



PORTUGAL TELECOM

CORPORATE GOVERNANCE REPORT 2012

PORTUGAL TELECOM, SGPS, S.A.

Public Company

Share Capital: Euro 26,895,375

Registered in the Lisbon Commercial Registry
and Corporate no 503 215 058

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The terms "PT", "Portugal Telecom Group", "PT Group", and "Company" refer to Portugal Telecom and its subsidiaries or any of them as the context.

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 January 2010, 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. 1/2010.

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CORPORATE GOVERNANCE RULES

00 CORPORATE GOVERNANCE RULES

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CORPORATE
GOVERNANCE
RULES

Corporate Governance rules applicable to Portugal Telecom

Portugal Telecom, SGPS S.A. ("Portugal Telecom", "PT" or "Company") complies with a significant number of CMVM Recommendations on the governance of listed companies published in January 2010 ("CMVM Recommendations")⁽¹⁾ – which assessment is set out on this Report –, and which are reflected on its Anglo-Saxon-type corporate governance model as provided for under article 278,1(b) of the Portuguese Companies Code. This model's integrity, transparency and strictness have been reinforced as well by the Company's compliance with the binding rules and best practices applicable to foreign private issuers with securities admitted to trading on the New York Stock Exchange ("NYSE").

In fact, as an issuer of securities admitted to trading on NYSE qualifying as a foreign private issuer, PT is subject to the mandatory rules set forth, notably, in Rule 10A-3 on Listing Standards Relating to Audit Committees issued by the Securities and Exchange Commission ("SEC") for regulation purposes under Section 10A(m) of the Securities Exchange Act, as amended by the Sarbanes-Oxley Act, and the Final Rules approved by NYSE on corporate governance (Section 303A Corporate Governance Standards), all as described in Appendix I hereto.

PT 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 has approved several internal conduct and transparency rules, namely the Group's Code of Ethics, the Code of Ethics for Senior Financial Officers, the rules on Management Transactions and the rules on Transactions with Related Parties, as well as a Sustainable Development and Social Responsibility Policy. A short description of all these rules is attached hereto as Appendix II.

PT further adopts rules and structures for internal control, risk management and whistleblowing.

⁽¹⁾ Available on www.cmvm.pt
<http://www.cmvm.pt/EN/Recomendacao/Recomendacoes/Documents/2010consol.Corporate%20Governance%20Recommendations.2010.bbmm.pdf>

Statement of Compliance with CMVM Recommendations

All along 2012, Portugal Telecom has continued its consolidation task as to the Company's governance principles and practices, in line with the main regulatory developments that occurred in 2010, particularly the modifications to the Portuguese Companies Code and the Portuguese Securities Code aimed at transposing the so-called Shareholders' Directive, as well as the entry into force of CMVM Regulation no. 1/2010 and the CMVM Recommendations on Listed Companies Governance in its version published in January 2010.

Within this framework, 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 all rules of a binding content on the creation of an Audit Committee pursuant to the Sarbanes-Oxley Act, Rule 10A-3 of SEC and Section 303A on Corporate Governance Standards of NYSE; and
- Have progressively been taking in the recommendations and best practices in this field that may contribute to reinforce its governance model and practices.

The Company adopts the CMVM Recommendations on Listed Companies Governance as published in January 2010, except for Recommendations I.3.3, I.6.1, II.1.2.2, II.1.3.1 and II.1.5.3, which are not complied with for the reasons identified hereunder.

The high level of compliance with the best governance practices by Portugal Telecom was recognised by an independent study developed, in 2012, by the *Universidade Católica Portuguesa* (Portuguese Catholic University), at the request of *AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado* (Portuguese Listed Companies Association), within which the Company was given the maximum rating (AAA), based on the Company's 2011 governance report and compliance with the abovementioned CMVM Recommendations.

It should also be stressed that, within the scope of the Annual Report on the Governance of Listed Companies in Portugal for 2011, which was disclosed by CMVM in 2012, CMVM considered that overall the Company complied with 98% of CMVM Recommendations.

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

CORPORATE GOVERNANCE RULES

CMVM Recommendation

	Compliance	Report
I. GENERAL MEETING OF SHAREHOLDERS		
I.1 Board of the General Meeting of Shareholders		
I.1.1 The chairman of the board of the general meeting of shareholders shall have human and logistic support resources as appropriate for his needs, taking into account the company's economic position.	Yes	Chapter I.
I.1.2 The remuneration of the chairman of the board of the general meeting of shareholders shall be disclosed on the Corporate Governance annual report.	Yes	Chapter I.3
I.2 Participation in the General Meeting of Shareholders		
I.2.1 Any imposition of an advance period for the receipt by the board of the declarations of deposit or share blocking for participation in the General Meeting of Shareholders shall not exceed 5 business days.	Not Applicable	Chapter I.4
I.2.2 In the event of adjournment of the general meeting of shareholders, the company shall not impose such blocking for the whole period until the session is resumed; the usual advance required for the first session shall be sufficient.	Not Applicable	Chapter I.5
I.3 Voting and exercise of the right to vote		
I.3.1 Companies shall not provide for any bylaw restriction on voting by correspondence and, where adopted and admissible, on electronic vote by correspondence.	Yes	Chapters I.9 & I.10
I.3.2 The bylaw advance period for the receipt of voting declarations issued by correspondence shall not exceed three business days.	Yes	Chapter I.11
I.3.3 Companies shall ensure proportionality between voting rights and shareholding, preferably through a bylaw provision making one vote correspond to each share. Proportionality shall not be complied with, inter alia, by companies: (i) having shares that do not grant voting rights; (ii) establishing that voting rights in excess of a given number shall not be counted if issued by a single shareholder or by shareholder related to such shareholder.	No (1)	
I.4 Quorum and resolutions		
I.4.1 Companies shall not establish resolution quorum in excess of the provisions of the law.	Yes	Chapter I.8
I.5 Minutes and disclosure of resolutions passed		
I.5.1 Extracts from the minutes of general shareholder meetings or documents of a similar content shall be made available to shareholders on the company's website within five days from the day on which the general shareholder meeting is held, even though not inside information. Information disclosed shall cover resolutions passed, capital represented and voting results. Such information should be kept on this website during three years at least.	Yes	Chapters I.13 & I.14
I.6 Measures regarding the control of the company		
I.6.1 Measures adopted to prevent the success of takeover bids shall respect the interests of the company and of its shareholders. Corporate bylaws that provide, in observance of this principle, for a limitation to the number of votes that may be held or exercised by a single shareholder, individually or in agreement with other shareholders, shall also establish that, at least every five years, an amendment to or the maintenance of such bylaw provision shall be subject to a resolution at the general shareholder meeting – with no requirements for an aggravated quorum as compared to the legal one – and that upon such resolution all votes cast shall be counted without the operation of such limitation.	No (2)	
I.6.2 Defensive measures the effect of which is to automatically cause serious erosion in the company's assets in the case of change of control or of change in the composition of the management body, thus hindering the shares' free transferability and shareholders' free evaluation of the performance of members of the management body, shall not be adopted.	Yes	Chapter I.20

CMVM Recommendation

	Compliance	Report
II. MANAGEMENT AND SUPERVISORY BODIES		
II.1 General		
II.1.1 Structure and duties		
II.1.1.1 The management body shall assess on its annual report on Corporate Governance the adopted model, by identifying any constraints on its operation and proposing action measures as are, in its opinion, creditworthy to overcome such constraints.	Yes	Introduction, Corporate Governance
II.1.1.2 Companies shall create internal control and risk management systems, to safeguard their value and to the benefit of transparency in their corporate governance allowing for risk identification and management. Such systems shall incorporate, at least, the following components: (i) establishment of strategic corporate targets in the matter of risk assumption; (ii) identification of the main risks connected to the business actually carried out and to events susceptible of originating risks; (iii) review and measurement of the impact and probability of occurrence of each potential risk; (iv) risk management aimed at aligning risks actually incurred with the corporate strategic option as to risk assumption; (v) control mechanisms for the implementation and efficiency of risk management measures adopted; (vi) adoption of internal information and communication mechanisms on the various components of the system and for risk alerting; (vii) periodic assessment of the adopted system and implementation of modifications as necessary.	Yes	Chapter II.5
II.1.1.3 The management body shall ensure the creation and operation of internal control and risk management systems. It shall be the supervisory body's responsibility to evaluate the operation of such systems and propose their adjustment to the company's needs.	Yes	Chapters II.5 & II.6
II.1.1.4 On their annual report on Corporate Governance, companies shall: (i) identify the main economic, financial and legal risks to which the company may be exposed in carrying out their business; (ii) describe the operation and efficiency of the risk management system.	Yes	Chapters II.5 & II.9
II.1.1.5 Management and supervisory bodies shall be provided with internal regulations and shall have them disclosed on the company's website.	Yes	Chapter II.7
II.1.2 Incompatibilities and independence		
II.1.2.1 The board of directors shall include a sufficient number of non executive directors whose role is to ensure an actual ability to audit, supervise and assess the activity of its executive members.	Yes	Chapter II.1, Board of Directors
II.1.2.2 The non executive members of the management body shall include a number of independent members as appropriate, taking into account the size of the company and its shareholder structure, which shall in no case be less than a quarter of the total number of directors.	No (3)	Chapter II.14, Board of Directors
II.1.2.3 The assessment of Non-Executive member independence by the management body shall take into account all laws and regulations in force on independence requirements and incompatibility rule system applicable to members of the other corporate bodies, and ensure a systematic and time consistency in the application of independence criteria throughout the company. No director shall be deemed independent if such director could not assume such capacity in another corporate body by virtue of the applicable rules.	Yes	Chapter II.14, Board of Directors
II.1.3 Eligibility and appointment		
II.1.3.1 According to the applicable model, the chairman of the audit committee or of the committee for financial matters shall be independent and be qualified as appropriate for his duties.	No (4)	Chapter II.14 Audit Committee
II.1.3.2 The selection procedure for Non-Executive board member candidates shall be designed in such a way as to prevent interference by executive members.	Yes	Chapter II.16
II.1.4 Policy on the report of irregularities		
II.1.4.1 The company shall adopt a policy on the report of irregularities allegedly occurred within it, with the following data: (i) indication of the means that can be used for internal reporting of irregular practices, including the persons with legitimacy to receive such communications; (ii) indication of the treatment to be given to any such communications, including confidential treatment where the communicator so wishes.	Yes	Chapter II.35

CORPORATE GOVERNANCE RULES

CMVM Recommendation

	Compliance	Report
II.1.4.2 Such policy's general guidelines shall be disclosed in the company's Corporate Governance report.	Yes	Chapter II.35
II.1.5 Remuneration		
II.1.5.1 The remuneration of the members of the management body shall be structured in such a way as to allow the alignment of their interests with the company's long-term interests, be based on performance evaluation and disincentive excessive risk undertaking. For such purpose, remunerations shall be structured, notably, as follows:	Yes	Chapters II.31, II.32, II.33 & II.34
(i) The remuneration of directors exercising executive duties shall incorporate a variable component, which determination shall depend on a performance evaluation carried out by the competent bodies of the company, according to pre-determined measurable criteria, taking into account the real growth of the company and the value actually created to its shareholders, its long-term sustainability and the risks undertaken, as well as compliance with the rules applicable to the company's business.	Yes	
(ii) The variable component shall be reasonable overall as compared to the fixed remuneration component, and maximum limits should be fixed for all components.	Yes	
(iii) A significant portion of the variable remuneration shall be deferred for a period of no less than three years, and its payment shall be dependent on a continued positive performance by the company all along such period.	Yes	
(iv) The members of the management body shall not enter into contracts, either with the company or with any third party, that might result in mitigating the risk inherent to remuneration variability as established by the company.	Yes	
(v) Executive directors shall keep, up to the end of their term of office, all company shares to which they may have acceded by virtue of variable remuneration schemes, up to a limit of twice the amount of their total annual remuneration, save for such shares as are required to be disposed of in order to pay taxes arising from the benefit of those same shares.	Not applicable	
(vi) Where the variable remuneration comprises the allotment of options, the beginning of the period of exercise shall be deferred for no less than three years.	Not applicable	
(vii) Legal instruments as appropriate shall be established for compensation as established for any form of removal without just cause of a director not to be paid if such removal or termination by mutual agreement is due to inappropriate performance by such director.	Yes	
(viii) Remuneration of Non-Executive members of the management body shall include no component the value of which depends on performance or the value of the company.	Yes	
II.1.5.2 The statement on the remuneration policy for the management and supervisory bodies as referred to in article 2 of Law no. 28/2009 of 19 June 2009 shall, in addition to the content as mentioned thereunder, contain sufficient information: (i) on the groups of companies the remuneration policy and practices of which were taken as a comparison constituent for fixing the remuneration; (ii) on payments related to removal or termination by mutual agreement of director jobs.	Yes	Chapters II.29 & II.30
II.1.5.3 The statement on remuneration policy as referred to in article 2 of Law no. 28/2009 shall further cover officers in the meaning of article 248B,3 of the Securities Code whose remuneration contains an important variable component. The statement shall be detailed and the policy presented shall take into account, inter alia, the long-term performance of the company, compliance with the rules applicable to the company's business and restraint in risk taking.	No (5)	Chapter II.29
II.1.5.4 "A proposal shall be submitted to the general shareholder meeting on the approval of plans for the allotment of shares and/or share call options or based on share price variations to members of the management, supervisory bodies and other officers in the meaning of article 248B,3 of the Securities Code. (...)"	Not applicable	Chapters II.31 & II.33
II.1.5.6 At least one representative of the Compensation Committee shall be present at the general shareholder meetings.	Yes	Chapter I.15.
II.1.5.7 The annual report on Corporate Governance shall disclose the amount of the remuneration received, in aggregate and individual form, in other companies of the group and the pension rights acquired during the financial year concerned.	This recommendation is no longer in force	

CORPORATE GOVERNANCE RULES

CMVM Recommendation

	Compliance	Report
II.2 Board of Directors		
II.2.1 Within the limits established by law for each management and supervisory structure, and other than by reason of the reduced size of the company, the board of directors shall delegate the management in the normal course of the company, and any delegated responsibilities shall be identified on the annual report on Corporate Governance.	Yes	Chapter II.3, A., Executive Committee
II.2.2 The board of directors shall ensure that any company action is consistent with its goals, and shall not delegate its responsibility, notably, as regards: (i) the definition of the company's strategy and general policies; (ii) the definition of the corporate structure of the group; (iii) any decisions as should be considered strategic decisions due to their amount, risk or special characteristics.	Yes	Chapter II.3, A., Executive Committee
II.2.3 "In case the chairman of the board of directors carries out executive duties, the Board of Directors shall (...)"	Not applicable	Chapter II.1, Board of Directors & Chapter II.8
II.2.4 The annual management report shall include a description of the activity carried out by Non-Executive directors, and mention, inter alia, any constraints faced.	Yes	Chapter II.17
II.2.5 The company shall clearly and fully express its policy on function rotation within the Board of Directors, notably of the member responsible for the financial function, and provide information thereon in the annual report on Corporate Governance.	Yes	Chapter II.11
II.3 Executive Committee		
II.3.1 Directors exercising executive duties, where requested by other corporate body members, shall provide, in a timely manner and as appropriate for any such request, any information as so requested.	Yes	Chapter II.3, A., Disclosure obligations of the Executive Committee
II.3.2 The chief executive officer shall send all notices and minutes of such committee's meetings respectively to the chairman of the board of directors and to the chairman of the supervisory board or of the audit committee, as the case may be.	Yes	Chapter II.13
II.3.3 "The chairman of the executive board of directors shall send to the chairman of the general and supervisory board (...)"	Not applicable	
II.4 Audit Committee		
II.4.1 "The general and supervisory board (...)"	Not applicable	
II.4.2 Annual reports on the business carried out by the general and supervisory board, the committee for financial matters, the audit committee and the supervisory board shall be subject to disclosure on the company's website, together with the financial statements.	Yes	Chapter II.4
II.4.3 Annual reports on the business carried out by the general and supervisory board, the committee for financial matters, the audit committee and the supervisory board shall include a description of their supervisory activity, and mention, inter alia, any constraints faced.	Yes	Report available on PT's website, Chapter II.4
II.4.4 The general and supervisory board, the audit committee and the supervisory board, according to the applicable model, shall represent the company, for all intents and purposes, vis-à-vis the external auditor, it being its responsibility, inter alia, to propose the provider of such services and such provider's remuneration, to take charge of ensuring, within the company, conditions as appropriate for such service provision, as well as being the company's interlocutor and primary addressee of the relevant reports.	Yes	Chapters II.3, B., Audit Committee & III.17
II.4.5 The general and supervisory board, the audit committee and the supervisory board, according to the applicable model, shall evaluate the external auditor each year and propose the removal of the same to the general shareholder meeting where cause therefor occurs.	Yes	Chapter II.24 & III.17
II.4.6 Internal audit services and services ensuring compliance with the rules applicable to the company (compliance services) shall report functionally to the audit committee, to the general and supervisory board or, in case of companies adopting the Latin model, to an independent director or to the supervisory board, regardless of their hierarchical relationship with the executive management of the company.	Yes	Chapters II.5 & II.6

CORPORATE GOVERNANCE RULES

CMVM Recommendation

	Compliance	Report
II.5 Specialised committees		
II.5.1 Other than by reason of the reduced size of the company, the board of directors and the general and supervisory board, according to the adopted model, shall create any committees as required to: (i) ensure a competent and independent performance evaluation of the executive directors and of their own overall performance evaluation, as well as of the various existing committees; (ii) ponder on the adopted governance system, check its efficiency and propose to the competent bodies any action as required to improve it; (iii) identify, in due time, potential candidates having the high profile required for the performance of director duties.	Yes	Chapter II.2, Evaluation Committee and Corporate Governance Committee
II.5.2 The members of the compensation or similar committee shall be independent from the members of the management body and include at least one member with knowledge and experience on remuneration policy matters.	Yes	Section IV, Independence of Members of the Compensation Committee & Chapter II.38
II.5.3 No individual or corporation providing or having provided, in the last three years, services to any structure depending on the Board of Directors or to the company's Board of Directors itself or currently having a current relationship with a consultant to the company shall be engaged to support the Compensation Committee in its duties. This recommendation shall be also applicable to any individual or corporation related by employment contract or service agreement to such persons.	Yes	Chapter II.39
II.5.4 All committees shall draw up minutes of the meetings held.	Yes	Chapter II.37
III. INFORMATION AND AUDIT		
III.1 General disclosure obligations		
III.1.1 Companies shall ensure the existence of a permanent contact with the market, in observance of the principle of equality of all shareholders and preventing any asymmetries in the access to information by investors. For such purpose, the company shall keep an investor support office.	Yes	Chapter III.16
III.1.2 The following information, to be available on the company's website, shall be disclosed in English: <ul style="list-style-type: none"> a) The name of the company, that it is a public company, its registered office and all other data mentioned under article 171 of the Companies Code; b) The bylaws; c) Identification of all members of the corporate bodies and the representative for market relations; d) Investor Support Office, its duties and means of access; e) Financial statements; f) Six-month agenda of corporate events; g) Proposals submitted to discussion and voting at the general shareholder meeting; h) Notices for general shareholder meetings. 	Yes	Chapter III.16
III.1.3 Companies shall promote a rotation of the auditor, at the expiration of each two or three terms of office, according to such terms of office being of four or three years respectively. Keeping the auditor beyond such period must be grounded on a special opinion of the supervisory body expressly considering the independence conditions of the auditor and the benefits and costs of the auditor's replacement.	Yes	Chapter III.18
III.1.4 The external auditor shall, within the scope of his responsibilities, control the application of remuneration policies and systems, the efficiency and operation of internal control mechanisms and report any deficiencies to the supervisory body of the company.	Yes	Chapter III.17
III.1.5 The company shall not engage either the external auditor or any person in a participation relationship with or incorporated in the same network as the external auditor to provide services other than audit services. Where there are reasons for such services to be engaged – which must be approved by the supervisory body and clearly and fully expressed in its annual report on Corporate Governance – the same shall not be in excess of 30% of the total amount of the services provided to the company.	Yes	Chapter III.17

CMVM Recommendation

	Compliance	Report
IV. CONFLICTS OF INTEREST		
IV.1. Relationships with shareholders		
IV.1.1 Any transactions of the company with shareholders of qualified holdings, or entities in any kind of relationship with the same pursuant to article 20 of the Securities Code, shall be made under normal market conditions.	Yes	Chapters III.12 & III.13
IV.1.2 Significant relevance transactions with shareholders of qualified holdings, or entities in any kind of relationship with the same pursuant to article 20 of the Securities Code, shall be submitted to a prior opinion by the supervisory body. This body shall establish the procedures and criteria as required for defining the level of significant relevance of such transactions and all other conditions for intervention.	Yes	Chapter III.13

(1) CMVM Recommendation no. I.3.3 on the proportionality between voting rights and shareholding

According to this recommendation, companies shall ensure proportionality between voting rights and shareholding, preferably through a bylaw provision making one vote correspond to each share.

Consistently with what PT has defended in the past, PT considers that, since the principle according to which each share corresponds to one vote is not universally accepted and can generate inefficiencies in the organisation and operation of the General Meeting of Shareholders, it is justifiable to keep the bylaw provision for a minimum number of 500 shares to exercise one vote as set out in article 13,5.

In fact, 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.

Also in accordance with CMVM Recommendation no. I.3.3, companies whose bylaws establish that voting rights above a certain number should not be counted if cast by a single shareholder or by shareholders related to such shareholder fail to comply with the said proportionality between voting rights and shareholding.

In this connection, it should be mentioned that PT does not adopt CMVM Recommendation no. I.3.3 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).

Essentially, and as better explained in (2) below, these bylaw limitations represent a measure of expansion of shareholder democracy and contribute to the dissemination of share capital and greater transparency in the governance of the Company.

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.

CORPORATE GOVERNANCE RULES

(2) CMVM Recommendation no. I.6.1 on defensive measures against takeovers and limitations to voting right exercise

In spite of the existence, as a result of the Company's privatisation procedure, of class A shares in PT's share capital, it is PT's understanding that its Bylaws do not contain any defensive clauses contrary to the interests of the Company and its Shareholders, so much so since class A shares no longer grant special rights to the Portuguese State as the holder of such shares by virtue of the bylaw amendments as approved at the General Meeting of Shareholders held on 26 July 2011.

Additionally and as mentioned above, PT'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, PT does not adopt CMVM Recommendation no. I.6.1.

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 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's 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.

In this way, it is PT's understanding that the measures adopted for the purpose of preventing the success of takeover bids respect the interests of the Company and of its Shareholders, and they correspond to their will as expressed at the abovementioned General Meeting of Shareholders of 2 March 2007.

(3) CMVM Recommendation no. II.1.2.2 on the number of independent Non-Executive Directors, which should be no less than a quarter of the total number of Directors

On the annual reports on the governance of listed companies for 2010 and 2011, both disclosed in 2012, CMVM has considered relevant for purposes of appraisal of director independence and as irrebuttable presumptions of lack of independence circumstances as provided for under article 414,5 of the Portuguese Companies Code (applicable by reference from CMVM Recommendation no. II.1.2.3).

