Directors of IBT Internet Business Technologies and Member of the Board of Directors of RS Holding SGPS up to February 2015 | Graduate in Economics and Management by Malaga University.

*Rolando António Durão Ferreira de Oliveira (Director)*  
*Portuguese, 44 years old*

Elected as Director for the first time in 2014 | Attended the Management course of Instituto Superior de Economia e Gestão (ISEG) – Universidade Técnica de Lisboa.

*Shakhaf Wine (Director)*  
*Brazilian, 45 years old*

Elected as Director for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012, and remained a member of the Executive Committee up to September 2014 | Chief Executive Officer and Chairman of the Board of Directors of Portugal Telecom Brasil S.A. up to 2014 | Chief Executive Officer of PT Multimédia.com Brasil Ltda. up to 2014 | Member of the Managing Board of CTX Participações, S.A. up to 2014 | Member of the Board of Directors of Contax Participações, S.A. up to 2014 | Member of the Board of Directors of Tele Norte Leste Participações, SA from April 2011 to February 2012 | Vice Chairman of the Board of Brasilcel N.V., Chairman of the Control Committee of Brasilcel N.V. and Vice Chairman of the Board of Directors of Vivo Participações S.A. up to September 2010 | Member of the Board of Directors of Universo Online S.A. up to January 2011 | Chairman of the Board of Directors of Mobitel, S.A. up to June 2011 | Member of the Board of Directors of PT Investimentos Internacionais – Consultoria Internacional, S.A. from May 2006 to March 2009 | Member of the Board of Directors of PT Participações, SGPS S.A. from March 2008 to March 2009 | Member of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS S.A. from May 2006 to March 2009 | Member of the Board of Directors of PT Ventures, SGPS S.A. from May 2006 to March 2009 | Member of the Board of Directors of Tele Centro Oeste Celular Participações, S.A. from March 2004 to October 2006 | Member of the Board of Directors of Tele Sudeste Celular Participações, S.A. from March 2004 to February 2006 | Member of the Board of Directors of Tele Leste Participações S.A. from July 2005 to February 2006 | Member of the Board of Directors of Celular CRT Participações S.A. from March 2004 to February 2006 | Member of the Board of Directors of Banco1.net S.A. from April 2003 to July 2004 | Member of the Board of Directors of PT Multimédia.com Participações Ltda. from April 2005 to November 2007 | Manager of Investment Banking and responsible for the European corporate clients in the global telecommunications group of Merrill Lynch International between 1998 and 2003 | Senior Associate Director in the department of Latin America and Telecommunications Groups of Deutsche Morgan Grenfell between 1993 and 1998 | Interbank exchange trader and dealer of the Banco Central do Brasil at Banco Icatu between 1991 and 1993 | Graduate in Economics by PUC, Pontifícia Universidade Católica of Rio de Janeiro.

## CV data of the members of the Compensation Committee

*Álvaro João Duarte Pinto Correia (Chairman of the Compensation Committee)*

Member of the Compensation Committee since 2007.

Graduate in Civil Engineering by Instituto Superior Técnico, where he was an assistant professor.

Engineer at Sonefe in Portugal and Angola (Cambambe Dam); State Secretary for Civil Construction and Housing and Urban Planning; Manager at Caixa Geral de Depósitos; Chairman of Banco Totta & Açores and Companhia de Seguros Fidelidade; Chair of the Negotiation Committee for the Debt of Angola; Director of Hidroelétrica de Cahora Bassa.

Chairman of Fundação Cidade de Lisboa since July 2000 | Chairman of the Inspection Board of Instituto de Seguros de Portugal (ISP) since December 2004 | Chairman of the Supervisory Board of Centro Português de Fundações since March 2010 | Chairman of the Supervisory Board of Montepio Geral since January 2013 | Member of Portuguese Honour Orders: *Comendador da Ordem de Mérito Industrial* and *Grande Oficial da Ordem do Infante D. Henrique*.

*Francisco Esteves de Carvalho (Member of the Compensation Committee)*

Member of the Compensation Committee since 2007.

Graduate in Management and Finance (1966/67) – ISCEF – Lisbon, Portugal. MBA – School of Management/ University of Rochester – Rochester, United States.