CORPORATE GOVERNANCE RULES

According to such presumptions, independence is affected if a director is the owner, or acts in the name or on behalf of the owner, of a qualified holding equal to or in excess of 2% of the share capital and/or has been re-elected for more than two terms of office, whether on a continuous or on an interpolated basis.

A few Non-Executive Directors in the Company meet the abovementioned circumstances, either because they act in the name or on behalf of owners of qualified holdings in PT or of entities in a control or group relationship with such owners, or because they have been re-elected for more than two terms of office, as detailed in Chapters II.1., II.14. and II.15. of this Report.

The Company disagrees with such CMVM position, as it is the Company's understanding that the remaining in office is no reason for automatic loss of independence by the members of the board, and that independence should rather be assessed on a material case-by-case basis, by (i) the Board of Directors as to those directors who do not incorporate the Audit Committee; or (ii) the Audit Committee as to the members of this supervisory body, as detailed in (4) below.

PT considers that re-election to a management office of such directors, as recently resolved by 93.61% of the favourable votes of its Shareholders at the elective General Meeting held on 27 April 2012: (i) does not affect their fairness and impartiality, taking notably into account the successive mutations in the management body and in the Company's diffused shareholder structure along successive terms of office; and (ii) their valuable contribution to an appropriate performance of supervisory duties entrusted to Non-Executive directors, considering, in particular, their experience, commitment and knowledge of the industry and the Company, as well as acknowledging their fairness and impartiality within the corporate bodies and the Company as a whole.

In addition, it is the Company's understanding that the abovementioned Non-Executive Directors are fully independent in the light of the legal framework applicable to management bodies and meet all conditions as required for the performance of their duties and compliance with their obligations to act diligently and in the interest of the Company, also in an independent way, considering in particular: (i) the criteria defined under the Company's internal rules, as detailed in Chapters II.14 and II.15 hereof, which are substantially in line with the general principles underlying the European recommendations and CMVM Recommendations and reflect and permit an independence assessment on a material case-by-case basis; as well as (ii) the criteria as provided for under Section 303A on Corporate Governance Standards of NYSE.

In conclusion, according to the interpretation adopted so far by CMVM as to application of the independence criteria provided for under CMVM Recommendation no. II.1.2.3 in force on the date hereof, the Company does not comply with CMVM Recommendation no. II.1.2.2. Notwithstanding, and in line with the qualitative and substantive assessment carried out by PT, the management body of the Company includes a number of independent members that is appropriate to its size and shareholder structure, fit to perform the supervision and accountability role specifically entrusted to such body.

⁽²⁾In light of European Commission Recommendation 2005/162/EC of 15 February 2005, as a general principle, directors are deemed independent if they do not keep any business, family or other relationship – with the Company, with owners of qualified holdings or with organisation structures of either of the same – “that creates a conflict of interest such as to impair [their] judgement.” ⁽³⁾CMVM Recommendations refer to the requirements applicable to members of the supervisory bodies as provided for under articles 414 and 414A of the Portuguese Companies Code, whereby, as a general principle, directors are deemed independent if neither associated to specific interest groups within the Company nor under any circumstance capable of affecting their impartial analysis or decision.

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(4) CMVM Recommendation no. II.1.3.1 on the independence of the Chairman of the Audit Committee

On the annual reports on the governance of listed companies for 2010 and 2011, both disclosed in 2012, CMVM has considered that the Company fails to comply with this Recommendation on the grounds that the independence of the Chairman of the Audit Committee is hindered, in the light of article 414,5(b) of the Portuguese Companies Code, by the fact that he was re-elected for more than two terms of office to carry out Non-Executive duties in the management body of the Company.

For reasons as best explained in Chapter II.14 hereof, the Company disagrees with CMVM's position, as it is the Company's understanding that the Chairman of the Audit Committee is independent and has all appropriate training and knowledge.

Considering, based on legal opinions and as detailed in Chapter II.14 below, that the abovementioned provision does not determine an automatic loss of independence in the case under appraisal, PT has carried out a material overall assessment of the independence of the Chairman of the Audit Committee and concluded that he is independent, since he is in no way associated to any specific interest group within the Company or under any circumstance capable of affecting his impartial analysis or decision.

Furthermore, it is PT's understanding that the permanence in Non-Executive duties, as well as re-election within the supervisory body as recently resolved by 93.61% of the favourable votes of its Shareholders at the elective General Meeting held on 27 April 2012: on the one hand, do not affect his fairness and impartiality, taking notably into account the successive mutations in the composition of PT's management body and in the Company's diffused shareholder structure along successive terms of office; and, on the other hand, seems to be a relevant contribution to and quality for an appropriate performance of supervisory duties, in compliance with his fundamental care and loyalty obligations, in the interest of the Company.

Such contribution and quality are particularly relevant, most of all, in view of the following: (i) his qualifications and his knowledge and experience regarding the industry and the Company; (ii) the acknowledgment of his fairness and impartiality within the corporate bodies and the Company as a whole, which proves to be essential for the performance of the typical duties of the chairman of the supervisory body; and (iii) the continuity as required to respond to the demands made on the supervisory body of PT as an issuer of securities admitted to trade on Euronext Lisbon and NYSE.

(5) CMVM Recommendation no. II.1.5.3 on the inclusion of officers' remuneration in the content of the statement on remuneration policy mentioned in Law no. 28/2009 of 19 June 2009

This Recommendation extends the scope of the statement on the remuneration policy of management and supervisory body members provided for under Law no. 28/2009 of 19 June 2009 so as to include information on the officers' remuneration policy, which, according to CMVM's understanding, implies the submission of this policy to the General Meeting of Shareholders under an agenda item specifically related to the said remuneration policy statement.

PT's understanding has been that such information on the remuneration of the Company's officers, other than the members of the corporate bodies, should be included in a document prepared by the management body and submitted to the Annual General Meeting of Shareholders together with the statutory financial statements under the agenda item related to the annual accounts approval.

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In fact, the Company's officers that are not members of the corporate bodies are considered Company's employees, and the definition of their remuneration policy is within the power of neither the General Meeting of Shareholders nor of the Compensation Committee, it is rather a matter related to the Company's management.

This allocation of powers is not even specific to PT's governance model. In fact, the remuneration of officers is, in any governance model, a matter related to human resource management, which is clearly a matter within the powers of the management body.

For all the above reasons, the Company cannot but consider that the Recommendation in question is not consistent with the legal rules in force, according to which: (i) matters of management are primarily within the powers of the management body; (ii) the definition of remuneration of the corporate bodies, and none other, is primarily within the powers of the general meeting of shareholders, who may appoint a compensation committee, and such committee is under the obligation of exercising the so-called "say on pay" enshrined in Law no. 28/2009 of 19 June 2009.

Such understanding does not impair the Board of Directors duty to report to the Company's General Meeting of Shareholders as to officer remuneration policy, just like the Board does as to any matter within its powers, and so, in PT's opinion, the proper venue for such purpose is the report and accounts submitted each year to the General Meeting of Shareholders.

In this way, in order to ensure transparency and accountability of management decisions in this field, the Board of Directors will submit the said policy to the Shareholders on an appendix to this corporate governance report.

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INTRODUCTION

PT Structure

PT is a global telecommunications operator, the leader at national level in all its operation segments, and offers, on a global integrated basis, its services, products and solutions to a universe in excess of 100 million customers.

PT is focused in three main geographies: Portugal, Brazil and Africa. It has a diversified business portfolio, where quality and innovation are the determining factors. PT is committed to improving the operational performance of its assets and to the sharing of best practices across the various businesses.

In the Portuguese market, PT is a customer-oriented company focused on innovation and execution, managing its business along customer segments: Residential, Personal, SMEs and Corporate.

The expansion of international operations to multiple geographies is one of the most important catalysts of value creation in the telecommunications sector and PT has built a relevant portfolio of international operations. The highlight at international level is PT's operation in the Brazilian market, to which the Company has dedicated a significant portion of its investments.

PT is formally structured in the following business segments: telecommunications in Portugal (PT Comunicações and TMN), telecommunications in Brazil (Oi) and others, including international business in Africa, contact centre business in Portugal and Brazil, IT and innovation business and instrumental companies. Such units are coordinated by the holding company, led by its Executive Committee with the support of the corporate centre. Subsidiaries report functionally, not hierarchically, thus ensuring an effective articulation.

PORTUGAL TELECOM

TELECOMMUNICATIONS IN PORTUGAL

Customer segment

Residential	100%	PT Comunicações
Personal	100%	TMN
Enterprise		

TELECOMMUNICATIONS IN BRAZIL

	25.6%	Oi
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OTHER TELECOMMUNICATIONS BUSINESSES

	25%	Unitel ⁽¹⁾
	40%	CVT ⁽¹⁾
	34%	MTC ⁽¹⁾
	51%	CST ⁽¹⁾
	41.12%	Timor Telecom
	28%	CTM ⁽²⁾

OTHER BUSINESSES

	100%	PT Sistemas de Informação
	100%	PT Inovação
	100%	PT PRO
	100%	PT Contact
	44.4%	Contact

⁽¹⁾Shares held by Africatel, which is 75% controlled by PT. ⁽²⁾On 13 January 2013, PT announced having entered into a final agreement for the sale of its stake in CTM to Citic Telecom International Holdings Limited.

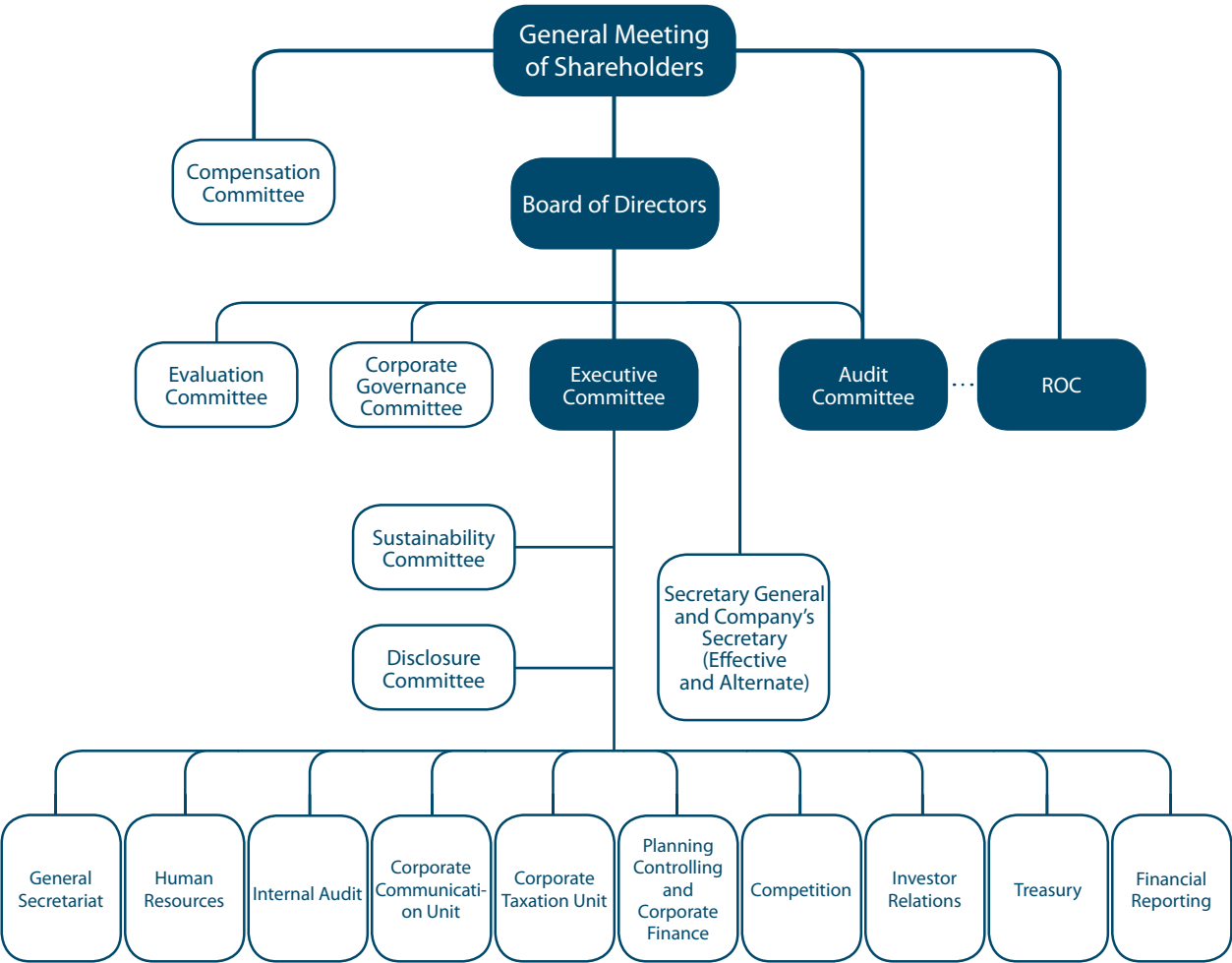
Corporate Governance

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

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

PT’s governance model may be schematised as follows:



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The values of efficiency, simplicity, transparency and accuracy are the basic pillars of this governance model providing PT with a structure as appropriate for the specificities and needs of the Company. This model has also been welcomed by the market.

Within this context, PT's governance includes an Executive Committee with powers delegated by the Board of Directors, which acts on a predominantly operational basis, while the Board of Directors is entrusted with the supervision of corporate activities, with the support of a Corporate Governance Committee and of an Evaluation Committee, each such internal committee acting within the scope of its specific powers delegated by the management body. This supervision task is further reinforced by the action of the Non-Executive independent members of the Board of Directors.

A Disclosure Committee and a Sustainability Committee, as well as several operational departments that guarantee an effective and transparent management of the Company complete the Executive Committee's supporting structures.

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's internal control and risk management system.

PT 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.

In this way, considering the full implementation and consolidation of the governance model adopted by the General Meeting of Shareholders of 22 June 2007, for purposes of compliance with the CMVM Recommendation no. II.1.1.1, and based on the reflection of the Corporate Governance Committee pursuant to CMVM Recommendation no. II.5.1.(ii), PT considers that this governance model ensures an effective performance of the duties of its corporate bodies and their articulation, and has proven appropriate to the specificities of the Company. There have been no constraints to its operation and no circumstance that might impair the regular functioning of the adopted checks and balances system has occurred as to justify any change to PT's organisation structure or governance practices.

In fact, and as concluded within the follow up of this governance model made by the Corporate Governance Committee, such model has proven to be appropriate to catalyse national and international corporate governance best practices and to contribute to the accountability of the Company and its management vis-à-vis its shareholders, investors and the market.

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01

GENERAL MEETING OF SHAREHOLDERS

01

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01 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.telecom.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, n.º 40-10.º piso – 1069-300 Lisboa
Telephone	+351 800 207 369
Fax	+351 215 001 890
E-mail	assembleia-ptsgps@telecom.pt

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.

I.1 Identification of the Members of the Board of the General Meeting of Shareholders

Board of the General Meeting of Shareholders

António Menezes Cordeiro	Chairman
Eduardo Vera-Cruz Pinto	Vice-Chairman
Francisco Leal Barona	Secretary

I.2 Members of the Board of the General Meeting of Shareholders – commencement and expiration of terms of office

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.

I.3 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 yearly remuneration of the Chairman of the Board of the General Meeting corresponds to 42,000 Euros.

I.4 Indication of blocking period required for participation in the General Meeting of Shareholders

As a result of the implementation in the national legal system, by Decree-Law no. 49/2010 of 19 May 2010, of Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, such companies are now prevented from requiring from their shareholders the blocking of their shares for purposes of confirmation of entitlement to voting rights and participation in the General Meeting of Shareholders.

In this way, CMVM Recommendation no. I.2.1, as well as item I.4 of Appendix I to CMVM Regulation no. 1/2010, are no longer in force.

I.5 Indication of rules applicable to share blocking in the event of adjournment of the General Meeting of Shareholders

As referred to in the foregoing item, in the light of the rules currently in force, it is not admissible for listed companies to require that shareholders block their shares in order to participate in the General Meeting of Shareholders.

Consequently, CMVM Recommendation no. I.2.2 and item I.5 of Appendix I to CMVM Regulation no. 1/2010 should be considered as no longer in force.

I.6 Number of shares corresponding to one vote

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 may attend a General Meeting of Shareholders.

Within the framework of American Depository Receipts (ADR) or Global Depository 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.

I.7 Limitations on voting right exercise or vote counting

In addition to Chapter I.6. above, and 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.

I.8 Bylaw rules on the exercise of voting rights

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.

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In this way, the constitutive and resolute quorum of the General Meeting of Shareholders established under PT's Bylaws is no different from that established under the Portuguese Companies Code.

The rules applicable to resolutions on any amendment to the bylaws are described in Chapter III.6.

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

I.9 Existence of Bylaw rules on the exercise of voting rights by correspondence

The Company Bylaws provide that the voting by correspondence 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 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 voting.

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, the said communication shall be sent in a closed envelope that will only be considered at the time of vote counting.

Additionally, the Bylaws provide that votes cast by correspondence 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 of his representative, determines the revocation of the vote so cast.

I.10. Making available a form for the exercise of voting rights by correspondence

According to PT's 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 ID 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.telecom.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 ID card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.

I.11. Requirement for a period of time between receipt of the declaration of vote by correspondence and the date of the General Meeting of Shareholders

The period of time implemented for receipt of declarations of vote by correspondence according to PT's practice since the 2008 Annual General Meeting of Shareholders is 3 business days prior to the date of the General Meeting, in compliance with CMVM Recommendation no. I.3.2.

I.12. Exercise of voting rights by electronic means

All bylaw rules described in Chapter I.9. are applicable to the exercise of voting rights by electronic means.

According to a practice implemented in the Company, Shareholders may vote through the website www.telecom.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 ID card), and setting out the post address to where the password to be made available by the Company should be sent.

Such Shareholders may exercise their voting rights during the period established on the notice for the General Meeting of Shareholders.

I.13. Extracts from minutes of General Meetings of Shareholders

PT disclosed to the market, within 5 days as from the Annual General Meeting held on 27 April 2012, information regarding the resolutions passed by the Shareholders, capital represented and voting results.

PT also made available on its website an extract of the minutes of the General Meeting of Shareholders held in 2012.

In this way, PT complies with CMVM Recommendation no. I.5.

I.14. Background information on General Meetings of Shareholders

Under article 21C of the Portuguese Securities Code, the proposals to be submitted by the Board of Directors to the General Meeting of Shareholders, as well as the reports that must be attached thereto by law and all other preparatory information data, are made available to Shareholders at the Company's registered office and on the Company's website on the date of publication of the notice for the General Meeting of Shareholders and always for a period of no less than 21 days prior to the meeting. These documents are also disclosed in the English language.

At the time of the preparation of the Annual General Meeting of Shareholders, the financial statements are also made available to Shareholders on the CMVM Information Disclosure System, simultaneously with the disclosure of the notice.

In order to provide easier access to such documents, especially by foreign Shareholders, the Investor Relations Office will send the same by post, fax or electronic mail, upon request.

Moreover, the text of the proposals submitted by Shareholders to the General Meeting of Shareholders is available on the Company's website as provided for by law and regulations.

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Additionally, PT discloses a summary of the resolutions approved at the General Meeting of Shareholders on the CMVM Information Disclosure System and on its website, as well as through its Investor Relations Office.

PT keeps on its website, in respect of the three preceding years, a record of the agendas and resolutions approved at the General Meetings, as well as information on the share capital represented and voting results at the relevant meetings, thereby adopting CMVM Recommendation no. I.5.

I.15. Indication of the representative(s) of the Compensation Committee attending General Meetings of Shareholders

At General Meetings of Shareholders held by the Company, at least one member of the Compensation Committee has been present at all times pursuant to CMVM Recommendation no. II.1.5.6. At the General Meeting held on 27 April 2012, Álvaro Pinto Correia, Chairman of PT's Compensation Committee during the current term of office, attended the meeting.

I.16. Intervention of the general meeting of shareholders in the remuneration and evaluation policy

Remuneration policies implemented in PT are as referred to under Chapters II.29. and II.30. Such policies are reported for discussion by the Shareholders at all Annual General Meetings of Shareholders.

Moreover, pursuant to the law, the General Meeting of Shareholders carries out an overall appraisal of the management (and supervision) of the Company each year.

I.17. Intervention of the General Meeting of Shareholders in share allotment plans for management, supervision and other officers

There are no share allotment and/or stock option plans, or other share plan based on share price variation for members of the management and supervisory bodies and other officers (in the meaning of article 248B,3 of the Portuguese Securities Code).

I.18. Intervention of the General Meeting of Shareholders in pension benefit systems for management, supervision and other officers

There are no PT sponsored retirement benefit plans applicable to the members of the Company's management and supervisory bodies.

The pension benefit system applicable to some Company officers (in the meaning of article 248B,3 of the Portuguese Securities Code) is described on Note 14 to the consolidated financial statements. It is reported for discussion by the Shareholders at all Annual General Meetings of Shareholders.

I.19. Bylaw provision regarding the submission to the General Meeting of Shareholders, every five years, of the rule of limitation of votes susceptible of holding or exercise by a single shareholder

PT's 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, however, for such clauses to be subject, every five years, to General Shareholder Meeting resolution deciding on whether to keep the same on the Bylaws.

I.20. Defensive measures causing erosion in the company's assets

The Company does not adopt any defensive measures the effect of which is to automatically cause serious erosion in the Company's assets in the event of a change of control or change in the composition of the management body.

I.21. Significant agreements including change of control clauses

In the normal course of business, PT 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 S.A., Pasa Participações S.A., EDSP75 Participações S.A. and other Oi Companies, entered into on 25 January 2011.

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

Moreover, the Addendum to the Shareholders' Agreement in respect of Telemar Participações S.A., also entered into on 25 January 2011 between PT and shareholders in Telemar Participações S.A., provides that the controlling shareholder, whether directly or indirectly, of any one of the parties (PT 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 S.A. to the other parties to the agreement.

Additionally, we should mention the shareholders' agreement entered into between PT and Samba Luxco Sarl ("Helios"), dated 13 August 2007, regarding the company Africa PT, BV (currently "Africatel, BV"), 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, Helios shall have a put option to sell to PT its entire shareholding in Africatel, BV.

Finally, during the 2011 financial year PT entered into new financing agreements, in the overall amount of 1,200,000 Euros, which contain change of control clauses. PT has also issued, through PT International Finance BV, during the 2012 financial year, one Eurobond in the amount of 750,000,000 Euros, the terms and conditions of which include change of control clauses that shall only be enforced, however, where accompanied by a downgrade in PT's rating as a result of the transaction in question.

PT describes the financial covenants that may affect the Company as regards change of control clauses under Note 38 to the consolidated financial statements included in the Report and Consolidated Accounts for 2012.

There are no significant agreements entering into force in the event of change in control in PT.

I.22. 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 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.

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Section I. General

II.1. Identification and composition of corporate bodies

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. As of 31 December 2012, the composition of the Company's Board of Directors was as follows:

Members (date of first appointment)	Board of Directors	Executive Committee	Audit Committee	Corporate Governance Committee	Evaluation Committee	Indepen- dence ⁽⁵⁾	No. of shares
Henrique Granadeiro (2003)	Chairman			Chairman	Chairman ⁽²⁾	Yes	150
Zeinal Bava (2000)	Member	Chairman (CEO)			Member ⁽³⁾		63,161
Luís Pacheco de Melo (2006)	Member	Member (CFO)					45
Alfredo Baptista (2011)	Member	Member					8,193
Carlos Alves Duarte (2009)	Member	Member					40
Manuel Rosa da Silva (2009)	Member	Member					90
Pedro Durão Leitão (2011)	Member	Member					758
Shakhaf Wine (2009)	Member	Member					-
Amílcar de Moraes Pires (2006)	Member						3,242
Fernando Portella (2012) ⁽¹⁾	Member						-
Francisco Soares (2006)	Member			Member	Member	Yes	-
Gerald S. McGowan (2003)	Member			Member		Yes	30,000
João de Mello Franco (1998)	Member		Chairman	Member	Member ⁽⁴⁾	Yes	13,308 ⁽⁶⁾
João Nuno Palma (2012)	Member			Member			1,436
Joaquim Goes (2000)	Member			Member	Member		2,437
José Xavier de Basto (2007)	Member		Member			Yes	-
José Cabral dos Santos (2012)	Member						-
Maria Helena Nazaré (2009)	Member					Yes	-
Mário João de Matos Gomes (2009)	Member		Member			Yes	-
Milton Silva Vargas (2009)	Member				Member		-
Nuno de Almeida e Vasconcellos (2006)	Member						11,190
Otávio Marques de Azevedo (2011)	Member				Member		-
Paulo Varela (2009)	Member			Member			7,134
Rafael Mora Funes (2007)	Member			Member	Member		501 ⁽⁷⁾

⁽¹⁾Director Fernando Magalhães Portella was co-opted onto the Board of Directors on 25 October 2012 to replace director Pedro Jereissati, who submitted his resignation to the Company on that same day. ⁽²⁾Inherently in his office as Chairman of the Board of Directors. ⁽³⁾Inherently in his office as CEO. ⁽⁴⁾Inherently in his office as Audit Committee Chairman. ⁽⁵⁾Evaluation of independence made in accordance with Service Orders no.s 3.08 and 4.08 of PT's Board of Directors and Audit Committee and article 414,5 of the Portuguese Companies Code, as the case may be, which may differ as to some directors from the evaluation made according to CMVM's understanding as to article 414,5(b) of the Portuguese Companies Code and CMVM Recommendation no. II.1.2.3 expressed on the reports on listed company governance for 2010 and 2011, which was taken into account by PT in its declaration of non-compliance with CMVM Recommendations no.s II.1.2.2 and II.1.3.1. For further information on this matter, please see Chapters II.14 and II.15 below. ⁽⁶⁾322 of which are held by his spouse. ⁽⁷⁾100% held by his spouse.

At its meeting held on 25 October 2012, the Board of Directors decided to co-opt, in order to complete the 2012-2014 term of office, Fernando Magalhães Portella as Non-Executive member, following the resignation submitted on that same day by Non-Executive member Pedro Jereissati. Taking into account that no General Meeting of Shareholders was called in the meantime, the Shareholders will be called to resolve on the ratification of such co-optation of a member of the Board of Directors of the Company at the General Meeting of Shareholders that will take place in April 2013.

The Board of Directors of PT 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's 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 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. Amongst the 24 directors of the Company in office on 31 December 2012, 7 were executive directors and 17 were Non-Executive directors. This proportion largely exceeds the abovementioned one and, furthermore, is in full compliance with CMVM Recommendation no. II.1.2.1.

Executive Committee

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.

Composition

Zeinal Bava	Chairman
Luís Pacheco de Melo	Member (CFO)
Alfredo Baptista	Member
Carlos Alves Duarte	Member
Manuel Rosa da Silva	Member
Pedro Durão Leitão	Member
Shakhaf Wine	Member

Audit Committee

In observance of the requirements of article 423B of the Portuguese Companies Code and PT's Bylaws, the Audit Committee is exclusively composed of Non-Executive directors meeting the requirements of independence defined under article 414,5 of the same Code, as further explained in Chapter II.14 below, and having higher education as appropriate to carry out their duties, with at least one member having knowledge of audit 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.

Composition (date of first appointment)

João de Mello Franco (22/06/2007)	Chairman
José Xavier de Basto (22/06/2007)	Member
Mário João de Matos Gomes (27/03/2009)	Member

Chartered Accountant

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., represented by Pedro João Reis de Matos Silva, Chartered Accountant.

Pursuant to its duties, PT's Audit Committee assessed the independence of the Chartered Accountant, and appraises its work during the 2012 financial year as positive.

The remuneration of the abovementioned audit firm as paid and/or due by reference to the 2012 financial year was 242,500 Euros, including services provided to the following Group companies: Portugal Telecom, PT Investimentos Internacionais, PT Ventures, PT Participações, Timor Telecom, PT Imobiliária and PT Compras.

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II.2. Identification and composition of specialised committees created with powers in matters of corporate management or supervision

Evaluation Committee

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

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

It should further be stressed that the attendance of the Chief Executive Officer at this Committee is not to the prejudice of compliance with CMVM Recommendation no. II.5.1, since the CEO is, under the relevant Regulation, prevented from voting on resolutions related, on the one hand, to the annual performance appraisal of the members of the Executive Committee, and on the other hand to the selection procedure for PT's Non-Executive directors.

Composition

Henrique Granadeiro ⁽¹⁾	Chairman
Zeinal Bava ⁽²⁾	Member
Francisco Soares	Member
João de Mello Franco ⁽³⁾	Member
Joaquim Goes	Member
Milton Silva Vargas	Member
Otávio Marques de Azevedo	Member
Rafael Mora Funes	Member

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

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 2012 and the date hereof, in addition to the Executive Committee and 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 Non-Executive members 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 the PT Group, in light of the specific features of the Company. The Chairman of the Corporate Governance Committee is appointed by the Board of Directors.

Composition

Henrique Granadeiro	Chairman
Francisco Soares	Member
Gerald S. McGowan	Member
João de Mello Franco	Member
João Nuno Palma	Member
Joaquim Goes	Member
Paulo Varela	Member
Rafael Mora Funes	Member

Structures Supporting the Executive Committee

Investors decisions pertaining to the allocation of capital to listed companies currently take into account not only economic evaluations, but also information transparency and the companies' executive management safety, sustainability and reliability levels.

Therefore, the Executive Committee has appointed, within the scope of the powers delegated by the Board of Directors, two supporting structures in order to better perform its assignments.

The composition of the structures supporting the Executive Committee is as follows:

Disclosure Committee

Luís de Sousa Macedo	Chairman
Francisco Nunes	Member
Nuno Prego	Member
Carlos Cruz	Member
Nuno Vieira	Member
Guy Pacheco	Member
Bruno Saldanha	Member

Sustainability Committee

The Sustainability Committee is composed by a Management Committee and by 7 subcommittees, all chaired by PT CEO, as follows:

Management Committee:

PT CEO;
Directors of PT Comunicações, TMN, PT PRO, PT Inovação, PT SI, PT Compras and PT II responsible for the sustainability function within their respective company;
Managing Director of Fundação PT;
Head of the sustainability area.

Power and Environment Subcommittee:

PT CEO;
Team responsible for the sustainability area;
Managers in charge of company power management: on the network, IS and administrative areas;
Heads of waste management and disposal;
Heads of equipment and service purchase at the various PT Group companies;
Head of fleet management.

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Labour Relations, Human Rights and SST Subcommittee:

PT CEO;
Team responsible for the sustainability area;
Manager responsible for qualification development;
Manager responsible for human resources at PT Group companies;
Head of relationship with employee representatives;
Heads of SST at PT Group companies;
Head of relationship with suppliers;
Head of internal and external volunteer programmes of PT Group companies.

Stakeholder Relationship Subcommittee:

PT CEO;
Team responsible for the sustainability area;
Manager responsible for the relationship with analysts and Shareholders;
Manager responsible for the relationship with customers;
Manager responsible for the relationship with employees and their representatives;
Manager responsible for the relationship with suppliers;
Manager responsible for the relationship with the media;
Manager responsible for the relationship with State regulatory authorities;
Manager responsible for the relationship with NGOs;
Manager responsible for risk management.

Corporate Communication, Brand and Product and Service Marketing Subcommittee:

PT CEO;
Team responsible for the sustainability area;
Corporate communication Manager;
Product and service marketing Managers of PT Group companies;
Head of brand management;
Head of social media.

Service and Solution Innovation and Development Subcommittee:

PT CEO;
Team responsible for the sustainability area;
OPEN Manager;
Network implementation Manager;
IS development Manager;
Heads of voice products, TV, broadband and corporate solution management;
Standing improvement Manager.

Supplier Relationship Subcommittee:

PT CEO;
Team responsible for the sustainability area;
Supplier relationship Manager;
Heads of service and material acquisition;
Head of outsourcer contracts.

Sustainability practice sharing with international subsidiaries and affiliates Subcommittee:

PT CEO;
Team responsible for the sustainability area;
PT II;
Heads of sustainability and/or corporate citizenship of subsidiaries and affiliates.

II.3. Distribution of powers among the various corporate bodies, committees and/or departments of the company

A. Management Body

Board of Directors

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 the PT Group and monitors the day-to-day management of the Executive Committee.

In order to guarantee the existence of a structure as appropriate for PT's management needs, the Board of Directors has delegated day-to-day management powers to the Executive Committee and 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 Chapter II.10 of this report.

Executive Committee

The Board of Directors has delegated the day-to-day management 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, although it may revoke at any time the powers delegated, 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.

In this way, CMVM Recommendation no. II.2.2 is 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 Group's corporate structure, and (iii) strategic decisions due to their amount, risk or special features,

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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.

Powers of the Chairman of the Board of Directors and of the Chief Executive Officer

Pursuant to the Bylaws, the Board of Directors' internal operating rules and the delegation of powers to the Executive Committee, the Chairman of the Board of Directors and the Chief Executive Officer shall carry out the following duties:

Chairman of the Board of Directors

- 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 (other than those delegated to the Executive Committee) are adopted by this corporate body.

Chief Executive Officer

- To coordinate the activity of the Executive Committee, and to distribute matters among its members where advisable in light of management conveniences;
- To call and conduct the meetings of the Executive Committee;
- To watch over the correct implementation of the Executive Committee's resolutions.

Since the approval of the internal operating rules of the Board of Directors, on 3 October 2008, the Chairman of the Board of Directors shall carry out the following duties:

- To follow up and consult with the Executive Committee as to the performance of powers delegated to the latter;
- To contribute to an effective performance of the duties and powers of the Non-Executive directors and of the specific committees of the Board of Directors, as well as to ensure the necessary mechanisms for such directors and committees to timely receive information as required for them to take decisions in an independent and knowledgeable manner;
- To be the Chairman of the Evaluation Committee.

The said internal operating rules of the Board of Directors also provide that, in the event the Chairman of the Board of Directors is simultaneously the Chief Executive Officer, the powers and duties referred to on the foregoing subparagraphs shall be performed by a Non-Executive member of the Board of Directors.

The same operating rules further provide for the possibility of holding ad hoc meetings among non-executive directors, and require that non-executive directors meet at least once a year with the Chairman of PT's Evaluation Committee, an office that inherently pertains to the Chairman of the Board of Directors.

Division of functions within the Executive Committee

Within the framework of the corporate decision-making procedure concerning the PT Group's business lines and Corporate Governance, the members of the Executive Committee were responsible for the following areas as of 31 December 2012:

Executive Committee	Corporate Assignments	Executive Assignments
Zeinal Bava CEO	Strategy Human Resources Innovation Investor Relations Communication & Corporate Image Internal Audit Regulation & Competition Institutional & International Relations Sustainability	PT Portugal Oi Group PT Investimentos Internacionais PT Inovação Fundação PT
Luís Pacheco de Melo CFO	Management Planning & Control Financial Reporting Corporate Finance Financial Operations & Treasury Taxation Internal Control & Risk Management Service Hiring Strategy Financial Management and Collections Pension Funds	PT Centro Corporativo PT Pro PT Compras PT ACS Previsão
Alfredo Baptista	Networks Information Systems Development of Products and Services	PT SI
Carlos Alves Duarte	Enterprise Segment (Corporate and SME's)	
Manuel Rosa da Silva	Customer Care Installation and Maintenance Continuous Improvement Distribution Network Physical Security of Buildings, Networks & Systems	PT Contact
Pedro Leitão	Customer Segment (Residential / SoHo and Personal)	
Shakhaf Wine	Holdings in Brazil	PT Brasil Grupo Oi PT Inovação Brasil

It is the opinion of the Corporate Governance Committee, on its Report on the governance practices and performance of the management body, that the Executive Committee and its CEO acted, all along 2012, within the framework of their respective power delegation and effectively reported their activity to the Board of Directors as provided for under Board of Directors Internal Regulation no. 001/09CA of 27 March 2009 on the delegation of powers to and operation of the Executive Committee.

Disclosure obligations of the Executive Committee

Under the terms defined in the relevant delegation of powers, at each meeting of the Board of Directors or whenever necessary, the Executive Committee timely and appropriately provides information to the remaining directors about the most relevant facts concerning the execution of the delegated powers, notably about the implementation of the strategic policies and options which general goals have been defined by the Board of Directors, as well as on the implementation of the business plans, budgets and annual investment plans approved by this management body.

The Executive Committee also provides any additional information on the status of the management as the Board of Directors deems fit to request. It shall diligently execute the actions required by any indications received from the Board of Directors as a result of any information provided.

Finally, when so requested, the Executive Committee provides the information as required by the other corporate bodies in a timely and appropriate manner, thus acting in full compliance with CMVM Recommendation no. II.3.1.

B. 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 Executive Committee and External Auditors on any reports, documentation or information to be disclosed to the competent authorities;
- To adopt procedures to ensure compliance by PT 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;
- 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 Executive Committee 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 as described in Chapter III.13. 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.

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.

C. 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's 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 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, 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

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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's 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's most relevant subsidiaries.

During the 2012 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 of a communication to be addressed to the Board of Directors and Compensation Committee on the level of compliance by the Company of the rules, recommendations and guidelines applicable in specific evaluation, remuneration and selection areas;
- Preparation of the 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 in connection with the 2012 financial year;
- Approval of a recommendation to the Compensation Committee on the remuneration policy for corporate body members for the current term of office;
- Approval of a report disclosed to Shareholders on the selection procedure for Portugal Telecom Directors for the 2012-2014 term of office;
- Appraisal of the co-option proposal for purposes of filling in a vacancy in the Board of Directors of the Company for the 2012-2014 term of office;
- Evaluation of the performance of the members of Portugal Telecom's Executive Committee, according to the objective criteria approved by the Compensation Committee for purposes of fixing the variable component of their remuneration for 2011;
- Follow-up of the regulatory development in the remuneration area, particularly:
 - National and international benchmarking as to fixed remunerations and deferment of the variable component portion;
 - Securities and Exchange Commission and New York Stock Exchange rules for implementation of the relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") having an impact on foreign private issuers.

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 corporate business supervision function 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 of the performance of the Board of Directors as to its governance practices.

In particular, 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 in order to contribute to efficiency, transparency and improvement in this procedure;
- 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 2012 financial year, the Corporate Governance Committee carried out the following main activities:

- Preparation of a report on the Company's governance practices and a communication to the Board of Directors on the level of compliance by the Company of rules in force on the matter of corporate governance, as well as an opinion on the governance report for the year 2011;
- Preparation of a self-evaluation report, including the evaluation of its operation regulation, and submission to the Board of Directors of amendment proposals aimed at contributing to the effective performance of its duties;
- Benchmarking analysis and discussion with other issuers and/or in other fora on the best corporate governance practices, especially the follow-up of several initiatives carried out, in 2012, by *AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado* (Portuguese Listed Companies Association – “AEM”) and by *Instituto Português de Corporate Governance* (Portuguese Corporate Governance Institute – “IPCG”), including, *inter alia*:
 - The “Report on the Harboring Level of Corporate Governance Recommendations in Portugal and Corporate Governance Index and Rating”, by Católica Lisbon / AEM, under which the Company was given the maximum rating (AAA), based on the Company's 2011 governance report;
 - Interventions and comments by AEM on the preliminary draft of governance code of IPCG as well as on the amendment of CMVM regulations and recommendations, therefore contributing for a critical and constructive analysis of those rules;
 - Several initiatives by IPCG aimed at approving a Governance Code which may be an alternative within our national scene where, up to now, the only corporate governance rules in force have been initiated by CMVM;

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- Preparation of comments to IPCG's preliminary draft of Governance Code, (i) including a comparative analysis of such document vis-à-vis CMVM's Governance Code in force and codes by others reference jurisdictions, and (ii) seeking to cooperate in the approval of a Governance Code suitable for the specific features of the Portuguese market, the adoption of which PT will consider in 2013 after assessing its contribution to the Company's governance practices and any regulatory developments that are expected to take place during this year;
- Analysis of the evaluation carried out by CMVM as to the level of compliance by the Company with the recommendations included in CMVM's Governance Code, and discussion and approval of a reply letter by Portugal Telecom;
- Analysis of the Action Plan on European Company Law and Corporate Governance, disclosed by the European Commission in December 2012, which proposes the implementation of a few relevant measures following the public hearing to which Portugal Telecom submitted a reply in 2011; and
- Proactive contribution to making the governance model of the PT Group be deemed a "best practice" at national and international level.

Structures Supporting the Executive Committee

The assignments of the structures supporting the Executive Committee are as follows:

Disclosure Committee

It is incumbent on the Disclosure Committee to define, document and disclose procedures as appropriate for the proper collection, processing and reporting of information, as well as to review all information disclosed by PT, notably: press release, reports and accounts (annual, interim and quarterly), 20-F Forms, notices to CMVM and SEC and questionnaires sent to the media.

For such purpose, the Disclosure Committee shall approve and implement procedures and controls as required to ensure that information disclosure by PT to Shareholders and investors:

- Complies with applicable laws and regulations;
- Is accurate, complete and made in due time; and
- Reliably represents the Group's financial position and the results of its operations in all material respects relevant to an adequate knowledge of its financial condition and performance.

Sustainability Committee

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

The Committee has the following main global goals:

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

The Sustainability Committee has the following duties:

- To approve and develop a transversal corporate sustainability strategy that is integrated and consistent with the Group's strategy;

- To ensure the creation within the PT Group of conditions as required for its sustainable growth, in a three dimensional perspective, in economic, environmental and social terms, in accordance with international criteria;
- To recommend to the PT Group companies the appointment of a director responsible for the sustainability function to guarantee the operational implementation of the sustainability strategy and an active committed participation in the subcommittees created within this scope;
- To guarantee internal and external communication by reinforcing the performance of PT as a sustainable company and making it recognised as such.

As from September 2010, PT is incorporated in the Dow Jones Sustainability World Index in the telecommunications sector, with growing performances, and it is among the five leading telecommunications companies worldwide. The Dow Jones Sustainability Index is one of the most accredited indices worldwide, which analyses the performance in terms of sustainability of companies listed on the New York Stock Exchange and is considered a reference by analysts and investors. Currently, Portugal Telecom is present in the most important world sustainability indices, i.e. Dow Jones Sustainability World Index and FTSE4Good, of which PT is part since 2005.

II.4. Annual report on the activity carried out by the Audit Committee

The annual report on the activities of the Audit Committee for the 2012 financial year is made available to the Shareholders on the Company's website after the Audit Committee issues its Report on the inclusion of the financial statements in Form 20-F to be delivered to SEC. This concludes the Audit Committee's activities for the 2012 financial year and is in compliance with CMVM Recommendations no.s II.4.2 and II.4.3.

II.5. Internal control and risk management systems

As mentioned in Chapter 0 of this Governance Report, PT is an issuer of securities admitted to trading on NYSE, qualifying as a foreign private issuer, and as such PT is subject to the mandatory rules set forth, notably, in Rule 10A-3 on 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 Corporate Governance Standards), all as described in Appendix I hereto.

A. Risk management

PT's priority commitment consists in the implementation of mechanisms for assessment and management of risks that might affect its operations, the execution of the plan and the compliance with the strategic goals defined by the Board of Directors. Such mechanisms are based on an integrated transversal risk management model, which seeks to ensure, inter alia, implementation of good corporate governance practices and transparency in communication to the market and Shareholders.

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

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

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

- Implementation of a corporate risk management model in line with the PT Group's strategic goals;
- Identification and analysis of the main risks to which PT and its subsidiaries are exposed within the framework of the conduct and pursuance of their business;
- Identification and analysis of the main risk factors and events that may significantly affect operation in the normal course of PT and its subsidiaries in terms of:
 - Impact;
 - Probability of occurrence;
 - Associated control level and response capacity in a crisis;
 - Speed at which the risk or event may materialise;
 - Identification of improvements in control and follow-up of mitigation plans associated to critical risk factors;
- Improve the quality of information supporting the decision-making procedure;
- Communication of the results of the risk management process and warnings in the event of occurrence or identification of new critical risks.

It should also be mentioned that the whole process is monitored by the Audit Committee, an independent supervisory body composed by Non-Executive independent Directors. Within the functions of this body as to the supervision of the efficiency of the risk management system, the following duties should be highlighted:

- Supervise the adoption of principles and policies for identification and management of the main risks of a financial or operational nature or other relevant risks in connection with the PT Group's 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 Company asset safeguard;
- 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.

B. Risk Management procedure

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

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

- **Risk Dictionary** to ensure the description, in a clear objective manner, of a common risk language to be used both internally and in the various disclosures made to the market on this matter;
- **Risk Management Methodology**, which formalises the relevant risk identification, analysis, mitigation and report processes and procedures;

- **Centralised Risk Record** of all information associated to each relevant risk, which simplifies the analysis of the correlation between the various risk factors recorded, as well as the ranking of the priority of each risk response and the identification of synergies between the various risk mitigation actions.

It should be stressed that the instituted model also addresses the corporate sustainability goals classified as strategic for the PT Group, and it is subject to analysis and benchmarking to the industry best practices by the Dow Jones Sustainability Index. It should also be stressed that, in 2009, 2010 and 2011, PT was recognised in this matter with a 97% classification within the evaluation procedure for incorporation in such index.

Risk Dictionary

The Risk Dictionary defines the risk factors that might generally affect PT and its subsidiaries, and in this way it contributes to a risk language that is common and transversal to the whole organisation. However, such dictionary is not intended to be deterministic, since new risks may be identified and it is updated in a systematic manner and where justifiable.