Member of the Board of Directors of Caixa Seguros, SGPS, S.A. from December 2004 to September 2011 | Member of the Board of Directors of Companhia de Seguros Fidelidade, S.A. from December 2004 to March 2007 | State Secretary for Treasury and Finance of the XV Government of the Portuguese Republic from April 2003 to July 2004 | President of the Instituto Nacional de Habitação from May 2002 to April 2003 | Central Manager of Banca Institucional – Banco BPI, S.A. from October 1995 to May 2002 | State Secretary for Treasury and Finance of the XII Government of the Portuguese Republic from December 1993 to October 1995 | Member of the Board of Directors of Banco Borges & Irmão from August 1992 to December 1993 | Member of the Board of Directors of Banco de Fomento e Exterior from August 1982 to December 1993 | Member of the Board of Directors of Fundo EFTA from August 1982 to December 1993 | Chairman of EUROLEASING – Sociedade Portuguesa de Locação Financeira, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Chairman of EUROVALOR – Sociedade Gestora de Fundos de Investimento, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Chairman of EUROLOCAÇÃO – Aluguer de Automóveis, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Vice Chairman of SEFIS – Sociedade Europeia de Financiamento e Serviços, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Member of the Board of Directors of IPE – Investimento e Participações Empresariais, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Member of the Board of Directors of PROMINDUSTRIA – Sociedade Portuguesa de Capital de Risco, on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Member of the Board of Directors of UNICRE – Instituição Financeira de Crédito, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to December 1993 | Member of the Board of Directors of SIBS – Sociedade Interbancária de Serviços, S.A., on behalf of Banco de Fomento e Exterior, from August 1982 to

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December 1993 | Financial Manager of FISIFE – Fibras Sintéticas de Portugal, SARL from September 1973 to August 1982.

*Francisco Barros Lacerda (Member of the Compensation Committee)*

Member of the Compensation Committee since 2009 (suspended his office between August 2012 and March 2014).

Graduate in Business Administration and Management, Universidade Católica Portuguesa (1982).

Chairman and CEO of CTT – Correios de Portugal since August 2012. All along 25 years up to 2008, he held various positions in investment, corporate and retail banking, including CEO of Banco Mello and Executive Member of the Board of Directors of Millennium BCP, a Portuguese listed bank with relevant operations in Central and Eastern Europe, for which he was responsible, upon which he performed duties in also listed Portuguese organisations, such as CEO of Cimpor – Cimentos de Portugal SGPS, S.A., an international cement group operating in 12 countries and one of 5 largest companies on the NYSE Euronext Lisbon securitiesmarket, and Non-Executive Director and Member of the Audit Committee of EDP Renováveis, the third largest renewable energy company in the world.

Chairman of CTT Expresso - Serviços Postais e Logística, S.A. since 2014 | Chairman of Tourline Express Mensajería, S.L.U. since 2014 | Non-Executive Director of Norfin – Portuguese Property Group, S.A. from May to October 2014 | Chairman and CEO of CTT - Correios de Portugal, S.A. since 2012 | CEO of Cimpor – Cimentos de Portugal SGPS, S.A. from 2010 to 2012 | Chairman of Cimpor Inversiones, S.A. from 2010 to 2012 | Chairman of Sociedade de Investimento Cimpor Macau, S.A. from 2010 to 2012 | Non-Executive Director of EDP Renováveis, S.A. from 2008 to 2012 and Member of the Audit Committee from 2008 to 2011 | Managing Partner of Deal Winds – Sociedade Unipessoal, Lda. from 2008 to 2012 | Director of Mague – SGPS, S.A. from 2008 to 2010 | Member of the Directorate of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado since 2014 | Chairman of the Board of the General Meeting of Shareholders of Correio Expresso de Moçambique, S.A. since 2013 | Member of the Advisory Board of Nova School of Business & Economics since 2011 | Member of the Advisory Board of the Finance Master of Católica Lisbon School of Business & Economics since 2006 | Member of the General Council of Clube Naval de Cascais since 2006.

*António Sarmiento Gomes Mota (Member of the Compensation Committee)*

Member of the Compensation Committee since 2013.

Graduate in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa (1981). MBA, Universidade Nova de Lisboa (1984). Doctor in Business Management, ISCTE (2000).

He has a corporate career of over 20 years in management positions in the banking, consulting and financial services fields. He was Director of ISCTE Business School from 2003 to 2012 and President of INDEG/ISCTE from 2005 to 2012. He is a Professor at ISCTE Business School since 2005 and MBA invited Professor of Nova/Católica de Lisboa since 2013. He has a large experience as consultant in the areas of strategy, corporate assessment and risk management for Portuguese and international corporations. He is the author of various reference works in the financial field. He has held leadership positions in various Boards of Directors and Supervisory Boards in Portuguese listed corporations.