This component of the risk management procedure is structured in three major risk categories according to the risk's nature:

- **Strategic Risks:** These correspond to risks that depend on external factors to the PT Group 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 Group's financial performance and to the transparency in its communication to the market.

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

Strategic Risks	Competition	Politics / Sovereignty
	Economic Environment	Business Sector
	Innovation	Governance
	Shareholder Expectations	Reputation & Image
	Legal	Licence / Concession Management
	Tax	Business / Investment Portfolio
	Regulation	Social Environment & Stakeholder Relationship
	Customer Needs	
Operational Risks	Environmental	Service Quality
	Sales channel & customer support	Purchases
	Network/Platform Infrastructure	Partner Management / Outsourcing
	IS/IT Infrastructure	Revenue Assurance / Billing
	Development of Products & Services	Authority / limits
	Brand Erosion	Communication
	Service Failure / Product Deficiency	Leadership
	Logistics	Performance Incentives
	Hygiene & Safety	Information Security & Asset Protection
	Inefficiency	Fraud
	Business Interruption	Organisation Structure
	Talent procurement / development & retention	Performance Evaluation
		Pricing
		Contractual commitments / contractual management

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Financial Risks	Credit	Financial Instruments
	Equity	Access to Funding
	Exchange	Financial Reporting
	Interest rates	Company Quotation Movement
	Cash-flow / Liquidity	Guarantees

Risk Management Methodology

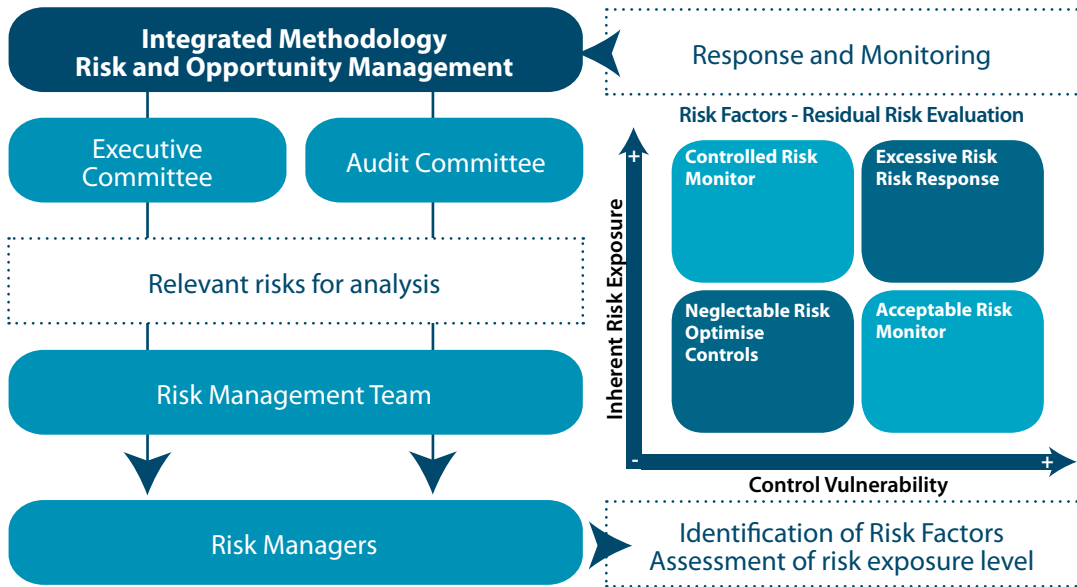
The risk management methodology formalises procedures and responsibilities that are properly aligned with the strategy and exposure level/risk tolerance determined for the PT Group. This tool identifies:

- Responsible for the evaluation and approval of risks and risk factors that affect the business;
- The persons responsible for the management of identified risks and the manner in which such risk should be analysed and mitigated;
- Monitoring procedures for mitigation actions for each risk, according to the risk management strategy adopted by the Executive Committee and supervised by the Audit Committee;
- Disclosure and reporting procedures for information issued from the risk management procedure.

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

Executive Committee	Identify main risks affecting PT Group Define Risk Managers Decide on action & prioritisation of mitigation actions
Audit Committee	Evaluate risk management model Propose improvements & changes to model Review the main risks
Risk Management Function	Support the definition & implementation of a risk management model in line with best practices Monitor risk management model & ensures that the information from different PT Group companies is correctly integrated Support Executive Committee & Audit Committee in defining materially relevant risks Follow up action plans required to guarantee correct treatment of identified risks
Business Management Risk Managers	Manage materially relevant risks Implement actions required to ensure appropriate control Evaluate & quantify residual risk to which the company is exposed Identify critical areas of risk exposure and propose mitigation actions Re-feed Risk Management Model, and warn about exposure situations or control environment degradation
Internal Audit Function	Evaluate the effectiveness of control mechanisms at reliability & integrity level of financial & operational reports, efficiency of operations & compliance with laws & regulations.



During the 2012 financial year, a re-evaluation was carried out on the risk areas that might affect, in a more significant manner, PT Group's capacity to achieve its strategic goals, notably: (i) scale growth; (ii) increase in international contribution; (iii) leadership of consumer market in convergence and of corporate market in ICT; (iv) top tier in the sector in technology, customer experience and operational efficiency; (v) reference at corporate sustainability level in countries where the PT Group operates.

Following this analysis, relevant risks were ranked for analysis and detailed assessment, which involved 40 departments/operational areas charged with the management of such risks, in order to identify events and factors that might affect the PT Group's operations and activities, as well as the control procedures and mechanisms associated thereto.

The impact and probability of occurrence was measured for each of the 312 identified risk factors, and, according to the level of exposure or residual risk, a risk response strategy was defined, notably: (i) **to reduce the risk** through implementation of controls reducing the probability of risk occurrence or its impact in case the risk materialises; (ii) **to accept the risk** in situations where the residual risk is deemed acceptable and the cost of implementation of additional controls exceeds the expected benefits; (iii) **to share the risk**, by reducing the exposure of the PT Group through the total or partial transfer to other entities, resorting to insurance, derivatives or joint-ventures; or (iv) **to avoid the risk**, by abandoning the business or procedures generating such risk (e.g.: abandoning a geographical area or a business). It should be stressed that an analysis was made to the implementation of mitigation measures provided for 2012, and it was observed that all situations classified as a priority in terms of risk mitigation were timely implemented.

Centralised Risk Record

Implementation of a centralised compilation of all information associated to each risk that is relevant to the PT Group is a critical factor for an appropriate analysis and ranking of response actions to relevant risks. Risk recording as currently implemented associates to each risk:

- Risk factors that, in case they materialise, might relevantly affect the PT Group;
- Potentially affected strategic goals;

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- Existing control structures, procedures and indicators to monitor and mitigate risk factors;
- Qualitative evaluation of control and residual risk associated to each risk factor;
- Quantitative evaluation of impact, probability of occurrence and speed at which the risk factor might materialise;
- Improvement and mitigation plans or critical risks response actions.

In order to further improve the risk management process, the PT Group plans to complete, in 2013, the implementation of a new online risk record tool, which will enable to increase the scope of the assessment and streamline the process of identifying, assessing and updating risk.

In line with its strategic goal to be a reference in corporate sustainability, PT has also planned a development, during 2013, of its risk management model as regards social environment and stakeholder relationships in articulation with the PT Group Sustainability Committee, strengthening the already existing analysis on matters such as eco-efficiency, human rights and value chain, including supplier relationships.

C. Internal Control System

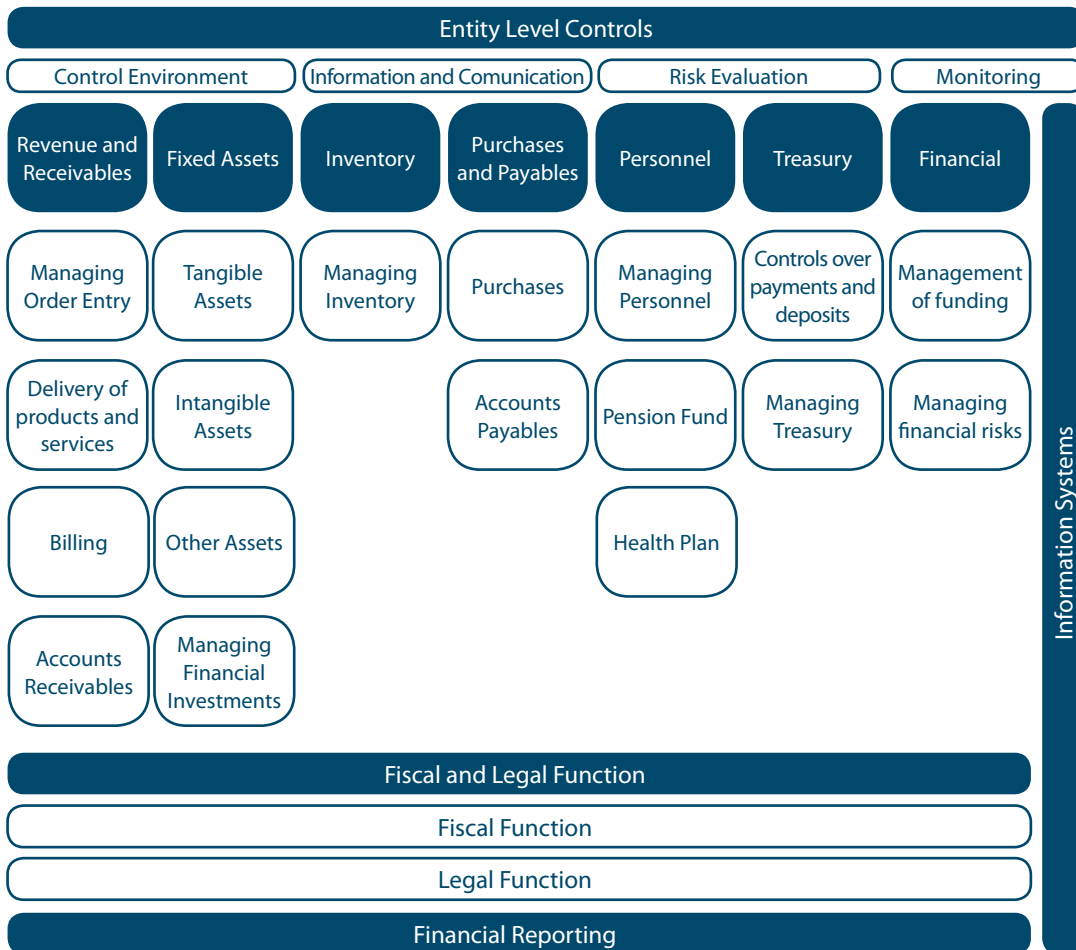
The Internal Control System implemented at PT was based on an internationally acknowledged model – COSO (Committee of Sponsoring Organisations of the Treadway Commission) - making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii)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

The responsibility of the Internal Control Unit, which reports hierarchically to the CFO and functionally to the Audit Committee, consists in promoting a vision of an internal control system that is structured, sustainable and pointing towards the management of risks as identified by the organisation, not exclusively focused on compliance with applicable rules.

The identification of business units and processes on which existing controls are designed, implemented and improved is based on the identification of financial risks made by the main managers of the Group, the results of the risk management process, the materiality of the processes at a financial reporting level, and finally any legal requirements.

Internal Control manuals are designed and controls are implemented for the most representative business units within the PT Group, and as to smaller size units and within the framework of improvement of Internal Control and Risk Management environment beyond mandatory rules PT has defined a set of minimum internal control requirements, particularly applicable to international transactions, which served as additional guidelines for the PT Group to define corporate policies.

The PT Group has implemented controls for each business cycle and classes of transactions thereof, all of which is described on the internal control manuals.



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

Process description as set out on Internal Control Manuals is composed, *inter alia*, of a detailed description of procedures carried out, identification of those responsible for their execution, identification of control objectives for each activity, periodicity of control execution and evidence supporting the same, identification of User Development Applications (UDAs), and whether control is aimed at mitigating a fraud risk or ensures segregation of duties (SoD). In this way, other than ensuring general awareness of existing controls, it is possible to guarantee audits as to control effectiveness.

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

- **60 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, Executive Committee, Audit Committee and high management;
- **1,226 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;

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- **1,033 IT Level** controls, the manual reference of which is the CobiT (Control Objectives for Information and Related Technology) Governance framework, also based on COSO, and which include controls for applications that are identified as critical. Reduction in controls as compared to the previous year results mostly due to the restructuring that occurred at information system directorates.

Currently, the PT Group has already identified around 192 processes and 2,319 critical controls for financial reporting. As to information systems, the PT Group has identified 20 critical systems, among which the billing systems, the SAP and the consolidation system.

The Internal Control Unit follows up, on a quarterly basis, the deficiencies reported and situations detected within the framework of SOX audits, either by the internal auditor or by the external auditor, to the various processes, and ensures the definition of action plans for mitigation and resolution of risks detected.

Additionally, the Company has 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 is inserted, in order to permit a better management of this specific risk. Such manual, other than describing fraud procedures, contains an identification of controls and persons responsible for their implementation at PT Group level. The manual is revised where deemed necessary, taking into account inputs from the job carried out by the Internal Auditing in the pursuance of its activity, as well as from whistleblowing, if any, and benchmarking with other companies of the same sector.

As regards business in Portugal, the PT Group has also implemented an Integrated Management System (IMS) based on Quality (ISO 9001), Environment (ISO 14000) and Safety, Hygiene and Health at Work (OHSAS 18001) standards in which the PT Group is certified.

The IMS management policy emphasises the significance of the organisation at the level of compliance with the strategic commitment, both at quality, environment and health, hygiene and safety at work level, and at sustainability level, through the implementation of social responsibility policies or policies of dissemination of an excellence culture and quality that is transversal to all processes in the organisation. Such practices are, at all times, focused in exceeding the expectations of all PT Group's stakeholders, notably its customers, Shareholders, society, partners and other persons related to the organisation.

The PT Group has also implemented a methodology for analysis, evaluation and compliance with the legislation applicable to our certifications, and acts proactively in continuously improving its processes, taking into account the mitigation of operational, environmental and SHHW risks as identified in the course of its current operation. The PT Group is also committed to disseminate the best practices with its suppliers and partners, thus ensuring a sustainable conscience for the business in the surrounding society.

D. Internal Control System Evaluation

The Internal Audit Department is responsible, at corporate structure level, for the evaluation of the PT Group's internal control system and for existing risk management procedures at national and international level.

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

The results of the Risk Management process are integrated in the Audit plan, in order to ensure that audits carried out address the main areas and risk factors that might materially affect the Company's ability to comply with its strategic plan.

Within this context, operational, compliance, financial and information system audits are carried out, all along the year, in the main business and operations units of the Company worldwide, in order to ensure the following goals:

- Operational Audits – assessment of operational risk management procedures and of mechanisms that guarantee operational efficiency and that have a relevant impact on the pursuance of the Company's strategy and on key value drives, in the different geographies where the Company operates;
- Compliance Audits – ensures that the Company's activities comply with relevant laws and regulations;
- Financial Audits – ensuring the effectiveness of control mechanisms associated with 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.

The Internal Audit Department is also responsible for internal audits to the various business units held by Portugal Telecom at national and international level, and plays a functional coordination role in the various audit teams that exist in a few international units, for instance Brazil and Namibia.

The progress of the execution of the Internal Audit Plan as defined, as well as the aggregate results of audits carried out, are reported each quarter to the Company's Audit Committee and Executive Committee for the follow-up of the progress of the internal control and risk management system.

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 (Securities and Exchange Commission) and PCAOB, since Portugal Telecom is listed in NYSE and must comply with Section 404 of the Sarbanes Oxley Act.

Internal Audit activities are performed in accordance with Internal Audit Professional Standards issued by the Institute of Internal Auditors (IIA). During 2011, Internal Audit at Portugal Telecom was submitted to an external quality assessment through which it renewed its quality certification, issued by IIA.

II.6. Responsibility of the Management and Supervisory Bodies in the Internal Control and Risk Management Systems

Regarding this matter, please see Chapter II.5.

II.7. Operating rules of Corporate Bodies

Internal regulation and operation 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:

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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.

Operation of the Executive Committee

Pursuant to the Bylaws and to its power delegation, 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.

Shareholders may request information on the operation of the Executive Committee from the Company's management pursuant to the law.

Internal regulation and operation of the Audit Committee

The Audit Committee has adopted its Internal Regulation, which may be consulted on the following electronic address: http://ir.telecom.pt/NR/rdonlyres/DD8D7660-6BA8-4B2E-A28D-F011B4BFCE87/1454226/Regulamento_Comissao_de_Auditoria_Ingles.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 Corporate Internal Audit Department and the Company's External Auditors. Its members shall participate in the meetings of the Executive Committee in which annual 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.

Action by the Chartered Accountant

The Chartered Accountant is an individual corporate body whose duties are exercised in accordance with specific legal and professional rules.

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. The Chief Executive Officer is prevented from voting, within the Evaluation Committee, on any resolutions regarding, on the one hand, the annual evaluation of the performance of the members of the Executive Committee and, on the other hand, the Non-Executive director selection procedure.

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 website at the following links respectively: http://www.telecom.pt/NR/ronlyres/95ADFA0A-716A-43D7-95E8-E13B8AB1AB7C/1455000/Evaluation_Committee_Mar2011.pdf and http://www.telecom.pt/NR/ronlyres/37D12C5A-E282-4AC8-BAE7-0BFCB830CBD5/1449459/Regulam_CGovSocietrio30Abr09p.pdf (Portuguese only).

Conflicts of interest, maximum number of functions and other incompatibilities

According to the Internal Regulation of the Board of Directors, each director has to timely inform the Chairman of the Board of Directors and the Corporate Governance Committee of any interest, whether direct or indirect, he may have, in his own account or in the account of any third party, that potentially or actually conflicts with the Company's interest within the context of a given resolution, or of any other situation related to such director or a third party connected to him capable of, within such context, limiting in any way his impartiality. The director shall describe the nature and extension of such interest or situation.

In view of such information, if the Chairman of the Board of Directors, the Corporate Governance Committee or the director in question concludes there is a conflict of interest, such director should not participate in the discussion nor vote on the corresponding resolutions.

Other than the rules as provided for under the law and CMVM and NYSE regulations and recommendations, and without prejudice to the function rotation policy as described in Chapter II.1.1 below, PT has adopted no further rules resulting in limitations to the maximum number of functions a director may perform or other incompatibilities applicable to the members of the Board of Directors or the Audit Committee.

Section II. Management

II.8. Work coordination mechanisms for non-executive members

The Chairman of the Board of Directors does not perform any executive duties.

In any way, in the event the Chairman of the Board carries out any executive duties, the Company has implemented mechanisms ensuring that non-executive directors may be able to decide in an independent and knowledgeable manner. See Chapter II.3., Powers of the Chairman of the Board of Directors and Chief Executive Officer.

II.9. Identification of the main economic, financial and legal risks to which the company is exposed in carrying out its business

Following the management process for risks that might adversely affect the business of PT, the following should be highlighted:

Relevant Risks

Strategic Risks	Regulation	
		<p>The PT Group is subject to the risk of regulatory changes or actions of national, European Union or international regulatory entities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner.</p> <p>The Regulation Department is in charge of the management of regulation risk and must be up to date on new regulations applicable to the sector with an impact on the PT Group. The risk management strategy and response is coordinated with the different operational areas.</p> <p>Within the follow-up of the various risks and opportunities related to regulation, we highlight the following matters: <i>(i)</i> Next Generation Networks; <i>(ii)</i> Network security and communications; <i>(iii)</i> Retail offers and pricing; <i>(iv)</i> Wholesale reference offers; <i>(v)</i> Universal Service; <i>(vi)</i> Radio-electric spectrum; <i>(vii)</i> Relevant Broadband Markets; <i>(viii)</i> Roaming regulation; and <i>(ix)</i> Digital Dividend.</p> <p>For further detail as to regulatory aspects that might have an impact on the business of Portugal Telecom, please see the Chapter on Regulatory Framework in the Report and Accounts.</p>
		<p>Competition</p> <p>There is a possibility of a decline in the PT Group's revenues due to an increase in competition by other operators or new players in the market, notably through <i>(i)</i> development of new convergent products and services; <i>(ii)</i> aggressive marketing and sales policies; <i>(iii)</i> improvements in product or service quality; <i>(iv)</i> increase in productivity and cost reduction; <i>(v)</i> merger and consolidation of operators; and <i>(vi)</i> re-configuration of the value chain from the customer's viewpoint.</p> <p>On the Portuguese market, PT will remain a company addressed to the customer, focussed on innovation and implementation, by managing its business through customer segments:</p> <p>(1) Residential: increase in retail customers stimulated by the performance of MEO, PT's subscriber television service, which submits a very differentiated value proposal and offers a unique multiscreen experience: over 150 direct channels, including exclusive high definition and 3D contents; video on demand; game and music lease;</p>

Relevant Risks

Strategic Risks

Competition

all available in varied equipment indoors and outdoors. This offer favours interactivity with the customer and includes customised multimedia through widgets at news, sports and convenience services level, among others, which can be personally parameterised by the customers thus contributing to their loyalty.

In January 2013, PT launched the new MEO, which includes a brand repositioning and the launching of the first truly wire line-mobile convergent quadruple play service, including TV, internet, phone and mobile – M4O. As mentioned during PT Technology and Innovation Conference, held in October in Lisbon, taking into consideration the consumption trends of its customers, PT's strategy for the residential and personal segment consists in wagering on wire line-mobile and service convergence, voice, internet and TV.

PT's value proposal is based on a convergence strategy for the consumption segment, through MEO, and the M4O and TMN offers, a cloud strategy anchored in its comprehensive data centre network in the corporate and business segment. This launching reinforces PT's position as the operator, in Portugal, with a truly integrated and convergent offer.

(2) **Personal:** innovative value-added services for the customer, mobile-available (mobile TV, music lease, social network aggregation), supported by a comprehensive smartphone portfolio, including exclusive equipment, and by competitive mobile broadband offers up to 150Mbps in 4G LTE. Such offers permit an automatic 3G/4G LTE traffic transfer to the PT Wifi Network in a way that is transparent for the customer (EAP-SIM technology) by increasing customer mobility coverage and capacity and contributing to customer satisfaction; and

3) **PMEs (small and medium-size undertakings) and Corporate Segment:** increasing the revenue basis beyond connectivity, taking advantage of opportunities in the ICT sector on the basis of advanced corporate solutions and of investment in higher performance data centres made by PT by fitting the offer to the increasing demand for broadband and virtualisation.

The value proposal of the PT Group for this segment is fourfold: (i) to maximise the value of traditional telecommunications services, including fibre-supported wire line-mobile convergence additional services that permit the aggregation of VPN, LAN management and video services; (ii) IT transformation supported by an accelerated diffusion of cloud computing, which allows for significant cost reductions for customers; (iii) specialisation and capitalisation of scale economies focussing on outsourcing and BPO; and (iv) introducing a business partnership and advisory perspective aimed at capturing PT's offer added-values for the customer and widening the range of services rendered.