Vice Chairman of the Board of Directors of CTT, S.A. and Chairman of the Audit and Corporate Governance, Evaluations and Appointments Committees since 2014 | Vice Chairman of the Board of Directors (non-executive) of Soares da Costa Construção SGPS, S.A. since 2014 | Chairman of the Board of Directors (non-executive) of Soares da Costa Investimentos, SGPS, S.A. since 2013 | Vice President of the Instituto Português de Corporate Governance since 2010 | Member of the General and Supervisory Council and Audit Committee and (since 2012) Performance and Competition Committee of EDP - Energias de Portugal, S.A. since 2009 | Member of the Board of Directors and Chairman of the Appointments and Remunerations Committee of CIMPOR – Cimentos de Portugal SGPS, S.A. from 2009 to 2012.

## APPENDIX II

**United States rules applicable to PT SGPS, as a Foreign Private Issuer**

As a foreign private issuer registered with SEC, PT SGPS is subject to the following set of mandatory corporate governance rules, which are fully complied with by PT SGPS:

- › The following provisions of the Sarbanes-Oxley Act of 2002 (“SOX”)<sup>2</sup>, as well as the rules approved by SEC implementing such provisions<sup>3</sup> (both SOX and SEC rules and regulations are fully complied with by PT SGPS):

<b>Sarbanes-Oxley Act</b>	
<i>Sections 201 and 202</i>	Prohibition of rendering of certain non-audit services by auditors and prior approval of audit services.
<i>Section 203</i>	Rotation of the audit partner.
<i>Section 204</i>	Auditor’s report to the audit committee.
<i>Section 206</i>	Prohibition on engaging as auditor any firm for which certain of the issuer’s officers (CEO, Controller, CFO, Chief Accounting Officer or any person otherwise in a financial reporting oversight role with the issuer) was an employee and participated in the issuer’s audit in the preceding year.
<i>Section 301</i>	Standards relating to audit committees (including independence).
<i>Sections 302 and 906</i>	Certification of Form 20-F by the CEO and CFO.
<i>Section 303</i>	Prohibition of exercising improper influence on audits by directors and officers or any other person acting under their direction.
<i>Section 304</i>	CEO and CFO disgorgement of incentive compensation following restatement of financial reports.
<i>Section 306</i>	Prohibition of certain transactions by insiders during certain blackout periods.
<i>Section 307</i>	Professional liability and reporting duties by the issuer’s attorneys regarding potential breaches of securities laws and fiduciary duties.
<i>Section 402</i>	Prohibition on issuer loans to directors and executive officers.
<i>Section 406</i>	Disclosure of whether or not the issuer has a code of ethics (and if not, why not) and of any amendments or waivers to said code of ethics.
<i>Section 407</i>	Disclosure of whether the issuer has an audit committee financial expert (and if not, why not).

<sup>2</sup> Available at <http://www.sec.gov/about/laws/soa2002.pdf>.

<sup>3</sup> Available at <http://www.sec.gov>.

- Up to 30 March 2015<sup>4</sup>, the Company was subject to the following additional rules provided for in Section 303A on Corporate Governance Standards of the NYSE Listed Company Manual (“the Manual”)<sup>5</sup>, which are fully complied with by PT SGPS:

<b>Section 303A</b>	
Mandatory rules	Listed foreign private issuers are permitted to follow home country practice in lieu of the provisions of Section 303A, except that such companies are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12 (b) and (c).
Section 303A.06	Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 (“Rule 10A-3”).
Section 303A.11	Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.
Section 303A.12(b)	The CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any non-compliance with the applicable rules set forth in Section 303A.
Section 303A.12(c)	The listed company is required to submit to the NYSE an executed annual Written Affirmation, as well as an interim Written Affirmation as and when required by the interim Written Affirmation form specified by the NYSE.