During 2012, the company's P&S portfolio was reinforced through the launching of innovative convergent solutions grounded on a latest generation technological infrastructure at Wire line, Mobile and Data Centre Networks level. This places the Company in a privileged position to proactively respond to the challenges it faces at competition level, by anticipating potential changes that might occur in the short/medium term with its main competitors.

At international level, PT will continue focussing the operational performance of its assets and the share of best practices in all its businesses. Expanding its international operations to various geographies is one of the most important catalysts for value creation in the telecommunications industry, and PT has been building a major international operation portfolio.

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Relevant Risks

Strategic Risks	Competition	It should be stressed that these actions are completed by a constant benchmarking of the PT Group vis-a-vis its competitors' business and the business of other relevant players in the industry, in order to ensure leadership and excellence of the offer to its customers.
	Innovation	<p>In view of the background of quick technological changes, the PT Group is subject to the risk of failing to leverage technological advances and developments in its business model, in order to obtain or maintain competitive advantages.</p> <p>Wagering on innovation remains a priority for Portugal Telecom, given its key role in pursuing a sustained growth, in particular in a difficult economic context, which compels greater competitiveness in the offer of products and services, and at the same time a greater efficiency in its development and delivery to the market.</p> <p>The PT Group is historically one of the Portuguese companies with a larger volume of investment in Research and Development (R&D). In this field, the PT Group holds strategic assets that allow it to ensure the implementation of innovative projects, including:</p> <ul style="list-style-type: none"> • PT Inovação: a company aimed at the technological development of the Group's businesses, in terms of applied research, engineering services and development of innovative solutions and services, both in the domestic and the international market. • OPEN Development and Innovation Programme: aimed at implementing systematised research practices and information processing, involving the whole organisation, for the materialisation of innovative projects. • Strategic planning of network infrastructures and rollout of new technologies, which implies the preparation of reports and periodic analysis on the evolution, standardisation and adoption of new technologies by the sector, including the carrying out of international benchmarks. • Strategic partnerships with technological, equipment and content suppliers and service providers. <p>Within this framework, it should also be highlighted the "Technology & Innovation Conference" held in October 2012, during which international investors were shown how the PT Group is leveraging its investment in state-of-the-art technologies and networks, as well as the innovation roadmap planned for the B2C and B2B segments. This event included, other than the presentation of PT's management team and demonstrations of the Company's most innovative solutions, the participation of strategic technological partners.</p> <p>For further detail as to level of exposure to this risk, please see the Chapter on Financial Instruments in the Report and Accounts.</p>
	Economic Environment	<p>The international financial crisis may extend the recession at Portuguese and world economy level and delay economic recovery, which might have an impact on the level of product and service demand, and as a result on the level of the operational and financial performance of the PT Group. In this sense, management continuously monitors impacts on the operational and financial performance of PT.</p> <p>The management team acts proactively in identifying threats and opportunities at the level of the industry, sector and geographies where it is present, in order to diversify the asset portfolio and therefore ensure the growth and profitability of the business.</p>

Relevant Risks

<p>Financial Risks</p>	<p>Exchange PT holds financial investments in foreign countries which currency is not the Euro, including Brazil and a few African countries. Exchange rate fluctuations of those currencies against the Euro affect the translation of the results attributable to Portugal Telecom, and therefore impact the PT Group's results and asset position. Additionally, PT is also exposed to exchange rate risk derived from debt denominated in other than Euro currency.</p> <p>The Company does not have a hedging policy regarding the value of these investments; however the Executive Committee analyses the execution of cash flow hedging of the dividends and other capital income.</p> <p>For further detail as to level of exposure to this risk, please see the Chapter on Financial Instruments in the Report and Accounts.</p>
<p>Financial Risks</p>	<p>Interest Rate Interest rate risks are essentially related to interest supported on debt undertaken at a variable interest rate.</p> <p>The growth of uncertainty and volatility in financial markets generally and risk premium in the markets have increased significantly. Financial market instability and the fluctuation of the interest rate on Portuguese Sovereign debt raise the potential for materialisation of this risk factor. In this way, the current conditions of the financial markets might have an adverse effect on PT's ability to access the capital it needs to support its growth and its strategies, and to generate future financial returns. The management of the financial market risk is ensured by the Corporate Finance Department.</p> <p>For further detail as to level of exposure to this risk, please see the Chapter on Financial Instruments in the Report and Accounts.</p> <p>Portugal Telecom executes agreements regarding a set of derivative financial instruments so as to minimise the risks of exposure to interest and exchange rate variations. The execution of agreements concerning financial instruments is made after a careful analysis of risks and benefits inherent in this kind of transactions and in consultation with various institutions acting in this market. These transactions are subject to prior approval by the Executive Committee and involve a periodic follow-up of the evolution of the financial markets and of the positions held by the Company. The fair value of these instruments is assessed regularly along the year, mainly on the basis of market information, in order to permit a standing evaluation of the economic and financial implications of the different scenarios.</p> <p>For further detail as to derivatives under agreement and levels of exposure to such risk, please see the Chapter in the Report and Accounts on this matter.</p>
<p>Financial Risks</p>	<p>Credit The credit risk is mainly related to the risk of the other party defaulting on its contractual obligations, resulting in a financial loss for the PT Group. Portugal Telecom is mainly subject to the credit risk in its operational and liquidity activities.</p> <p>The credit risk in operations is related to receivables from services rendered to customers. These risks are monitored on a regular basis by each PT Group business, and the purpose of management is: (i) to limit the credit granted to customers, considering their profile and seniority of the balance to be received from each customer; (ii) to monitor the development of the granted credit level; (iii) to carry out, on a regular basis, an analysis on the recoverability of the amounts to be received; and (iv) to analyse the risk of the market where the customer is located.</p> <p>The risks related to liquid funds result mainly from investments made by the PT Group with available funds. In order to mitigate this risk, Portugal Telecom's policy consists in short-term investments with various financial institutions, taking into account the relevant credit rating.</p>

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Relevant Risks

Financial Risks	Liquidity	<p>This risk may occur if funding sources, such as available funds, operational cash flows and funds obtained through divestment, credit lines and funding, fail to meet existing needs, such as disbursements for operational activities and funding for investment, shareholder remuneration and debt reimbursement.</p> <p>In order to mitigate this risk, Portugal Telecom seeks to keep a liquid position and an average debt maturity permitting it to repay its short-term debt, and settle its contractual obligations at the same time. Additionally, Portugal Telecom's capital structure is managed in such a way as to ensure its capacity to pursue its various businesses and maximise shareholder return. The PT Group reviews its capital structure from time to time, taking into consideration the risks associated to each capital class.</p> <p>For further detail as to levels of exposure to such risk and actions to mitigate the same, please see the Chapter on Financial Instruments in the Report and Accounts.</p>
Operational Risks	Infrastructure Capacity	<p>The capacity and availability of network infrastructures are essential features for the PT Group to ensure continued critical operations within high quality parameters aimed not only at customer satisfaction, but also in compliance with regulatory requirements. In this way, the PT Group has strongly emphasised the management of this risk, not only at infrastructure availability level, but also in the increase of infrastructure capacity, in such a way as to support new product and service offers to its customers. Additionally, PT's ownership of a network infrastructure located in the public domain increases the PT Group's exposure to the occurrence of breakdowns and incidents.</p> <p>Within this scope, the following follow-up and risk mitigation actions are carried out:</p> <ul style="list-style-type: none"> • Securing the telecommunications core network; • Preparation of risk diagnoses for the various technological platforms, identifying dependencies and single failure points; • Definition and implementation of disaster recovery plans; • Implementation of systems and procedures aimed at ensuring determined QoS (Quality of Service) and QoE (Quality of End user Experience) levels; • Investment in new generation networks and preventive maintenance actions; • Investment in information systems to support the activity of technical teams; • Investment in Data Centre, in order to ensure infrastructure resiliency and capacity. <p>Reinforcing the resiliency of the processes and operations supporting the PT Group's Core services against incidents and disasters is coordinated by the business continuity office acting at two levels:</p> <ul style="list-style-type: none"> • Prevention: Preparation of a response aimed at reducing the impact of incidents on critical processes supporting the services; • Response and recovery: Supported by business continuity plans and Disaster Recover to speed up the recovery of critical processes. <p>Also in 2012, we should highlight the launching of the 4G LTE offer of the group with a planned coverage in excess of 90% of the population, which permits data speeds around 150Mbps.</p>

Relevant Risks

Operational Risks	Strategic partnerships	<p>The growth strategy at national and international level is based on a combination of alliances and partnerships that enhance the Company's competitive capacity. The Executive Committee of PT and its subsidiary companies have played a central role in the management of this risk, by leveraging existing opportunities.</p> <p>Such alliances are not restricted to a single field, as they include as partners: (i) technology suppliers; (ii) infrastructure construction providers; (iii) R&D experts; (iv) terminal equipment and handhelds suppliers; and (v) content suppliers, among others.</p>
	Environmental	<p>Pursuing an appropriate environmental policy has been a concern for Portugal Telecom, in order to reduce the Company's exposure to environmental damages that might consist in (i) liability towards third parties for any material damage caused; and (ii) liability towards Governments or third parties for the cost of waste removal, added by possible compensations.</p> <p>In this way, the PT Group has reinforced its environmental management principles and actions, thus ensuring the certification of associated systems according to the ISO 14001 standard. Environmental management policies and systems cover the following areas of intervention: (i) Resource consumption; (ii) Waste production and routing; (iii) Atmospheric emissions; (iv) Noise and electromagnetic fields; (v) A supplier sustainability program; and (vi) Awareness and training campaigns.</p> <p>Furthermore, it should be stressed that the management models are subjected to periodic audits, both internal and external, and a continuous assessment of any impacts and improvements to be implemented is also carried out.</p>
	Talent Procurement & Retention	<p>The Company's capacity to obtain and retain talent is a fundamental vector for the pursuance of the Company's strategic goals, particularly within the competitive context where Portugal Telecom operates, both at national and international level. In this way, the Company has paid special attention to the management of this risk, at the charge of the Human Resources Office, which acts:</p> <ul style="list-style-type: none"> • In the recruitment of new employees having the profile and knowledge necessary to ensure the key skills required for the present and future development of the PT Group; • In the identification of key-elements of the PT Group, and then implement retention strategies as appropriate for the segments defined for its management.

II.10. Powers of the Management Body, notably as regards capital increase resolutions

The powers of PT's Board of Directors are described in Chapter II.3., Board of Directors.

PT's 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.

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In December 2008, making use of the above authorisation, the Board of Directors issued bonds convertible into shares, which included, according to a resolution by the General Meeting approving the relevant parameters, the approval of a capital increase implied in the resolution to issue the abovementioned bonds in an amount not exceeding 15% of the share capital in PT on the date of the resolution to issue convertible bonds, without prejudice to such amount being exceeded as a result of any adjustments to the conversion price.

II.11. Function rotation policy – appointment and substitution of members

Function rotation policy

As from 2010, the Board of Directors approved a set of general principles that govern the rotation of its functions, with the following main goals:

- Full compliance with the legal delimitation of powers in the matter of election of the corporate bodies, particularly the dominant role of the General Meeting of Shareholders in this field;
- Pursuing the interest of the Company; and
- Progressive follow-up of the best national and international corporate governance practices, particularly CMVM Recommendation no. II.2.5.

This rotation policy is based on the following assumptions:

- The election of the directors is incumbent on the Shareholders assembled in a General Meeting of Shareholders;
- It is the Board of Directors responsibility to appoint the members of the Executive Committee and of the Board's specialised committees, upon proposal by its Chairman, and to co-opt any directors as required onto the Board (subject to ratification by the General Meeting of Shareholders);
- The Evaluation Committee assists the Board of Directors in the matters of selection, co-optation and vacancy filling in the Board's committees.

In the performance of its duties, and considering any limits as derive from the law, the Bylaws and resolutions of the Company's General Meeting of Shareholders, the Board of Directors of Portugal Telecom shall, to the extent possible and as appropriate for the Company's interest, observe the following general principles:

- a) The principal criteria for allocation of functions to the Company's directors shall be: *(i)* their know-how, knowledge, capacities and experience; and *(ii)* the diversity of areas of expertise, qualifications, experiences and perspectives within the Board of Directors and each committee;
- b) The function rotation of the Company's directors is neither binding nor automatic by nature, and it will be considered by the Board of Directors, subsidiarily in view of the criteria referred to in (a) above, where it may contribute to a better performance by the Board of Directors and/or its committees, as well in pursuing the interest of the Company;
- c) The function rotation shall be subject to the said consideration, on a case by case basis, by the Board of Directors at the beginning of each term of office or whenever required to fill a vacancy within the Board or its committees;
- d) The Board of Directors shall seek to achieve that the composition of its committees ensure an appropriate balance between continuity, accrued experience and new perspectives;

- e) The periodic rotation of Board functions shall be merely progressive, and it shall apply to the number of members of its committees deemed appropriate by the Board of Directors;
- f) The functions of the executive members of the Board of Directors shall be assigned by the Executive Committee, following a proposal by its Chairman, by favouring know-how, capacities and experience as required for each function, and as a general rule making continuity and accrued experience prevail over mere rotation, particularly as regards highly specialised functions (such as the financial function and technical functions);
- g) Non-Executive members of the specialised committees of the Board of Directors shall tend to be subject to rotation among specialised committees after the lapse of three terms of office, pursuant to the principles in (a) and (e) above;
- h) The Evaluation Committee gives its opinion, in advance, on the observance of the general principles that shape the rotation policy.

At the time of adoption of this policy, the Board of Directors further considered that the same is reinforced by the following management accountability mechanisms already implemented by the Company: *(i)* duration of terms of office for three years, with the possibility of re-election; *(ii)* periodic appraisal and evaluation of the management by the Shareholders at the Annual General Meetings of Shareholders; and *(iii)* the duties performed by the Evaluation Committee of the Board of Directors.

Rules on the appointment and substitution 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 Chapter II.1.

PT's Evaluation Committee was assigned powers within the director appointment procedure as best described in Chapter II.16.

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.

Rules on the appointment and substitution of members of the supervisory bodies

The members of the supervisory bodies are appointed by the General Meeting of Shareholders, under proposal by the Audit Committee in the case of the Chartered Accountant, as described in Chapter II.1.

The Bylaws determine that the absence of any member of the Audit Committee shall be deemed as a definitive absence under the same terms as described above regarding the absence of members of the Board of Directors. Such definitive absence shall be declared by the Audit Committee, and the member in question shall be replaced as provided for by law and the Bylaws.

Substitution of the Chartered Accountant shall be made in accordance with the law.

II.12. Number of meetings of the management and supervisory bodies, as well as reference to minutes of such meetings

During the 2012 financial year, 16 meetings of the Board of Directors and 14 meetings of the Audit Committee took place.

The management and supervisory bodies draw up minutes of their meetings, and members attending such meetings may dictate a summary of their interventions for the minutes.

II.13. Number of meetings of the Executive Committee and remittal of its minutes and notices

During the 2012 financial year, 29 meetings of the Executive Committee took place. The Executive Committee draws up minutes of its meetings, and members attending such meetings may dictate a summary of their interventions for the minutes.

The Chief Executive Officer sends all notices and minutes of the Executive Committee meetings to the Chairman of the Board of Directors and Chairman of the Audit Committee in order to allow for the proper information of such officers.

II.14. Executive and non-executive members – incompatibility rules and independence criteria

Board of Directors

In Chapter II.1., directors are broken down into executive and Non-Executive directors, and among the latter those that are considered independent.

All non-executive members of the Board of Directors (obviously, other than directors incorporating the Audit Committee) would comply, if applicable, with all incompatibility rules provided for under article 414A,1 of the Portuguese Companies Code, except as provided for under subparagraphs (b) and (h) pursuant to the provisions of CMVM Recommendation no. II.1.2.3.

In this way, it should be mentioned that PT carried out an overall, material, on a case-by-case basis evaluation of the independence of its directors, guided by general principles intended to assess that directors are neither associated to any specific interest group within the Company, nor in any circumstance capable of affecting their impartial analysis or decision.

The evaluation of independence of directors incorporating the Audit Committee was conducted by this corporate body, in accordance with Internal Regulation no. 4,08 approved by the Board of Directors and the Audit Committee on 31 January 2008, as detailed 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: (i) criteria as defined in Internal Regulation no. 3,08 approved by the Board of Directors on 31 January 2008, which provides for criteria substantially in line with the general principles underlying European and CMVM recommendations as detailed in II.15 below, as well as (ii) criteria as provided for under Section 303A Corporate Governance Standards of the New York Stock Exchange.

Within this framework, as set out in Chapter II.1 above, the independence of executive directors, as well as of Non-Executive directors acting in the name or on behalf of owners of qualified holdings in PT or entities in a control or group relationship with the same, was deemed hindered.

Moreover, regarding PT Non-Executive directors who were re-elected for more than two terms of office by resolution passed by 93.61% of the votes of shareholders present or represented at the elective General Meeting of Shareholders held on 27 April 2012, it was the Board of Directors' understanding that, notwithstanding the provisions of article 414,5(b) of the Portuguese Companies Code by reference from CMVM Recommendation no. II.1.2.3:

- a) Permanence in such office does not constitute cause for automatic loss of independence;
- b) In this case, their re-election does not affect their fairness and impartiality, notably taking into account successive mutations occurred in the management body and the diffused shareholder structure in the Company along successive terms of office;
- c) Such directors bring a valuable contribution to a proper performance of the supervisory duties entrusted to Non-Executive management, considering, in particular, their experience, engagement and knowledge of the sector and the Company, as well as acknowledging their fairness and impartiality within the corporate bodies and the Company as a whole.

In this way, we may conclude that all directors deemed independent by PT, as of 31 December 2012, as set out in Chapter II.1 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 (in excess of a quarter of total members as per II.1 above), capable of playing the supervisory and accountability role that is specially entrusted to them.

This understanding contrasts with CMVM's current position as expressed on annual reports on listed company governance for 2010 and 2011, both disclosed in 2012, and for such reason CMVM Recommendation no. II.1.2.2 is declared non-complied with.

In fact, the interpretation adopted by CMVM, up to now, in relation to the application of independence criteria provided for under CMVM Recommendation no. II.1.2.3 in force on the date hereof considers the assumptions provided for under the subparagraphs of article 414,5 of the Portuguese Companies Code as automatic cause for loss of independence. According to this interpretation, as of 31 December 2012, PT's Board of Directors does not have a quarter of independent directors amongst its total members, since its Chairman and director Gerald S. McGowan have already been re-elected as PT directors for more than two terms of office, and therefore are not considered as independent.

For all the above reasons, notwithstanding having taken into account such CMVM understanding on its declaration of non-compliance with CMVM Recommendation no. II.1.2.2, PT reiterates its refusal of this CMVM position, and makes an overall material case-by-case evaluation of the independence of its directors that is based on the best governance practices and intended to promote a Non-Executive management having conditions as required to impartially exercise an active supervision aimed at the pursuance of PT's best interest.

Audit Committee

Taking into consideration the internal rules on independence issues and the communications made by this corporate body's members, as at 31 December 2012, the Audit Committee complies with the provisions of

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article 423B,4 & 5 of the Portuguese Companies Code, since all its members are independent pursuant to article 414,5 of the same Code and have appropriate training and expertise.

It should be noted, however, that, on annual reports on listed company governance for 2010 and 2011, both disclosed in 2012, CMVM presented a position that was different from PT's understanding, considering that the Company fails to comply with CMVM Recommendation no. I.1.1.3.

In fact, should CMVM's understanding that re-election in any corporate body (and not exclusively in the supervisory body) is relevant for the purposes of subparagraph (b) of article 414,5 of the Portuguese Companies Code be followed, the Chairman of the Audit Committee, although having been elected for the first time for the supervisory body on 22 June 2007, was re-elected for more than two terms of office to carry out Non-Executive duties in the management body of the Company.

In this way, it should be stressed that it has always been PT's understanding, supported on opinions obtained in connection with the specificities of its governance model, that the number of terms of office that are relevant for the purposes of the provisions of article 414,5(b) of the Portuguese Companies Code is merely related to re-election to similar supervisory duties.

In particular, considering that the legal independence requirements and criteria are placed, primarily and mandatorily, on the members of supervisory bodies, and that the members of the Audit Committee take a double function, as "directors" and "supervisors", it is understood that the legal system applicable to "supervisors" prevails with regard to the composition of such body and the assessment of independence of its members.

Furthermore, the assumption ratio provided for under such (b) section must be the rotation within the supervisory body. The above notwithstanding, it should be mentioned that re-election to other corporate bodies may be relevant, but only for the purposes of the general criterion on assessment of independence as provided for in the preamble to paragraph 5 of article 414 of the Portuguese Companies Code. In other words, such re-election should not be considered as cause for automatic loss of independence, but rather appraised on a case-by-case basis as to whether or not it impairs an impartial analysis or decision by the member in question

In this respect, it is important to take into account that PT has carried out a material overall evaluation of the independence of the Chairman of its Audit Committee, similarly to all other members of this body, and concluded that he is independent and he is in no way associated to any specific interest group within the Company or in any circumstance that might affect his analysis or decision fairness.

Also based on the abovementioned material analysis to independence, in the case under appraisal, permanence in Non-Executive duties for several terms of office in the Company is not understood as hindering fairness vis-à-vis the existing interests, including vis-à-vis the board and the Company's shareholders, especially considering: on the one hand, the Company shareholder structure that is widely diffused across our market; and, on the other hand, the successive mutations in the composition of PT management body (including the executive management) and in PT shareholder structure that occurred all along the terms of office when the Chairman of the Audit Committee has been performing his Non-Executive management duties.

In fact, for all the above reasons, notwithstanding the different understanding expressed by CMVM and taken into account by the Company on its declaration of non-compliance with CMVM Recommendation no. II.1.3.1, PT considers that the Chairman of its Audit Committee is independent and has the proper training and knowledge.

It should be further stressed that, even if the above CMVM position was adopted, according to the Audit Committee's understanding, both permanence in Non-Executive duties and re-election to the supervisory body, as recently resolved by the Company's shareholders by a percentage of 93.61% of votes cast at the elective General Meeting of Shareholders held on 27 April 2012, not only do not affect the members' fairness and impartiality but also prove to be a relevant contribution and quality for the proper performance of their supervisory duties, in compliance with their fundamental care and loyalty obligations, in the interest of the Company.

Such contribution and quality result, especially, from the following: (i) their qualifications and knowledge and experience regarding the sector and the Company; (ii) acknowledging that their fairness and impartiality within the corporate bodies and the Company as a whole, which proves to be essential for duties typical of the chairman of the supervisory body; as well as (iii) the continuity required to respond to the demands placed on the supervisory body of PT, as issuer of securities admitted to trade on Euronext Lisbon and NYSE.

Furthermore, it should be stressed that (i) independence of the members of the Company's Audit Committee is also assessed in accordance with SEC and NYSE rules applicable to PT's Audit Committee, which rules are described in next Chapter, and (ii) all the members of the Audit Committee are 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.

II.15. Rules for evaluation of independence of management members

Board of Directors

The concept of independence set out in Internal Regulation no. 3,08 on the independence of the members of the Board of Directors of Portugal Telecom, other than the members of its Audit Committee, approved on 31 January 2008, as well as the criteria under Section 303A Corporate Governance Standards of the New York Stock Exchange were taken into consideration in the qualification of director independence as set out above.

In particular, the abovementioned Internal Regulation provides for criteria reflecting and permitting a material, case-by-case basis evaluation of independence substantially in line with the general principles underlying: (i) European recommendations, in the light of which directors are deemed independent if they do not entertain any commercial, family or other relationships – with the company, owners of qualified holdings or organisation structures of either of them – “that might originate a conflict of interests capable of impairing their appraisal capacity”; and (ii) CMVM Recommendations that refer to the requirements applicable to members of the supervisory bodies as provided for under articles 414 and 414A of the Portuguese Companies Code, according to which directors are deemed independent if neither associated to any specific interest group within the Company, nor in any circumstance capable of affecting their impartial analysis or decision.

In assessing the non-existence of any association to specific interest groups in PT or any circumstance capable of affecting a director's capacity to analyse or decide with independence, the directors, as well as the Board of Directors as a whole, also take into account the incompatibility rules set forth in article 414A of the Portuguese Companies Code, with exception to the rule in paragraph 1(b) of this article, as well as the situations affecting director independence as established in article 414,5(a) and (b) of that same Code.

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According to Internal Regulation no. 3,08, 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. 3,08 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, as described hereinafter.

Audit Committee

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 adopted, on 31 January 2008, Internal Regulation 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 on Listing Standards Relating to Audit Committee of SEC and the Final Rules approved under Section 303A on Corporate Governance Standards of NYSE, were also taken into account.

In accordance with the abovementioned Internal Regulation, 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 Internal Regulation no. 4,08.

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.

Independence of the members of the Company's Audit Committee is also assessed in accordance with the tests known as Independence Tests set out in Section 303-A on Corporate Governance Standards issued by the NYSE, which are applicable to the Company as an entity with shares admitted to trading on the NYSE, under ADR form.

II.16. Selection procedure for non-executive director candidates

Candidates for non-executive management offices are elected by the General Meeting of Shareholders. At the elective General Meetings of Shareholders that have been held at PT, the names incorporated in the lists for purposes of election of corporate bodies, in particular as regards the management body and its Non-Executive members, have been proposed by Shareholders who are signatories of the proposal in question, no executive directors having participated in the procedure for selection of Non-Executive directors.

Additionally, the Evaluation Committee is assigned, *inter alia*, the power to assist the Board of Directors in the procedure for selection of directors for the Company, either at the request of the Chairman of the Board of Directors (notably in case of co-optation), or on the initiative of Shareholders entitled to submit lists to voting.

The assignments of the Board of Directors and Evaluation Committee within this framework correspond to the exercise of the corporate management duties entrusted to the management body as to the specialised functions of the Board of Directors, i.e. the intervention of such Committee in the selection procedure for Non-Executive director candidates essentially comprises the definition of an objective profile as appropriate for the persons to be elected, taking into account general and abstract criteria of good management, without prejudice to the decision of candidate selection being in itself entrusted to the Board of Directors in cases of co-optation (subject to ratification by the General Meeting of Shareholders), or to the Shareholders in case of election at a General Meeting of Shareholders.

The Evaluation Committee has 6 Non-Executive directors among its 7 members, and it is chaired by the Chairman of the Board of Directors, who is a Non-Executive director. The sole member of this Committee performing executive duties in the Company is the Chief Executive Officer, who is prevented, under the Evaluation Committee Regulation, from voting as to resolutions on the annual performance evaluation of the members of the Executive Committee, and resolutions on co-optation or election of PT directors where the selection of Non-Executive directors is at issue.

In this way, any interference of executive directors in the selection of Non-Executive director candidates is limited, in full compliance with CMVM Recommendation no. II.1.3.2.

II.17. Description of the activity of non-executive directors

The Board's operating regulation provides for the possibility of holding *ad hoc* meetings among Non-Executive directors, and requires that Non-Executive directors meet with the Chairman of PT's Evaluation Committee at least once a year.

The non-executive members of the Board of Directors have prepared a report of the activities carried out during the 2012 financial year, which report was approved at the meeting of such members held on 27 February 2013 and is disclosed on the annual management report in compliance with CMVM Recommendation no. II.2.4.

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II.18. Professional qualifications of the members of the Board of Directors, indication of professional activities carried out by the same in the last five years at least, number of shares in the company held by the same, date of first appointment and date of expiration of term of office

The *curricula* of PT directors are shown in Appendix III.

Chapter II.1. shows the number of shares in the Company held by each director, the year of first appointment and the date of expiration of the term of office.

II.19. Functions exercised by the members of the management body in other companies, individualizing those exercised in other companies of the same Group

The functions exercised by the PT's directors in other companies are shown in Appendix III.

Section III. General and Supervisory Council, Committee for Financial Matters, Audit Committee and Fiscal Council

Information as provided for in **Chapters II.20. to II.23.** of CMVM Regulation no. 1/2010 does not apply to PT, taking into account that the Company has adopted an Anglo-Saxon governance model.

II.24. Evaluation of the external auditor

PT follows the Anglo-Saxon governance model, and therefore it has no Supervisory Board (*"Conselho Fiscal"*). The data hereinafter are referred to the Audit Committee.

The annual evaluation of the external auditor is included in the annual activity report of the Audit Committee made available on the Company website, as mentioned in Chapter II.4.

Up to this date, PT Audit Committee has, in no case, found any reason to take steps towards removing with just cause any entity having performed the duties of external auditor of the Company, and therefore CMVM Recommendation no. II.4.5, at no time applicable as to this portion, is deemed entirely complied with.

For mere information purposes, it should be said as to this matter that, in accordance with its Internal Regulation, the Audit Committee is directly and exclusively responsible for appointing, hiring, confirming or terminating the duties and fixing the remuneration of the external auditors of the Company, as well as for supervising their qualifications and independence and approving the auditing and/or other services to be rendered by the said external auditors or by persons or entities associated to the same. Neither the law nor the Bylaws of the Company assign any powers for the General Meeting of Shareholders to resolve on the removal without just cause of the external auditor.

Information as provided for in **Chapters II.25. to II.28.** of CMVM Regulation no. 1/2010 does not apply to PT, taking into account that the Company has adopted an Anglo-Saxon governance model.

II.29. Company remuneration policy

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 described in the declaration on this matter to be submitted by the Board of Directors to the Annual General Meeting of Shareholders to be held in April 2013. Such declaration is attached hereto as Appendix IV, and it will be submitted to the Shareholders as an integral part of the Report and Accounts for the 2012 financial year.

Similarly, at the Annual General Meeting of Shareholders held on 27 April 2012, the declaration of the Board of Directors on the remuneration policy applicable to the PT Group's officers, other than those incorporating the management or supervisory bodies, was also submitted to the Shareholders in a text incorporated in the Report and Accounts for the 2011 financial year.

Although CMVM Recommendation no. II.1.5.3 mentions that the declaration on remuneration policy provided for under Law no. 28/2009 of 19 June 2009, to be submitted to the General Meeting, shall also include the remunerations of officers, PT sees it fit not to adopt the end section of such Recommendation, since PT considers that information on the remunerations of the Company's officers, other than the members of the abovementioned corporate bodies, should be included in a document prepared by the management body and submitted to the General Meeting of Shareholders together with the financial statements under the item on the agenda for the approval of the report and accounts.

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In fact, the Company's officers who are not incorporated in its corporate bodies are senior managers of the Company, and the definition of their remuneration policy is the jurisdiction neither of the General Meeting of Shareholders nor of PT's Compensation Committee, but rather a matter related to the Company's management. This allocation of powers is not even specific to PT's governance model. In fact, in any governance model the remuneration of senior managers is a matter pertaining to human resource management, i.e. clearly inside the scope of powers of the management body.

Considering the above, the Company cannot but consider that the Recommendation in question is not consistent with the legal rules in force, according to which: *(i)* matters of management come primarily under the jurisdiction of the management body; *(ii)* the definition of the remuneration of corporate bodies, and none other, comes primarily under the jurisdiction of the general meeting of shareholders, which may appoint a compensation committee, and the latter is under the obligation of exercising the so-called "say on pay" as enshrined under Law no. 28/2009 of 19 June 2009.

This understanding is without prejudice to the Board of Directors' duty of accountability to the General Meeting of Shareholders regarding officer remuneration policy, in the same as it does as to any matter within the scope of its powers, and so, in PT's opinion, the proper venue for such purpose is the report and accounts submitted to the General Meeting of Shareholders each year.

In this way, in order to ensure transparency and accountability in board decisions in this field, the Board of Directors will submit this policy to the Shareholders as an appendix to the annual governance report.

At PT there are no other employees whose professional activity might have a relevant impact on the company risk profile or whose remuneration contains a significant variable component.

Section IV. Remuneration

Compensation Committee

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 current members of the Compensation Committee were elected on 27 April 2012 for the 2012-2014 three-year term of office. Taking into account the suspension of office of one of the members of the Compensation Committee, the Shareholders will be called to resolve on the appointment of a new member to the Compensation Committee to complete the 2012-2014 three-year term of office.

Composition

Álvaro Pinto Correia	Chairman
Francisco Esteves de Carvalho	Member
Francisco Barros Lacerda	Member ⁽¹⁾

⁽¹⁾Office suspended since 24 August 2012.

Independence of the members of the Compensation Committee

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

In this way, PT complies with the first part of CMVM Recommendation no. II.5.2.

II.30. 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 2012 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2012 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 V hereto.

At the Annual General Meeting of Shareholders to be held in April 2013, the declaration of the Compensation Committee on the remuneration policy for the members of PT's management and supervisory bodies for 2013 will similarly be submitted to the Shareholders under an autonomous item on the agenda.

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II.31. Remuneration individually earned by the members of the company's management and supervisory bodies

Pursuant to Law no. 28/2009 of 19 June 2009 and to CMVM Regulation no. 1/2010, individual remunerations paid to the members of the management body and Audit Committee of the Company in 2012 are shown hereinafter:

					Committees as of 31 December 2012		
	Fixed 2012	Variable 2011	Bonus 2009-2011 term of office	Total	Audit	Corporate Governance	Evaluation
Executive Committee							
Zeinal Abedin							
Mahomed Bava	695,038	589,929	-	1,284,967			Member
Luís Miguel da Fonseca Pacheco de Melo	486,526	363,267	-	849,793			
Alfredo José Silva de Oliveira Baptista	486,526	247,682	-	734,208			
Carlos António Alves Duarte	486,526	330,243	-	816,769			
Manuel Francisco Rosa da Silva	486,526	330,243	-	816,769			
Pedro Humberto Monteiro Durão Leitão	486,526	247,682	-	734,208			
Shakhaf Wine (a)	486,526	330,243	-	816,769			
	3,614,193	2,439,289	-	6,053,482			
Audit Committee							
João Manuel de Mello Franco	271,404	-	-	271,404	Chairman	Member	Member
José Guilherme Xavier de Basto	126,574	-	-	126,574	Member		
Mário João de Matos Gomes (b)	183,736	-	-	183,736	Member		
	581,714	-	-	581,714			
Other Members of the Board of Directors							
Henrique Manuel Fusco Granadeiro	617,812	-	652,500	1,270,312		Chairman	Chairman
Amílcar Carlos Ferreira de Morais Pires	44,058	-	-	44,058			
Fernando Magalhães Portella (c)	8,154	-	-	8,154			
Francisco Teixeira Pereira Soares	132,174	-	-	132,174		Member	Member
Gerald Stephen McGowan	75,528	-	-	75,528		Member	
João Nuno de Oliveira Jorge Palma (d)		-	-			Member	
Joaquim Aníbal Brito Freixial de Goes	118,786	-	-	118,786		Member	Member
José Pedro Cabral dos Santos (d)	-	-	-	-			
Maria Helena Vaz de Carvalho Nazaré	44,058	-	-	44,058			
Milton Almicar Silva Vargas	75,528	-	-	75,528			Member
Nuno Rocha dos Santos de Almeida e Vasconcellos	69,234	-	-	69,234			
Otávio Marques Azevedo	75,528	-	-	75,528			Member
Paulo José Lopes Varela	87,316	-	-	87,316		Member	
Rafael Luís Mora Funes	118,786	-	-	118,786		Member	Member
Pedro Jereissati (e)	68,090	-	-	68,090			
	1,535,052	-	652,500	2,187,551			
	5,730,959	2,439,289	652,500	8,822,747			

(a) The remuneration of the executive director Shakhaf Wine is paid through PT Brasil, PT's subsidiary in Brazil, in local currency, with the corresponding amount in Euro being presented in the table above. (b) In addition to the amount specified on the table above paid by PT, Non-Executive director Mário de Matos Gomes was also paid a remuneration in the amount of 7,838 Euros by Previsão - Sociedade Gestora de Fundos de Pensões, S.A. for the office of Chairman of the Supervisory Board he performs therein. (c) Director Fernando Magalhães Portella was co-opted onto office on 25 October 2012. (d) Non-Executive directors João Nuno de Oliveira Jorge Palma and José Pedro Cabral dos Santos waived their remuneration due to incompatibility with other professional duties. (e) Non-Executive director Pedro Jereissati resigned from his office in PT on 25 October 2012.

The variable remuneration paid to the members of the Executive Committee in the 2012 financial year set out above refers to the performance of the executive directors during the financial year ended on 31 December 2011. In addition, the bonus paid to the Chairman of the Board of Directors during the 2012 financial year mentioned in the table above is related to the term of office ended on 31 December 2011 as determined by the Compensation Committee under the terms of the remuneration policy in force.

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 the other Non-Executive directors corresponds to a monthly fixed remuneration which amount takes into consideration the number of committees to which they belong, pursuant to the remuneration policy.

During the 2012 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 48 to the consolidated financial statements for the year of 2012.

II.32. Alignment with long term interests of the company, remuneration based on performance and disincentive to excessive risk taking

As results from the remuneration policy in force in 2012, described in Appendix V, the remuneration is structured in such a way as to permit the alignment of the interests of management body members with long term interests of the Company, and it is based on performance evaluation and is a disincentive to excessive risk taking.

II.33. On the remuneration of executive directors:

(a) Reference to the fact that the remuneration of executive directors incorporates a variable component, and information on the way as such component depends on performance evaluation;

See information included in Chapters II.31. and II.32.

(b) 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.

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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.

(c) Indication of pre-determined criteria for the performance evaluation of executive directors;

The determination of the variable remuneration to be allocated for the performance of the year is 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 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 a national and international level.

(d) Clarification of the relative significance of the variable and fixed components of director remuneration, as well as indication of maximum limits for each component;

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 2012 financial year are described on the declaration on remuneration policy set out in Appendix V.

In this way, the remuneration of executive directors for the 2012-2014 term of office is 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 is 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 Chairman of the Board of Directors, 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 variable remuneration of executive directors is dependent on achievement of pre-determined goals, and it may amount to 160% of the fixed remuneration 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 may 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 the Chief Executive Officer, respectively. In any case, and even if the level of achievement of pre-defined goals is in excess of 100%, the amount of the variable remuneration will 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 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 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 results that overall the variable component vis-a-vis the fixed component of the remuneration present a reasonable relationship, and therefore PT considers that CMVM Recommendation no. II.1.5.1(ii) was complied with.

The declaration of the Compensation Committee on remuneration policy for the members of PT's corporate bodies applicable to the 2012-2014 term of office, which essentially maintains the policy defined in 2012 and approved by the General Meeting of Shareholders held on 27 April 2012, will be submitted to the approval of the Shareholders at the 2013 Annual General Meeting.

(e) Indication of the 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 has been deferred for a three-year period, subject to the positive performance by PT not being affected as mentioned under the remuneration policy in force.

In this way, as of 31 December 2012, pursuant to the executive directors' remuneration policy in force, the following amounts relating to variable remuneration were deferred, with the payment of such deferred amounts being expected to take place in the specified years, subject to the conditions as defined:

	Reference year (Payment year)		
	2010 (2014)	2011 (2015)	Total
Executive Committee			
Zeinal Abedin Mahomed Bava	660,904	589,929	1,250,833
Luís Miguel da Fonseca Pacheco de Melo	420,575	363,267	783,842
Alfredo José Silva de Oliveira Baptista	-	247,682	247,682
Carlos António Alves Duarte	420,575	330,243	750,818
Manuel Francisco Rosa da Silva	420,575	330,243	750,818
Pedro Humberto Monteiro Durão Leitão	-	247,682	247,682
Shakhaf Wine (a)	420,575	330,243	750,818
	2,343,204	2,439,289	4,782,493

(a) The remuneration of executive director Shakhaf Wine is paid through PT Brasil, PT's subsidiary in Brazil, in local currency, with the corresponding amount in Euro being presented in the table above.

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During the 2012 financial year, executive directors were paid the following medium-term variable remuneration in relation to 2009, which payment was deferred according to the remuneration policy in force:

Executive Committee	
Zeinal Abedin Mahomed Bava	509,463
Luís Miguel da Fonseca Pacheco de Melo	356,623
Carlos António Alves Duarte	356,623
Manuel Francisco Rosa da Silva	356,623
Shakhaf Wine (a)	356,623
	1,935,957

(a) The remuneration of executive director Shakhaf Wine is paid through PT Brasil, PT's subsidiary in Brazil, in local currency, with the corresponding amount in Euro being presented in the table above.

(f) Explanation on how the payment of the variable remuneration is subject to continued positive performance by the company all along the deferment period;

The payment of 50% of the variable remuneration amounts allocated, in each financial year, to each executive director is deferred for a three-year period and subject to the condition of the positive performance by the Company not being affected according to the terms of the remuneration policy in force. For further information on the conditions of payment of such deferred amounts, please see the remuneration policy for PT corporate bodies as effective in 2012 attached hereto as Appendix V.

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 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.

(g) Sufficient information on the criteria on which the allocation of a variable remuneration in shares is based, as well as on executive directors keeping any shares granted them in the company, on 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. See Chapter II.31.

h) Sufficient information on the criteria on which the allocation of a variable remuneration in options is based, and indication of deferment period and exercise price;

Not applicable.

(i) Identification of the main parameters of and grounds for any annual bonus system and any other non-pecuniary benefits;

In 2012, there were no significant bonus, annual bonus or non-pecuniary benefit systems of any nature whatsoever.

(j) 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 2012 financial year and is attached hereto as Appendix V).

As to the item above, it should be stressed that, as mentioned under item I. of Appendix V, the remuneration of the Chairman of the Board of Directors consists in an annual fixed remuneration indexed to the annual fixed remuneration of the Chief Executive Officer, the variable component excluded.

Under that same item, such fact does not disallow the ability as recognised to the Board's Evaluation Committee to propose that the Compensation Committee allocate a special bonus to the Chairman of the Board of Directors, at the end of his term of office, as a function of the evaluation of his performance of his duties (notably as referred to his powers under the Bylaws) separate, however, from the performance of the Company. In this way, upon definition of the remuneration policy, similarly to the previous remuneration policy, it was deemed that the quality of the performance of the Chairman of the Board of Directors might justify allocating such bonus, by taking into account criteria not related to the performance or value of the Company.

Furthermore, the definition of the main constituents of the remuneration policy for members of PT's management and supervisory bodies elected at the General Meeting of Shareholders dated 27 April 2012 for the 2012-2014 term of office was established before such election, and in fact submitted to the approval of the shareholders of the Company at that same General Meeting. The intention was that, similarly to the previous term of office, no Non-Executive director, the Chairman of the Board of Directors included, would see any portion of remuneration subject to the achievement of pre-determined goals, in order to prevent any effect on their independence vis-a-vis the executive management.

Considering the above, and since the ratio underlying the possibility of allocation of such bonus to the Chairman of the Board of Directors, at the end of his term of office, was substantially different from the one guiding the allocation and/or payment of the variable remuneration component (annual or pluri-annual) to executive directors, it is PT's understanding that CMVM Recommendation no. II.1.5.1(viii) is complied with.

In this way, under the remuneration policy previously in force, and considering the performance of his duties as the Chairman of the Board of Directors throughout the term of office ended on 31 December 2011, the Evaluation Committee proposed to the Compensation Committee the allocation of a bonus to the Chairman of the Board of Directors, of which 652,500 Euros were paid in 2012 and an equal amount was deferred for a three-year period.

In addition, during the 2011 financial year and following the recommendation presented by several Shareholders at the 2011 Annual General Meeting of Shareholders, the Compensation Committee, upon proposal by the Evaluation Committee, approved the allocation of an extraordinary bonus to the Chairman of the Board of Directors and the members of the Executive Committee, following the transactions occurred in 2010 relating to the acquisition of Vivo by Telefónica and the acquisition by PT of a joint control stake in Oi Group, and a portion of the amount fixed under the remuneration policy in force at the Company has been deferred.

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In this way, the following amounts in respect of extraordinary bonus allocated in 2011 have been deferred for a three-year period, and are subject to the conditions established under the Company remuneration policy:

Henrique Manuel Fusco Granadeiro	800,000
Zeinal Abedin Mahomed Bava	1,000,000
Luís Miguel da Fonseca Pacheco de Melo	237,500
Carlos António Alves Duarte	87,500
Manuel Francisco Rosa da Silva	137,500
Shakhaf Wine (a)	287,500
	2,550,000

(a) The remuneration of the executive director Shakhaf Wine is paid through PT Brasil, PT's subsidiary in Brazil, in local currency, with the corresponding amount in Euros being presented in the table above.

(l) Compensations paid or due to former executive directors in respect of termination of office during the financial year;

During the 2011 financial year, no compensations were paid or became due to former executive directors in connection with termination of their office during the financial year.

(m) Reference to 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 2012, 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 V, which was in force during the 2012 financial year, unless otherwise agreed or resolved by the Compensation Committee, PT 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 compensation will be paid 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's 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 compensations in case of inappropriate performance by the director. In this way, PT complies with CMVM Recommendation no. II.1.5.1(vii).

(n) Amounts paid, for any reason whatsoever, by other companies in a control or group relationship;

During the 2012 financial year, no amounts other than those referred to in Chapter II.31 above were paid to PT executive directors (or Non-Executive directors) by companies in a control or group relationship.

Additionally, it should be mentioned that, during the 2012 financial year, Brazilian companies integrated in Oi Group and Contax Group (both jointly controlled by PT) paid to 6 directors of PT, 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 952,000 Euros. This amount has been determined by those companies' competent corporate bodies under Brazilian law.