- Pursuant to Section 301 of SOX and of Section 303A.06 of the Manual, PT SGPS shall comply with Rule 10A-3, Listing standards relating to audit committees approved by SEC<sup>6</sup>, as an issuer of ADSs admitted to trading on NYSE. Since the withdrawal of its ADSs from trading on NYSE, the Company is no longer subject to the provisions of Rule 10A-3, Listing standards relating to audit committees.
- In this context, the Company has established an audit committee in full compliance with the following provisions set forth in Rule 10A-3 (opting out of the exemptions foreseen therein for foreign private issuers):

<b>Rule 10A-3</b>	<b>Standards applicable to the audit committee</b>
Paragraph (b)(1)(i)	Each of the audit committee members shall be independent and comprise the issuer’s board of directors.
Paragraph (b)(1)(ii)	In order to be deemed as independent, the audit committee member shall not, unless in his/her capacity as a member of the audit committee, of the board of directors or of any other board committee:

<sup>4</sup> On 9 March 2015, the Company served notice that the Board of Directors had approved the withdrawal of PT SGPS’ ADSs from trading on NYSE. The last day of trading of PT SGPS’ ADSs on NYSE was 27 March 2015. Since 30 March 2015, the date of effective withdrawal of the ADSs on NYSE, the Company ceased to be subject to the rules set out in the NYSE Manual.

<sup>5</sup> Available at: <http://nysemanual.nyse.com/lcm/>.

<sup>6</sup> Available at:

<http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=e891245b9c0e3dea7691375ca8882ab6&rqn=div8&view=text&node=17:3.0.1.1.1.1.67.107&idno=17>.

<b>Rule 10A-3</b>	<b>Standards applicable to the audit committee</b>
	<p>(a) Accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, unless otherwise provided in the exceptional situations foreseen in this Rule; or</p> <p>(b) Be an affiliated person, as defined in this Rule, of the issuer or any subsidiary thereof.</p>
Paragraphs (b)(2) and(3)	<p>The audit committee is directly responsible for:</p> <p>(a) The appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer, and each such registered public accounting firm must report directly to the audit committee;</p> <p>(b) Establishing procedures for the (i) receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and (ii) confidential and anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.</p>
Paragraphs (b)(4) and (5)	Autonomy in the engagement of advisors and the provision of funding to the audit committee.



## APPENDIX III

### **Statement of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2014 financial year**

Whereas:

1. Under Law no. 28/2009 of 19 June 2009 (“Law on Remunerations”), the management body or the remuneration committee, when there is one, of companies with securities admitted to trading on a regulated market (“Listed Companies”) shall annually submit a statement on the remuneration policy of the members of the management and supervisory bodies to the approval of the General Meeting;
2. In its turn, CMVM Recommendation no. II.3.3 of the Corporate Governance Code approved by the Portuguese Securities Market Commission in 2013 (“CMVM Recommendations”) and Recommendation V.2.2 set out in the Corporate Governance Code approved by the *Instituto Português de Corporate Governance* in 2014 (“IPCG Recommendations”) recommend the submission of a statement on the remuneration policy of the management and supervisory bodies to the Annual General Meeting of Shareholders for its consideration, together with a set of additional elements;
3. As a structure aiming to provide technical support to the Compensation Committee, the Evaluation Committee of the Board of Directors of PT SGPS is responsible for providing and presenting its opinion to the Compensation Committee on the annual statement on the remuneration policy;
4. The current statement was prepared by the Compensation Committee elected at the General Meeting of shareholders held on 27 April 2012 and describes the remuneration policy of the members of PT SGPS corporate bodies applicable to the 2012-2014 term of office.

Pursuant to the Law on Remunerations, to CMVM Recommendation no. II.3.3 and to IPCG Recommendation V.2.2, the Compensation Committee of PT SGPS hereby submits to the approval of the Annual General Meeting of Shareholders the following statement on the remuneration policy of the management and supervisory bodies applicable to the 2012-2014 term of office, which includes the following models drawn up and implemented in line with the best national and international practices:

#### **I. Remuneration policy of 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. Such compensation is aligned with the average compensation earned by non-executive directors of PSI-20 companies, according to the benchmarking study prepared by an independent entity and taken into consideration by the Compensation Committee.

This fixed compensation takes into account the fact that some Directors also perform functions in certain internal committees assisting the Board of Directors in its supervisory functions, as well as the performance of own powers not subject to delegation. In particular, the members who are part of one or more than one internal committee receive a supplement as compared to the remuneration of a non-executive Member of the Board of Directors.

Similarly, 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 and Exchange Commission and of the NYSE.

During 2014, and according to the remuneration policy approved for the current term of office, the fixed remunerations to be paid to non-executive Directors will correspond to the remuneration amount defined for 2013 as specified, on an aggregate and individual basis, in Chapter IV of PT SGPS Annual Governance Report for 2013.