(o) Description of the main characteristics of complementary pension or early retirement systems for directors, specifying whether the same were subject to appraisal by the general meeting of shareholders;

One director is covered by the pension benefit plan sponsored by PT (TLP), which plan benefits over 11,000 employees and former employees. See information included on Note 14 to the financial statements for the 2012 financial year.

(p) Estimate of the value of material non-pecuniary benefits deemed as remuneration not covered by the foregoing situations;

The benefits in force for senior managers as described on Note 48 to the consolidated financial statements for 2012 are the only benefits applicable, *mutatis mutandis*, to the members of the Executive Committee (as well as to the Chairman of the Board of Directors).

(q) Existence of mechanisms preventing executive directors from executing agreements that might put into question the reason for a variable remuneration.

As described under the remuneration policy in force during the 2012 financial year and attached hereto as Appendix V, unless otherwise agreed or resolved by the Compensation Committee, PT 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.

II.34. Reference to the fact that the remuneration of non-executive directors of the management body does not incorporate variable components

No form of variable remuneration either for non-executive members of the management body or for members of the supervisory body is provided for (notwithstanding the possibility of allocation of a bonus to the Chairman of the Board of Directors as provided for under the remuneration policies in force at the Company during the last financial years). For more information, please see the remuneration policy for PT corporate bodies in force during 2012 as set out in Appendix V hereto, and item II.33(j) above.

II.35. Whistleblowing

In 2005, PT implemented a set of procedures called “System for Qualified Communication of Undue Practices”, or Whistleblowing. Within this System, “undue practices” mean all acts or omissions, wilful or seriously negligent, which are attributed to the conduct of members of a corporate body and other managing officers, heads of departments, staff and remaining employees of Group companies, notably in matters pertaining to Accounting, Internal Control or Auditing, that may be reflected on the financial statements or information sent to the Portuguese regulatory authority, CMVM, or the US regulatory authority, SEC, or that may cause damage to PT’s assets.

Taking this framework into account, Whistleblowing is any communication of information made by any person who believes that there is evidence of any of the following:

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

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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's 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 a website specifically created for such purpose: <https://napq.telecom.pt>.

The communication is automatically encrypted, it may be sent from any computer (within or outside PT), and its identification is virtually impossible.

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 and follow up of communications, which are first received by a Qualified Communication Analysis Team (NAPQ – Núcleo de Análise de Participações Qualificadas), 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.

Section V. Specialised committees

PT has three specialised committees in the Board of Directors, as well as two structures supporting the Executive Committee that will also be considered in the information given under this Section.

II.36. Performance Evaluation, Governance and Appointment Committees

The composition of the Evaluation Committee, Corporate Governance Committee, Disclosure Committee and Sustainability Committee are shown in Chapter II.2.

Currently, PT's governance structure does not comprise an autonomous committee empowered to identify candidates to management offices. However, the Evaluation Committee was given certain powers in the matter of selection of candidates to management offices, as described in Chapter II.3., Evaluation Committee.

II.37. Number of meetings of the committees and minutes of such meetings

During the 2012 financial year, the Evaluation Committee held 7 meetings, the Corporate Governance Committee held 3 meetings, the Disclosure Committee held 7 meetings and the Sustainability Committee held 1 meeting. Minutes are prepared in respect of the meetings of all these Committees.

II.38. Reference to the fact that a member of the Remuneration Committee has knowledge and experience in the matter of remuneration policy

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy, and thus PT adopts the second part of CMVM Recommendation no. II.5.2.

II.39. Independence of the persons hired by the Remuneration Committee

In the performance of its exclusive powers in the matter of remuneration determination under article 399 of the Portuguese Companies Code, PT's Compensation Committee is supported by the Evaluation Committee, which, as described above, has consultive 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.

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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.

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's Board of Directors has deemed the creation of this consultive 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's 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 2012 financial year, for the purpose of performance of its duties, the Compensation Committee did not resort to the services of companies hired by PT or of the current consultants to the Company for the provision of other services.

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.

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03

INFORMATION AND AUDITING

03

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III.1. Capital Structure

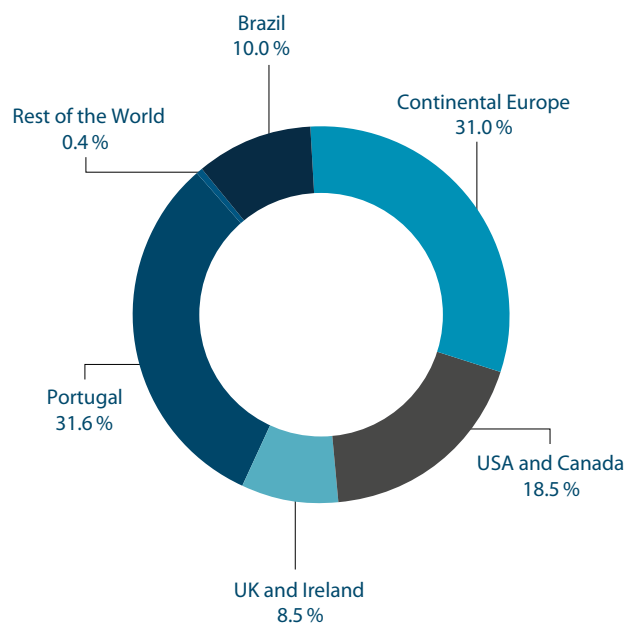
The share capital in PT is, as from 10 December 2008, 26,895,375 Euros, and it is fully paid up and represented by 896,512,500 shares in the par value of three Euro cents each.

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.

All PT 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.

III.2. Qualified holdings in the share capital in the issuer, calculated in accordance with article 20 of the portuguese securities code



Qualified holdings

Date of report	Institutions	No. of shares	% of capital	% of voting rights
30-Dec-12	Espírito Santo Group	90,268,306	10.07%	10.07%
10-Jul-12	RS Holding, SGPS, SA	90,111,159	10.05%	10.05%
31-Mar-12	Telemar Norte Leste, SA	89,651,205	10.00%	10.00%
31-Dec-12	Caixa Geral de Depósitos Group	56,909,791	6.35%	6.35%
6-Feb-12	Norges Bank	44,442,888	4.96%	4.96%
12-Jan-12	UBS AG	42,024,498	4.69%	4.69%
31-Dec-10	Visabeira Group	23,642,885	2.64%	2.64%
7-Dec-09	BlackRock Inc.	21,025,118	2.35%	2.35%
3-Feb-10	Controlinveste Comunicações	20,419,325	2.28%	2.28%
14-Dec-12	Barclays Group ⁽¹⁾	19,525,168	2.18%	2.18%
17-Oct-12	Wellington Management Company	18,409,822	2.05%	2.05%
26-Oct-12	Ontario Teachers' Pension Plan Board	18,000,000	2.01%	2.01%

⁽¹⁾On 28 January 2013, PT further disclosed that Barclays has reduced its holding and a long position corresponding to less than 2% of PT's share capital and voting rights.

Updated information on qualified holdings in the Company may be consulted at www.telecom.pt and on CMVM site.

III.3. Identification of shareholders with special rights and description of such rights

Following the resolution passed 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. In this way, no shares representing the share capital in PT grant any special rights to their holders at this time.

III.4. 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 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.

III.5. 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.

III.6. 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 at least shares corresponding to 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.

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

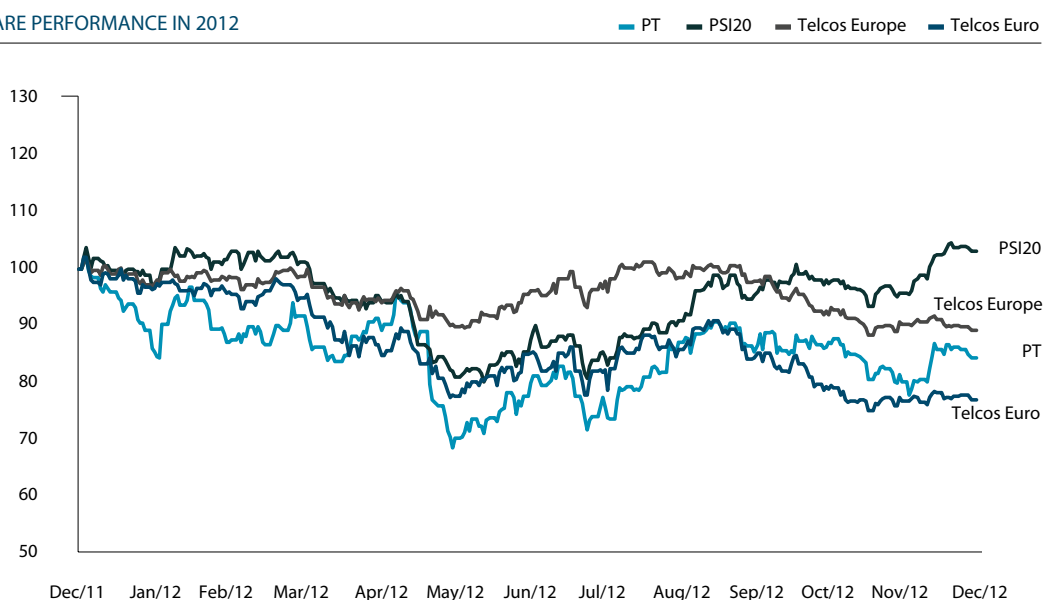
The Board of Directors is, however, authorised to increase the share capital, subject to an opinion in favour issued by the Audit Committee and following a resolution of the General Meeting of Shareholders, according to the terms described in Chapter II.10 hereof. The Board of Directors may also move the registered office of the Company within the national territory upon authorisation by the General Meeting of Shareholders.

III.7. Control mechanisms planned for any employee capital holding system to the extent that voting rights are not exercised by such employees

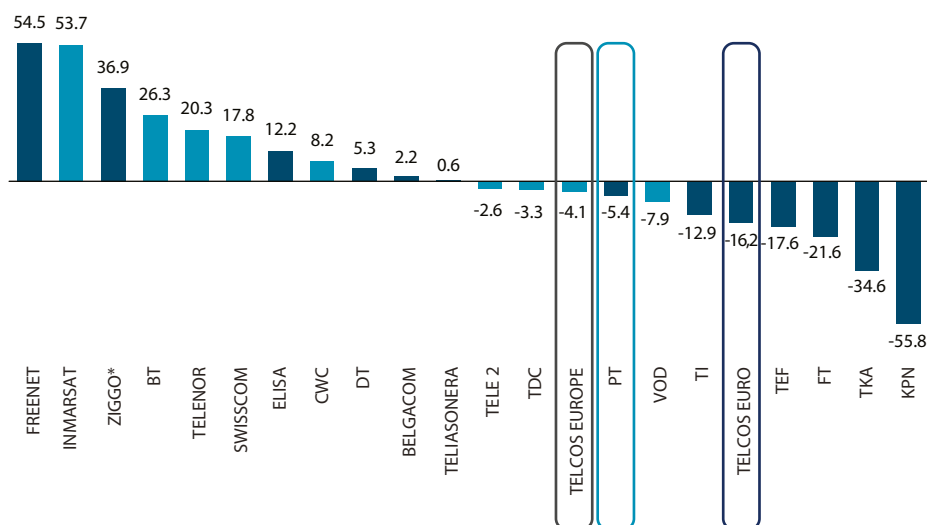
There is no system specifically providing for any share capital holding by employees in the Company as a result of which the relevant voting rights are not directly exercised by such employees.

III.8. Description of the issuer's share price evolution

SHARE PERFORMANCE IN 2012



TOTAL SHAREHOLDER RETURN IN 2012



Most relevant facts announced during 2012

20 December	Portugal Telecom acquires a stake in Sport TV
17 December	Portugal Telecom achieves one hundred million customers
29 November	2012 First Nine Month Results
8 November	2012 First Nine Month Trading update
29 October	PT's Technology & Innovation Conference
10 October	Issuance of Eurobond
2 August	2012 First Half Results
24 July	PT Fixed Rate Bonds 2012/2016 – subscription results
13 July	PT Fixed Rate Bonds 2012/2016
29 June	Portugal Telecom announces the extension of a credit facility until 2016 and is refinanced up to June 2016
27 June	Shareholder remuneration policy for 2012-2014 and extension of refinancing until the end of 2015
4 June	MEO achieves leadership in the triple-play market
23 May	Adjustment to conditions of Exchangeable Bonds due in 2014
17 May	2012 First quarter results
7 May	Dividend Payment
30 April	Filing of Annual Report on Form 20-F
27 April	Appointment of the Executive Committee and Chief Executive Officer
27 April	Portugal Telecom's Annual General Meeting of Shareholders
17 April	Oi announces dividend policy
13 April	Portugal Telecom informs on Moody's rating
5 April	Conclusion of Oi's corporate simplification
30 March	2011 Full Year Results
30 March	2011 dividend distribution proposal
29 February	Resignation of Non-Executive Director
27 February	Approval of Oi's corporate simplification
21 January	Portugal Telecom informs on S&P rating

III.9. Description of the dividend distribution policy adopted by the company

Dividend distribution policy

The Company adopts a dividend distribution policy that, as a general rule, takes into consideration the business opportunities, investor expectations and the financing needs concerning shareholders' equity, taking into account capital cost and opportunity.

The Board of Directors is exclusively responsible for the proposal of dividend distribution, subject to Portuguese legislation and the Company's Bylaws.

According to the Company's Bylaws, at least 40% of the distributable profits of PT shall be distributed to the Shareholders as dividend, although the General Meeting of Shareholders may resolve, by a qualified majority of two-thirds of the votes cast, to reduce or not to distribute the dividend.

Within this context, on 27 June 2012, PT announced that its Board of Directors, in the light of the current macroeconomic environment and the conditions of the financial markets, decided to adopt a more prudent financial strategy, in order to strengthen the Company's financial flexibility, through a greater debt reduction and the extension of maturities.

In this way, PT announced that the Board of Directors had approved, for the 2012-2014 financial years, a shareholder remuneration policy comprising an annual cash dividend in the sum of 0.325 Euros per share and a share buyback programme of 200 million Euros for such three-year period, i.e. an additional sum of 0.225 Euros per issued share.

The abovementioned cash dividend offer and share buyback programme are subject to market conditions, to PT's financial condition, to the legal limits as to the distribution of assets to shareholders, as well as to the required approvals by the General Meeting of Shareholders, where applicable, and to other factors as the Board of Directors deems relevant from time to time.

Dividends distributed in the last financial years

The gross dividend per share for the three last financial years was as follows:

- 2011 – 0.65 Euros
- 2010 – 2.30 Euros (1.65 Euros as exceptional dividend and 0.65 Euros as ordinary dividend)
- 2009 – 0.575 Euros

In implementation of the abovementioned policy, the Board of Directors will submit to the Annual General Meeting of Shareholders a proposal for allocation to the Shareholders of an amount of 0.325 Euros per share for the 2012 financial year, payable after the 2013 Annual General Meeting of Shareholders. The Board of Directors will also submit to the Shareholders' approval an authorisation for the acquisition of own shares that will allow for the Board to implement the said share buyback programme.

III.10. Main characteristics of share allotment and similar plans

During the 2012 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 Group directors or employees or any third parties.

III.11. Transactions with the management and supervision or with companies in a control or group relationship

Relevant transactions with members of corporate bodies or with companies in a control or group relationship with PT are described on Note 48 to the consolidated financial statements included in the Report and Consolidated Accounts 2012.

III.12. Transactions with owners of a qualified holding

Relevant transactions with owners of qualified holdings or entities in a relationship with the same as provided for under article 20 of the Portuguese Securities Code are described on Note 48 to the consolidated financial statements included in the Report and Consolidated Accounts 2012.

III.13. Intervention of the supervisory body in the prior evaluation of transactions with owners of a qualified holding

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.

According to the current version of this Regulation, notwithstanding its exclusion of certain transactions (notably if carried out under normal market conditions), in case of transactions between PT, or any of its subsidiaries, and related parties, including owners of qualified holdings or entities in a relationship with the same pursuant to article 20 of the Portuguese Securities Code, 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 Audit Committee confirming that, in view of the justification submitted, the proposed transaction complies with the rules on conflicts of interest and observes the principle of equal treatment of suppliers or service providers of the PT Group, notably as to the agreed terms and conditions.

For such purpose, the Audit Committee 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 and the Shareholders in question, and the impact of the transaction on the financial position of the PT Group.

Furthermore, transaction with owners of a qualified holding or related parties pursuant to article 20 of the Portuguese Securities Code, or any renewals thereof, the aggregate amount per party of which exceeds 1,000,000 Euros (one million Euros) are subject to approval by the Board of Directors.

III.14. Description of statistical data (number, average and maximum value) for transactions subject to prior intervention by the supervisory body

During the 2012 financial year, 7 transactions with related parties, in an average amount of 7,609,143 Euros and a maximum amount of 30,400,000 Euros, were submitted to the prior opinion of the Audit Committee.

III.15. Activity carried out by the audit committee

Information already made available in Chapter II.4.

III.16. Reference to the existence of an investor support office or other similar service

It is PT's 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 is listed and their respective regulatory entities: CMVM and SEC.

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

During 2012, PT pursued its investor relation activities, and held several events, notably road shows, presentations to investors and analysts, meetings and conference calls, and it has taken part in conferences in Europe and the United States.

The quality of the investor relation activities was once again acknowledged by the financial community both at national and international levels. Any interested party may have access to the Investor Relations Office through the following contacts:

Nuno Vieira Investor Relations Office

Telephone	+351.21.500.1701
Fax	+351.21.500.0800
E-mail	nuno.t.vieira@telecom.pt
Address	Av. Fontes Pereira de Melo, 40-9º, 1069-300 Lisboa – Portugal
Company Switchboard	+351.21.500.2000
Websites	http://www.telecom.pt ; http://ir.telecom.pt

In addition to other information, the Investor Relations Office keeps the following information updated on PT's website, in Portuguese and in English:

- Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- The Bylaws;
- The identity of the members of the corporate bodies and of the representative for relations with CMVM and 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 yearly schedule of corporate events, which is disclosed at the beginning of each year and 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.

III.17. Indication of the amount of annual remuneration paid to the auditor and other individuals or corporation 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 the 2012 financial year, the annual remuneration paid to PT's External Auditors, Deloitte & Associados, SROC, S.A. ("External Auditors") and other companies in the same international network as Deloitte was 1,801,922 Euros. Such payment was distributed among the following services:

	2012		2011	
	Amount (€)	%	Amount (€)	%
Auditing services	1,386,274	77	3,077,946	77
Other reliability guarantee services	254,934	14	707,320	18
Tax consultancy services	89,868	5	162,993	4
Services other than auditing services	70,846	4	30,000	1
Total	1,801,922	100	3,978,259	100

The services other than auditing services provided to the Company 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, as referred to above, in 2012, such services reached only around 9% of the total amount of services provided to the Company.

In order to safeguard the independence of the External Auditors, the following powers of the Audit Committee were exercised during the 2012 financial year and should be highlighted:

- Appointment and hiring of External Auditors and responsibility for establishing their remuneration, as well as pre approval of any services to be hired from the External Auditors;
- Direct and exclusive supervision by the Audit Committee;
- Assessment of the qualifications, independence and performance of the External Auditors, and obtaining, yearly and directly from the External Auditors, written information on all relations existing between the Company and the Auditors or associated persons, including all services rendered and all services in progress; in fact, the Audit Committee, in order to evaluate independence, obtained from the External Auditors information on their independence in light of article 62B of Decree-Law no. 224/2008 of 20 November 2008, which amends the articles of association of the Chartered Accountant Professional Association;
- Review of the transparency report, signed by the Auditor and disclosed at its website. This report covers the matters provided for under article 62A of Decree-Law no. 224/2008, including those regarding the quality control internal system of the audit firm and the quality control procedures carried out by the competent authorities;
- Definition of the Company's hiring policy concerning persons who have worked or currently work with the External Auditors;
- Review, with the External Auditors, of the scope, planning and resources to be used in their services;
- Responsibility for the settlement of any differences between the Executive Committee and the External Auditors concerning financial information.

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Within this context, it should be particularly stressed that External Auditor independence was safeguarded 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 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.

Pursuant to its duties and in line with CMVM Recommendations no. II.4.4 and II.4.5, the Company's Audit Committee assessed and confirmed the independence of the External Auditors, and appraised their work during the 2012 financial year as positive.

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 no deficiencies classified as Material Weakness were reported by the External Auditors that might put into question the effectiveness of the system as implemented or its suitability to the needs of the Group. Additionally, in order to fully comply with CMVM Recommendation no III.1.4., the External Auditors have also verified the application of the remuneration policies and systems in force in the Company during the 2012 financial year. For any additional information on this subject, we recommend that you read the Activity Report of the Audit Committee as referred to in Chapter II.4. of this Report.

III.18. Reference to the rotation period of the External Auditor

The current External Auditor to PT SGPS (Deloitte & Associados, SROC, S.A., a company that was formerly called António Dias & Associados, SROC, S.A.) started its duties in mid-2004, and as a result, upon completion of its audit on the 2011 annual accounts, it has completed the period of duty performance corresponding to the third term of office of the corporate bodies.

In spite of the above, considering that, according to CMVM Recommendation no. III.1.3, the decision to keep the External Auditor for more than three terms of office of the corporate bodies must be justified on a specific opinion by the supervisory body, the Audit Committee, at a meeting held for such purpose on 30 April 2012, reviewed the contractual background, qualification, expertise, independence conditions, professional relationship and benefits and costs of substitution of the External Auditor and unanimously decided to renew the External Auditor's term of office for the 2012-2014 three-year period.

The Audit Committee is firmly convinced that there are sufficient valid grounds to keep the External Auditor in charge of PT Group's consolidation external auditing during the term of office commencing in the 2012 financial year, and by way of such grounds the abovementioned CMVM Recommendation no. III.1.3. continues to be observed.

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APPENDIX I

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

As a foreign private issuer listed on the New York Stock Exchange (“NYSE”), PT is subject to the following set of mandatory corporate governance rules, which are fully complied with by PT:

- The following provisions of the Sarbanes-Oxley Act of 2002 (“SOX”)⁴, as well as the rules approved by the U.S. Securities and Exchange Commission (“SEC”) implementing such provisions⁵ (both SOX and SEC rules and regulations are fully complied with by PT):

Sarbanes-Oxley Act

<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>Section 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).

⁴Available at http://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf. ⁵Available at <http://www.sec.gov>.

- In addition, the Company is subject to the following rules provided for in Section 303A on Corporate Governance Standards of the NYSE Listed Company Manual (“the Manual”)⁶, which are fully complied with by PT:

Section 303A

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 shall comply with Rule 10A-3 on listing standards relating to audit committees approved by SEC⁷.
- 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):

Rule 10A-3 Standards applicable to the audit committee

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: <ul style="list-style-type: none"> (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 (b) Be an affiliated person, as defined in this Rule, of the issuer or any subsidiary thereof.
Paragraphs (b)(2) and (3)	The audit committee is directly responsible for: <ul style="list-style-type: none"> (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; (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.
Paragraphs (b)(4) and (5)	Autonomy in the engagement of advisors and the provision of funding to the audit committee.