In the period of the current term of office, during which the functions of the Chief Executive Officer were not performed by the Chairman of the Board of Directors of PT SGPS, the latter’s remuneration corresponded to an annual fixed amount indexed to the annual fixed remuneration of the Chief Executive Officer and did not include a variable component. This fact did not preclude, however, the capacity recognised to the Evaluation Committee of the Board of Directors to propose to the Compensation Committee the granting of a special 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 (notably as regards his by-law powers), without being subject, however, to the performance of the Company. As a result of the aggregation of executive duties, the Chairman of the Board of Directors and Chief Executive Officer now benefits from the remuneration policy in force for executive Directors.

In this way, in line with CMVM Recommendation no. III.2, 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 management body nor for the members of the supervisory body. This is intended to cause that none of the non-executive Directors have any portion of their remuneration subject to compliance with pre-determined goals, in order to avoid affecting their independence vis-à-vis the executive management.

## **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 referential examples from comparable companies in the sector in Europe. The amounts earned by the members of the Executive Committee under this policy remunerate their function performance in PT SGPS and in its 100% held subsidiaries during each financial year.

The remuneration of executive Directors is composed of a fixed portion and a variable portion as described hereinafter.

**a. Fixed remuneration:**

The value of the fixed remuneration of executive Directors for the 2012-2014 term of office was determined taking into account a benchmarking study prepared in 2012 extended to listed companies in the main financial centres. Such study considered companies integrating the PSI-20 and also companies integrating the IBEX 35; CAC40 and DJ Eurostoxx 50, apart from European companies comparable to PT SGPS.

During 2014, and according to the remuneration policy approved for the current term of office, the fixed remunerations to be paid to non-executive Directors will correspond to the remuneration amount defined for 2013 as specified, on an aggregate and individual basis, in Chapter IV of PT SGPS Annual Governance Report for 2013.

**b. Variable remuneration:**

In determining the variable component of executive members of the Board of Directors for the 2012-2014 term of office it was further taken into consideration that, during the 2011 financial year, the remuneration policy in force up to that time had been changed in order to include the modifications that had occurred at law and regulation and recommendation levels, and it was decided that such changes needed to remain.

Within the context of such changes, it was decided that the variable remuneration model (the components of which were referred to, as from 2011, as annual variable remuneration and medium-term variable remuneration) should be simplified by establishing, starting from 2012, a single variable remuneration allocated each year while maintaining the verification of the Company's sustainability levels implied in the option to defer the payment of 50% of the variable remuneration for a three-year period, subject to a positive performance by the Company under pre-defined conditions. In this way, a link was kept between the variable remuneration and the pursuance of medium- and long-term goals of the Company in accordance with the best practices at national and international levels.

The variable remuneration of executive Directors is dependent on the pursuing of the pre-determined goals, and it may amount up to 160% of the fixed remuneration (50% of which is to be deferred for a three-year period as described hereinafter) in the event of a 100% pre-determined goal achievement, in line with the values established under the remuneration policy of the previous term of office.

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 Recommendations III. to III.4 and IPCG Recommendations V.3.1 and V.3.2:

- › Pursuing and achieving goals through the quality, work capacity, dedication and business know-how;
- › A 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 professionalised management approach based upon the definition and control of the pursuance of ambitious (although achievable) and measurable goals on a short- and medium-long-term 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 a high standard in the Company's 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 is being implemented.

Currently, there is neither share allotment nor stock option plans in force in the Company.

The assessment of the performance of the Group's executive Directors was indexed to the achievement of goals at Group level.

The variable remuneration to be allocated for the performance of the year is determined by a percentage of the annual fixed remuneration calculated on the basis of a weighted average of the level of achievement of a set of indicators connected to the performance and sustainability of the Company, provided that at least 85% of the goals established for each such indicator must be achieved.

The performance evaluation is made taking into account the evolution of the following indicators:

- › The total shareholder return (TSR), considered as such the return generated by the PT share, including not only the trading price variation but also any payments made (dividend);
- › The global earnings of the PT Group;
- › The overall EBITDA – CAPEX of the PT Group;
- › PT's sustainability index (using the Dow Jones Sustainability Index methodology); and
- › The achievement of the strategic goals at national and international levels.

In each year of the current term of office, only 50% of the variable remuneration determined in the relevant year will be paid in cash by the Company, and the payment of the remaining 50% will be deferred for a three-year period. The payment of such variable remuneration to each member of the Executive Committee will be subject to the condition of the Company's positive performance – deemed as such by the Evaluation Committee – during the deferment period not being confirmedly affected as a direct result of the conduct of the Director concerned. In verifying the Company's positive performance during the relevant period, the Evaluation Committee shall take into account any indicators as eventually defined, the financial sustainability, the economic context of the Company, as well as of the sector where it is inserted, apart from exceptional factors out of the management's control that might affect the performance of the Company.

The Company's performance indicators to be considered for these purposes are as follows:

- › Cash flow generation along the period in question as measured by the EBIDTA-Capex metrical scanning must be positive;
- › The net worth for the  $n+3$  financial year, any extraordinary movements occurred after the end of the  $n$  financial year excluded, upon deduction, for each financial year, of a sum corresponding to a 40% pay-out over the net profit stricken in the consolidated accounts for each financial year of the deferment period (regardless of the actual pay-out) must exceed the net worth stricken at the end of the  $n$  financial year.

The following, *inter alia*, are deemed extraordinary movements in the period between the  $n$  financial year and  $n+3$  financial year: any proceeds from a share capital increase, purchase or sale of own shares, extraordinary allocation of dividend or any other form of shareholder remuneration, annual pay-out other than 40% of the consolidated result for

the relevant year or other movements that while affecting the net worth do not result from Company operational results (including actuarial profits and losses and capital conversion adjustments).

The net worth for the  $n+3$  financial year should be stricken on the basis of the accounting rules followed for the  $n$  financial year in order to ensure comparability.

In the event the executive Director terminates his office, for any reason whatsoever, the payment of the variable remuneration amounts determined and deferred will be made at the time of termination of the management relationship, provided that the Company's positive performance – deemed as such by the Evaluation Committee under the terms above mentioned – up to such time is not confirmedly affected as a direct result of the conduct of the Director concerned.

After the determination the variable remuneration according to such methodology, the Compensation Committee may increase or reduce in no more than 10% the variable remuneration of the CEO and the members of the Executive Committee, upon proposal by the Chairman of the Board of Directors and of the Evaluation Committee, respectively.

In any case, and even if the level of pursuance of pre-determined goals exceeds 100%, the maximum potential amount of the variable remuneration will not exceed in over 12.5% the variable remuneration corresponding to 100% goal pursuance added by the said grossing up.

#### **c. Alignment of Directors' interests with Company's interests**

As results from all the above, the variable remuneration of PT SGPS' executive Directors is subject to their performance, as well as to the sustainability and ability to achieve certain strategic goals of the Group.

The current remuneration policy further allows, as confirmed on the above mentioned benchmarking study, for a reasonable overall balance between the fixed and variable components and the deferment of a significant portion of the variable remuneration, as its payment is subject to not affecting the Company's positive performance throughout that period as described above.

Thus being envisaged to contribute to: *(i)* optimise the long-term performance and discourage excessive risk undertaking; *(ii)* pursue the Group's strategic goals and compliance with the rules applicable to its business; and *(iii)* align management interests with the Company's and its shareholders' interests.

Also for the purpose of strengthening the component of the performance evaluation of the Directors, unless otherwise agreed or resolved by the Compensation Committee, the Company and its Directors should act in accordance with the following principles:

- 1) The Directors shall not enter into agreements either with the Company or with any third party that might result in mitigating the risk inherent to the variability of their remuneration as fixed by the Company;
- 2) An unsuitable performance may affect the level of compliance with the above mentioned goals, and consequently the variable remuneration in terms of individual and joint evaluation;

- 3) In the event of removal or agreed termination of the management relationship, no compensation will be paid to the Directors if the same is confirmedly due to their unsuitable performance.

**d. Payments related to removal or agreed termination of director functions**

The Company has no defined general policy on payments related to removal or agreed termination of director functions. However, on a case-by-case basis, taking into account the circumstances of each termination, the Company has fixed the compensation amounts due to the directors leaving their office as per information disclosed on the Corporate Governance Report.

**III. Remuneration policy of the Chartered Accountant:**

The Company's Chartered Accountant is remunerated in accordance with the usual remuneration practices and conditions for similar services, further to its service agreement and upon proposal by the Company's Audit Committee. During 2014, the Chartered Accountant earned a remuneration in line with the amount detailed in Chapter V of PT SGPS Annual Governance Report for 2013.

The Compensation Committee of PT SGPS

## APPENDIX IV

### Code of Ethics

PT SGPS' Code of Ethics, as revised in 2015, applies to all employees of the Company in order to guarantee a set of common ethical standards. Its update and implementation are permanently monitored by the Corporate Governance Committee.

The goals, values and rules listed in the Code of Ethics incorporate PT SGPS' culture, which should preside over the professional conduct of all employees of the Company, and imposes its disclosure with investors, suppliers, regulatory authorities and competitors.

The frameworking values for the principles and conduct rules in the PT SGPS' Code of Ethics, as best described therein, consist notably in the following:

- > Protecting all shareholder rights and interests, and safeguarding and increasing the worth of the assets of PT SGPS;
- > Observing the duties of loyalty and confidentiality, and ensuring the principle of accountability by all PT SGPS employees;
- > Good governance of PT SGPS;
- > Scrupulously complying with all laws and regulations applicable to the PT SGPS businesses;
- > Settling any conflicts of interest, and submission of the PT SGPS employees to all pertinent limits as to economic transactions;
- > Institutionally and individually observing high integrity, loyalty and honesty standards, both in relations with investors and regulatory authorities, and in inter-personal relations between PT SGPS employees;
- > Good faith in any negotiation, observing the social and environmental responsibility commitments, and scrupulously complying with contractual obligations *vis-à-vis* all suppliers;
- > Observing vigorous, loyal competition practices;
- > Acknowledging the principles of equal opportunities, individual merit and need for respecting and appreciating human dignity in professional relations;
- > Fairness and equal treatment, ensuring non-discrimination by reason of race, gender, age, sexual orientation, faith, marital status, physical deficiency, political orientation or opinions of whatever nature, ethnical or social or birth origin;
- > Guaranteeing safety and well-being at work;
- > Social and environmental responsibility with the communities where the PT Group's corporate businesses are carried out.

The full text of the PT SGPS Code of Ethics is available for consultation on the Company's official website ([www.ptsgps.pt](http://www.ptsgps.pt)) and may also be made available through the Investor Relations Office.

### Code of Ethics for Senior Financial Officers

PT SGPS' Board of Directors has approved the "Code of Ethics for Senior Financial Officers", reinforcing the importance of the specific ethical rules applicable to all PT SGPS employees that are directly or indirectly involved in the preparation, analysis and disclosure of financial statements, press releases or any other information to be disclosed to the markets in

connection with PT SGPS. This Code was revised in 2015, particularly as regards its scope of subjective application.

The Code of Ethics for Senior Financial Officers reinforces the principles of honesty and answerability and regulates aspects such as the reporting of conflicts of interest, competence and professionalism, professional secrecy, compliance with the rules applicable to PT SGPS and the responsibility for disclosure of information. Its scope has been disclosed to all relevant employees through the annual signature of a compliance statement.

This Code is also available on the Company's website.

### **Procedures implemented by PT SGPS for compliance with the rules applicable to Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings**

In order to fulfil the legal and regulatory requirements applicable to the Company concerning Officer Transactions, Transactions with Related Parties and Transactions with Owners of Qualified Holdings, PT SGPS has adopted a set of procedures aiming at fully complying with such rules.

#### ***a) Officer Transactions***

In 2006, PT SGPS' officer transactions were regulated through a Regulation on PT SGPS' Officer Transactions, which replaced the former Regulation on Transactions for the account of Senior Managers.

This Regulation was issued in line with the amendment implemented by Decree-Law no. 52/2006 of 15 March 2006 to the Portuguese Securities Code, notably aiming at extending the objective and subjective scope of the matters and definitions specified under the applicable legal and regulatory rules in order to complete the system of rules on corporate governance and good conduct practices that were already implemented by PT SGPS in order to strengthen market abuse prevention.

However, in 2008, the Company thought it should revise such document to adjust its rules to the new conditions and to expedite the insertion of data in the database implemented by the Securities Market Commission for this purpose. In particular, it was taken into account that since the approval of such Regulation several facts occurred having an effect on the PT Group's structure, specially the spin-off of its subsidiary PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA (currently, ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA).

In this way, such amendment implements the means for compliance with the legal obligations of communication, by the PT Group officers, of the transactions carried out with their participation.

Corporate officers' transactions are disclosed on the CMVM Information Disclosure System as provided for under the applicable laws and regulations.

Following the appointment of new members of PT SGPS' corporate bodies for the 2015-2017 three-year term of office that is to take place at the Annual General Meeting of Shareholders to be held in 2015, and in the context of the intended revision of the corporate governance structures currently in force, the rules on PT SGPS' officer transactions should be revised in order to accommodate the same to the specificities of the Company.



## **b) Related Party Transactions**

The Company has in force, since 2006, a Regulation on Transactions with Related Parties aimed at implementing a set of procedures towards ensuring a correct identification and disclosure of transactions with related parties, as well as defining the relevant concepts of “transaction” and “related parties”.

This Regulation pursues a double purpose: (i) permitting PT SGPS’ financial statements to evidence, if and where applicable, the possibility that the Company’s financial position and results are affected by the existence of related parties and by transactions and pending balances for the same; and (ii) safeguarding PT SGPS’ interest in potential conflict of interest situations *vis-à-vis* the interests of persons or entities understood as having the possibility of influencing, either directly or indirectly, its management.

Such rules provide for internal control procedures and mechanisms that ensure the proper identification and disclosure of transactions with related parties, involving a preliminary stage of definition, identification and transparency in the transaction decision-making process, to culminate in the disclosure of relevant transactions according to the Portuguese Securities Code rules and with the Portuguese Securities Commission (CMVM) and SEC regulations.

In December 2009 and December 2010, the Regulation on transactions with related parties was subject to modifications essentially aimed at adjusting it to the amendment made to IAS 24 and to the Corporate Governance Code issued by CMVM, as well as at adopting the best market practices on this matter. This Regulation was revised again in 2015.

Within this framework, the most significant modification consisted in providing for rules for a prior assessment by the supervisory body of the execution of certain related party transactions (as redefined exclusively by reference to the concept in IAS 24) where some material requirements as described on the Regulation are met.

In addition, the execution by PT SGPS of any transaction (or the renewal thereof) with related parties the aggregate amount of which per party is in excess of 100,000 Euros per quarter is subject to a prior favourable opinion by the supervisory body.

Furthermore, quantitative limits to the situations exempted from the control mechanisms were inserted, so to reduce the scope of those exceptions.

Transactions with directors either of PT SGPS or its subsidiaries, irrespectively of the amount involved, are also subject to the prior approval by the relevant Board of Directors, upon favourable opinion by their respective corporate supervisory body, as provided for under article 397 of the Portuguese Companies Code.

Currently, the following situations are excluded from the rules applicable to related party transactions:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of Portugal Telecom and its subsidiaries, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and

obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;

- c) Made between companies in a control or group relationship with PT SGPS or between these and PT SGPS;
- d) In which the consideration is based on official price quotations (eg., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- e) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- f) The payment by the PT Group of the remuneration of the Key Corporate Members and Employees (as defined in the Service Order) for the performance of their duties;
- g) Operations available to all employees or shareholders of the PT Group in equivalent conditions;
- h) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- i) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PT Group.

Transactions with related parties are identified as established by law and are disclosed in the annual, interim and quarterly financial information.

### ***c) Transactions with Owners of Qualified Holdings***

Following the revision, in 2015, of the internal rules on related party transactions – within which the concept of “Related Parties” was redefined by reference to IAS 24, which does not comprise the owners of qualified holdings in the share capital of a company – PT SGPS understood it was necessary to separate the procedures applicable to related party transactions from those applicable to transactions with owners of qualified holdings.

As such, the procedures for contracting and disclosing transactions with owners of qualified holdings in PT SGPS’ share capital or entities related to them under article 20 of the Portuguese Securities Code were also approved in 2015, as a separate document. Therefore, the execution or renewal of these kind of transactions, with an aggregated amount per entity above 100,000 Euros per quarter, can only be approved after PT SGPS’ supervisory body has issued a prior favourable opinion.

Moreover, the execution or renewal of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 1,000,000 Euros per year, are subject to approval by the Board of Directors, after the supervisory body has issued its prior favourable opinion.

Currently, the following situations are excluded from the rules applicable to transactions with owners of qualified holdings:

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- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
  - b) Banking operations of Portugal Telecom, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
  - c) In which the consideration is based on official price quotations (eg., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
  - d) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
  - e) Operations available to all employees or shareholders of the PT Group in equivalent conditions;
  - f) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
  - g) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PT Group.