⁶Available at: <http://nysemanual.nyse.com/lcm/>. ⁷Available at: <http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=e891245b9c0e3dea7691375ca8882ab6&rgn=div8&view=text&node=17.3.0.1.1.1.1.67.107&idno=17>

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APPENDIX II

Code of Ethics

The PT Group's Code of Ethics, as revised on 17 December 2009, applies to all employees of the PT Group in order to guarantee a set of common ethical standards for all the PT Group's companies. Its update and implementation are permanently monitored by the Corporate Governance Committee.

The goals, values and rules listed in the Code of Ethics incorporate the PT Group's culture, which should preside over the professional conduct of all those who work at its companies, and imposes its disclosure with investors, customers, suppliers, regulatory authorities and competitors.

The frameworking values for the principles and conduct rules in the PT Group 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 the companies incorporating the PT Group;
- Observing the duties of loyalty and confidentiality, and ensuring the principle of accountability by all PT Group's employees;
- Good governance of the PT Group;
- Scrupulously complying with all laws and regulations applicable to the various Group businesses;
- Settling any conflicts of interest, and submission of the PT Group's employees to all pertinent limits as to economic transactions;
- Institutionally and individually observing high integrity, loyalty and honesty standards, both in relations with investors, customers and regulatory authorities, and in inter-personal relations between PT Group employees;
- Good faith in any negotiation, and scrupulously complying with contractual obligations vis-à-vis all customers and 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 Group Code of Ethics is available for consultation on the Company's official website (www.telecom.pt) and may also be made available through the Investor Relations Office.

Code of Ethics for Senior Financial Officers

PT's 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 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 any one of the entities that composes the Group.

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 the PT Group 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 for compliance with the rules applicable to Officer and Related Party Transactions

In order to fulfil the legal and regulatory requirements applicable to the Company concerning Officer Transactions and Transactions with Related Party, PT has adopted a set of procedures aiming at fully complying with such rules.

a) Group Officer Transactions

In 2006, the PT Group's officer transactions were regulated through a Regulation on the PT Group's 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 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.

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's 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's 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.

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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.

Within this framework, the most significant modification consisted in providing for rules for a prior assessment by the Audit Committee of the execution of certain related party transactions, where some material requirements as described on the Regulation are met.

In this way and in short, the execution by the PT Group of any transaction with related parties the aggregate amount of which per party is in excess of 100,000 Euros per quarter is now subject to a prior favourable opinion by the Audit Committee. Furthermore, transactions with shareholders of a qualified holding or with special voting rights, with their relatives or with entities in a relationship as provided for under article 20 of the Portuguese Securities Code with the said Shareholders or relatives, the aggregate amount of which exceeds 1,000,000 Euros per year are subject to approval by PT's Board of Directors. The Audit Committee's opinion shall confirm that, in view of the justification submitted, the proposed transaction complies with the rules on conflicts of interest and observes the principle of equal treatment of suppliers or service providers of the PT Group, notably as to agreed terms and conditions.

Transactions with directors either of PT 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.

Transactions with related parties are identified as established by law and are disclosed in the annual, interim and quarterly financial information.

Sustainable Development and Social Responsibility Policy

PT's corporate sustainability and social responsibility strategy is integrated in a consistent and transverse way within the PT Group and is based on the development and monitoring of a vast combination of practices and procedures at three main levels: economic, environmental and social. For such reason, PT has defined as its strategic goal to become a sustainability benchmark in Portugal and in the countries where PT operates.

Within this framework, PT is a signatory of and actively participates in a number of international organisations connected to the advancement of the best practices leading to sustainable development. PT is a signatory of the sustainability principles of the United Nations Global Compact, the Social Responsibility charter of the Union Network International, the sustainability charter of ETNO – European Telecommunications Network Operators Association, and is a member of the Business Council for Sustainable Development of Portugal (BCSD Portugal).

The sustainability report is published each year, simultaneously with the consolidated report and accounts, and it is prepared in accordance with the guidelines of the Global Reporting Initiative (GRI). The report is audited by an independent external entity. This document outlines the practices and economic, social and environmental references that allow the performance of the Company to be highlighted in a three-dimensional sustainability perspective, as well as the commitments undertaken by PT towards its stakeholders.

It should also be mentioned that, in September 2010, PT was incorporated in the Dow Jones Sustainability World Index in the telecommunications sector, with growing performances, and it is among the five leading telecommunications companies worldwide. The Dow Jones Sustainability Index is one of the most prestigious indices worldwide, which analyses the performance of companies listed on the New York Stock Exchange in terms of sustainability, and it is considered a reference by analysts and investors. Currently, Portugal Telecom is present in the most important sustainability indices in the world, i.e. the Dow Jones Sustainability Index and FTSE4Good, of which it is a part since 2005.

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APPENDIX III

Functions performed by members of the management body in other companies

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

Henrique Granadeiro (Chairman of the Board of Directors)

Functions in other PT Group companies: Chairman of the General Council of Fundação Portugal Telecom
Functions in other entities: Chairman of the General Board of the University of Lisbon | Member of the Strategy Council of Banco Finantia | Member of the Council of Curators of Fundação Luso-Brasileira | Non-Executive Director of Fundação Eugénio de Almeida | Member of Board of AEM – Associação de Empresas Emitentes de Valores Cotados no Mercado | Member of the Assistance Council of Banco ING

Zeinal Bava (Chief Executive Officer)

Functions in other PT Group companies: Chairman of the Board of Directors of PT Portugal, SGPS, SA | Chairman of the Board of Directors of PT Comunicações, SA | Chairman of the Board of Directors of TMN – Telecomunicações Móveis Nacionais, SA | Chairman of the Board of Directors of Portugal Telecom, Inovação, SA | Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS SA | Chairman of the Board of Directors of Portugal Telecom – Investimentos Internacionais, Consultoria Internacional, SA | Chairman of the Board of Directors of PT Participações, SA | Chairman of the Board of Directors of Portugal Telecom Data Center, SA | Chairman of the Board of Directors of PT Blueclip – Serviços de Gestão, SA | Chairman of the Board of Directors of Fundação Portugal Telecom | Member of the Board of Directors of Oi, SA | Member of the Board of Directors of Telemar Participações, SA | Member of the Board of Directors of Contax Participações, SA | Member of the Board of Directors of CTX Participações, SA
Functions in other entities: Member of the Council of Founders of Fundação Casa da Música | Member of the Board of Directors of Fundação Portugal África | Member of the General Board of Fundação Portuguesa das Comunicações | Member of the General Board of Universidade Técnica de Lisboa

Alfredo José Silva de Oliveira Baptista (Executive Director)

Functions in other PT Group companies: Director of PT Portugal, SGPS SA | Director of PT Comunicações, SA | Director of TMN – Telecomunicações Móveis Nacionais, SA | Chairman of the Board of Directors of PT Sistemas de Informação, SA | Director of Portugal Telecom Data Center, SA | Director of SIRESP – Gestão de Redes Digitais de Segurança e Emergência, SA
Functions in other entities: Not applicable.

Amílcar de Morais Pires (Non-Executive Director)

Functions in other PT Group companies: Not applicable.
Functions in other entities: Chairman of the Board of Directors of AVISTAR, SGPS, SA | Chairman of the Board of Directors of Bank Espírito Santo (International) Limited | Chairman of the Board of Directors of BIC

– International Bank, Ltd (IBL) | Director of Banco Espírito Santo, SA | Director of BES – Vida, Companhia de Seguros, SA | Director of Banco Espírito Santo de Investimento, SA | Director of ESAF – Espírito Santo Activos Financeiros, SGPS, SA | Director of Espírito Santo PLC (Dublin) | Director of Banco Espírito Santo Oriente, SA | Director of BES Finance Limited | Director of ES Tech Ventures, Sociedade de Participações Sociais, SA | Director of Espírito Santo – Empresa de Prestação de Serviços, ACE | Director of BES África SGPS, SA | Non-Executive Director of Execution Noble Limited | Non-Executive Director of Execution Noble & Company Limited | Non-Executive Director of Execution Noble Research Limited | Non-Executive Director of Espírito Santo Bank (Florida)

Carlos Alves Duarte (Executive Director)

Functions in other PT Group companies: Executive Director of PT Portugal, SGPS SA | Executive Director of PT Comunicações, SA | Executive Director of TMN – Telecomunicações Móveis Nacionais, SA | Director of Portugal Telecom Data Center, SA | Vice-Chairman of the Board of Directors of Caixanet – Telemática e Comunicações, SA | Chairman of the Board of the General Meeting of INESC

Functions in other entities: Not applicable.

Fernando Magalhães Portella (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Member of the Board of Directors of Oi, SA | Member of the Board of Directors of Iguatemi Empresa de Shopping Centers, SA | Managing Chairman of the Jereissati Group

Francisco T. Pereira Soares (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chairman of the Environment Committee of CEEP – Centro Europeu de Empresas com Participação Pública e de Interesse Económico Geral, Brussels | Consultant to Parpública, SA

Gerald McGowan (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: “Of Counsel” Lukas, Nace, Gutierrez & Sachs

João de Mello Franco (Non-Executive Director and Chairman of the Audit Committee)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Director and Chairman of the Audit Committee of EDP Renováveis, SA | Chairman of the Supervisory Board of Sporting SAD

João Nuno de Oliveira Jorge Palma (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Executive Director of Caixa Geral de Depósitos, SA | Director of Parcaixa, SGPS,

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SA | Director of Banco Comercial e de Investimentos, SA – Mozambique | Chairman of the Board of Directors of Sogruppo – Compras e Serviços Partilhados, ACE | Chairman of the Board of Directors of Sogruppo IV – Gestão de Imóveis, ACE | Chairman of the Board of Directors of Imocaixa – Gestão Imobiliária, SA | Chairman of the Board of Directors of Caixa-Imobiliária, SA

Joaquim Goes (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Director of Banco Espírito Santo, SA | Director of E.S.VENTURES, SCR, SA | Director of BES – Vida, Companhia de Seguros, SA | Chairman of Espírito Santo Informática, ACE | Chairman of E.S. Recuperação de Crédito, ACE | Chairman of OBLOG – Consulting, SA | Chairman of BES – Companhia de Seguros, SA | Director of Glintt, Global Intelligent Technologies, SGPS SA

José Xavier de Basto (Non-Executive Director and Member of the Audit Committee)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Member of the Financial Matters Committee of Millenium BCP, SA, since April 2009 | Member of the Ordem dos Técnicos Oficiais de Contas (OTOC)

José Pedro Cabral dos Santos (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chairman of the Board of Directors of Caixa Leasing e Factoring – IFIC, SA | Member of the Board of Directors and Executive Committee of Caixa Geral de Depósitos, SA | Member of the Board of Directors of Locarent – Companhia Portuguesa de Aluguer de Viaturas | Non-Executive Member of the Board of Directors of Caixa Banco de Investimentos, SA | Member of the Managing Board of Caixa Geral de Aposentações, IP

Luís Pacheco de Melo (Executive Director)

Functions in other PT Group companies: Chairman of the Board of Directors of PT Centro Corporativo, SA | Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, SA | Chairman of the Board of Directors of Portugal Telecom Imobiliária, SA | Chairman of the Board of Directors of PT Prestações – Mandatária de Aquisições de Gestão de Bens, SA | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA | Chairman of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, SA | Chairman of the Board of Directors of Portugal Telecom – Associação de Cuidados de Saúde | Chairman of the Board of Directors of PT Ventures, SGPS SA | Chairman of the Board of Directors of CST – Companhia Santomense de Telecomunicações, SARL | Chairman of the Board of Directors of TPT – Telecomunicações Públicas de Timor, SA | Chairman of the Board of Directors of Timor Telecom, SA | Vice-Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS SA | Vice-Chairman of the Board of Directors of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, SA | Vice-Chairman of the Board of Directors of PT Participações, SA | Director of Portugal Telecom Data Center, SA | Director of PT Blueclip – Serviços de Gestão, SA | Director of Africatel Holdings BV | Director of Elta – Empresa de Listas Telefónicas de Angola, Lda | Director of Unitel, SA | Director of Oi, SA

Functions in other entities: Not applicable.

Manuel Rosa da Silva (Executive Director)

Functions in other PT Group companies: Director of PT Portugal, SGPS SA | Executive Director of PT Comunicações, SA | Executive Director of TMN – Telecomunicações Móveis Nacionais, SA

Functions in other entities: Director of Sportinveste – Multimédia, SGPS, SA | Director of Sportinveste – Multimédia, SA

Maria Helena Nazaré (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chair of the Advisory Board of Fundação Galp Energia | Chair of the Portuguese Physics Society | Chair of European University Association 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 | Chair of the Specialised Committee for the Research and Transfer of Knowledge of the Council of Portuguese Universities' Principals | Member of the Expert Group established by the European Commission for the Development of the European Research Area | Chair of Fundação João Jacinto de Magalhães | Member of the Executive Board of Fundação das Universidades Portuguesas | Member of the Steering Committee Institutional Evaluation EUA since 2005

Mário João de Matos Gomes (Non-Executive Director and Member of the Audit Committee)

Functions in other PT Group companies: Chairman of the Supervisory Board of Previsão – Sociedade Gestora de Fundos de Pensões, SA

Functions in other entities: Not applicable.

Milton Almicar Silva Vargas (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Member of the Board of Directors of Cielo SA, since July 2009 | Effective member of the Board of Directors of Banco Espírito Santo (BES) – Portugal, since July 2012 | Effective member of the Board of Directors of Fleury SA since July 2009 | Member of the Board of Directors of Monteiro Aranha SA, since December 2009

Nuno de Almeida e Vasconcellos (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chairman of the Board of Directors of Rocha dos Santos Holding, SGPS, SA | Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS SA | 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 Telecom | Chairman of the Board of Directors of Económica SGPS | Chairman of the Board of Directors of Rocksun, SA | Chairman of the Board of Directors of Insight Strategic Investments, SGPS, SA | Chairman of the Board of Directors of Ongoing Comunicações – Participações, SA | Non-Executive Director of Heidrick & Struggles

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Otávio Marques de Azevedo (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chief Executive Officer of Andrade Gutierrez, SA | Chairman of Andrade Gutierrez Telecomunicações, Ltda | Chairman of the Board of Directors of Telemar Participações, SA | Chairman of the Board of Directors of CTX Participações, SA | Member of the Board of Directors of Companhia Energética de Minas Gerais (CEMIG) | Member of the Managing Board of Associação Comercial do Rio de Janeiro (ACRJ) | Member of Conselho Nacional de Desenvolvimento Industrial (CNI) | Member of the Strategic Council of Federação das Indústrias do Estado de Minas Gerais (FIEMG) | Member of the High Infrastructure Council of Federação das Indústrias do Estado de São Paulo (FIESP)

Paulo José Lopes Varela (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Vice-Chairman of the Board of Directors of Grupo Visabeira, SGPS SA | Chairman of the Board of Directors of Visabeira Global, SGPS SA | Chairman of the Board of Directors of Vista Alegre Atlantis, SA | Chairman of the Board of Directors of Real Life Technologies, SA | Chairman of the Board of Directors of Ria Stone, SA | Chairman of the Board of Directors of Visabeira Investimentos Financeiros SGPS SA | Chairman of the Board of Directors of Visabeira Estudos e Investimentos SA | Chairman of the Board of Directors of Visabeira Saúde – Serviços de Saúde, SA | Chairman of the Board of Directors of Visabeira Moçambique, SA | Chairman of the Board of Directors of Visagreen, SA | Chairman of the Board of Directors of Marmonte, SA | Chairman of the Board of Directors of Naturenergia – Agro-Energias, SA | Chairman of the Board of Directors of Visabeira Angola, Lda | Chairman of the Board of Directors of GATEL | Chairman of the Board of Directors of CONSTRUCTEL | Chairman of the Board of Directors of Constructel Sweden AB | Vice-Chairman of Constructel Infrastructures SAS | Director of Banco Único, SA | Director of Constructel Belgium | Director of AMBITERMO SA | Director of HPP Viseu, SA | Director of PCI – Parque de Ciência e Inovação, SA | Director of Selfenergy | Director of TV Cabo Angola, Lda. | Director of Constructel GmbH

Pedro Humberto Monteiro Durão Leitão (Executive Director)

Functions in other PT Group companies: Director of PT Portugal, SGPS SA | Director of PT Comunicações, SA | Director of TMN – Telecomunicações Móveis Nacionais, SA | Director of PT Sales – Serviços de Telecomunicações e Sistemas de Informação, SA | Director of PT Blueclip – Serviços de Gestão, SA

Functions in other entities: Not applicable.

Rafael Luís Mora Funes (Non-Executive Director)

Functions in other PT Group companies: Not applicable.

Functions in other entities: Vice-Chairman of the Board of Directors/COO of Ongoing Strategy Investments, SGPS SA | Chairman of the Board of Directors of BRZ Tech | Chairman of the Board of Directors of IBT Internet Business Technologies | Member of the Supervisory Board of INDEG – ISCTE Business School

Shakhaf Wine (Executive Director)

Functions in other PT Group companies: Chief Executive Officer and Chairman of the Board of Directors of Portugal Telecom Brasil SA | Chief Executive Officer of PT Multimédia.com Brasil Ltda | Chief Executive Officer of Bratel Brasil, SA | Chief Executive Officer of Istres Holdings, SA | Member of the Directorate of CTX Participações, SA | Member of the Board of Directors of Contax Participações, SA | Member of the Board of Directors of Oi, SA | Member of the Board of Directors of Telemar Participações, SA

Functions in other entities: Not applicable.

Professional qualifications and professional activities performed during the last 5 years

Henrique Granadeiro (Chairman of the Board of Directors)

Portuguese, 69 years old

Elected for the first time in 2003. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chief Executive Officer of Portugal Telecom, SGPS SA from 2006 to March 2008 | Chairman of the Board of Directors of Africatel Holdings B.V. from 2007 to 2008 | Chairman of the Board of Directors of PT Rede Fixa, SGPS SA, from 2006 to 2009 | Chairman of the Board of Directors of PT Centro Corporativo, SA from 2006 to 2008 | Chairman of the Board of Directors of PT Portugal, SGPS SA from 2006 to 2007 | Chairman of the Board of Directors of Fundação Portugal Telecom from 2006 to 2008 | Member of the General Board of COTEC Portugal – Associação Empresarial para a Inovação from 2006 to 2009 | Member of the Council of Founders of Fundação Casa da Música from 2006 to 2009 | Member of the Board of Directors of Fundação Portal África from 2006 to 2009 | Vice-Chairman of the Board of ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação during 2009 | Non-Executive Member of the Board of Directors of OPCA – Obras Públicas e Cimento Armado, SA from 2005 to 2007 | Member of the Board of Directors of Espírito Santo Resources from 2005 to 2007 | Chairman of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from 2006 to 2007 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from 2002 to 2006 | Non-Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, in 2001 | Chief Executive Officer of Lusomundo Media, SGPS, SA from 2002 to 2004 | Chief Executive Officer of Diário de Notícias from 2002 to 2004 | Chief Executive Officer of Jornal do Fundão from 2002 to 2004 | Chief Executive Officer of Jornal de Notícias from 2002 to 2004 | Chief Executive Officer of TSF from 2002 to 2004 | Chief Executive Officer of Açoreano Oriental from 2002 to 2004 | Chief Executive Officer of DN da Madeira from 2002 to 2004 | Chairman of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2000 to 2004 | Member of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2004 to 2007 | Member of the Board of Directors of Parfil SGPS, SA from 2001 to 2004 | Chairman of the Board of Directors of Margrimar - Mármore e Granitos SA from 1999 to 2005 | Chairman of the Board of Directors of Marmetal – Mármore e Materiais de Construção, SA from 1999 to 2005 | Member of the Board of Directors of Controljornal SGPS, SA from 1990 to 2001 | Member of the Board of Directors of Sojornal – Sociedade Jornalística e Editorial SA from 1990 to 2001 | Director of Marcepor – Mármore e Cerâmicas de Portugal, SA in 1990 | Chairman of Fundação Eugénio de Almeida from 1989 to 1992 | Chairman of IFADAP – Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pesca from 1987 to 1990 | Managing Director of Fundação Eugénio de Almeida from 1981 to 1987 | Member of the Board of Directors of M.N. Tiago, Construções SA during 1981 | Member of the Board of Directors of Standard Eléctrica during 1981 | Portuguese Ambassador to the OECD from 1979 to 1981 | Head of the Civil House of the President of the Republic of Portugal from 1976 to 1979 | Graduate in Corporate Organisation and Business Administration by the Instituto Universitário de Évora (Sociology Department).

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Zeinal Bava (Chief Executive Officer)

Portuguese, 47 years old

Elected for the first time in 2000. Former term of office ended on 31 December 2011 and was re-elected in 2012. Appointed Chief Executive Officer of Portugal Telecom SGPS SA in March 2008 | Member of the General Council of Cotec Portugal from October 2009 to May 2012 | Member of the Board of Directors of Tele Norte Leste Participações, SA, from April 2011 to February 2012 | Chairman of the Board of Directors of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from September 2007 to December 2011 | Chairman of the Board of Directors of PT Ventures, SGPS SA from November 2008 to July 2010 | Chairman of the Board of Directors of PT Centro Corporativo, SA from March 2006 to April 2009 | Chairman of the Board of Directors of PT Sistemas de Informação, SA from September 2007 to April 2009 | Member of the Board of Directors of Fundação Luso-Brasileira from June 2009 to September 2009 | Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, SA from February 2003 to June 2008 | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA from March 2003 to October 2007 | Member of the Board of Directors of Brasilcel, NV from December 2002 to October 2007 | Chief Executive Officer of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from May 2003 to September 2007 | Chairman of the Board of Directors of TV Cabo Portugal, SA from March 2004 to September 2007 | Chairman of the Board of Directors of PT Conteúdos – Actividade de Televisão e de Produção de Conteúdos, SA until September 2007 | Vice-Chairman of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from November 2002 to September 2007 | Chairman of the Board of Directors of Lusomundo Cinemas, SA until September 2007 | Chairman of the Board of Directors of Lusomundo Audiovisuais, SA until September 2007 | Chairman of the Board of Directors of PT Televisão por Cabo, SGPS, SA until September 2007 | Chief Executive Officer of TMN – Telecomunicações Móveis Nacionais, SA from December 2005 to May 2006 | Member of the Board of Directors of Portugal Telecom Investimentos Internacionais, SA from April 2004 to April 2006 | Chairman of the Board of Directors of PT Prestações – Mandatária de Aquisições de Gestão de Bens, SA from March 2004 to 2006 | Member of the Board of Directors of PT Rede Fixa, SGPS SA from March 2006 to June 2009 | Member of the Board of Directors of PT Sistemas de Informação, SA from May 2004 to April 2006 | Member of the Board of Directors of PT Corporate – Soluções Empresariais de Telecomunicações e Sistemas, SA from June 2003 to April 2006 | Executive Vice-Chairman of the Board of Directors of PT Comunicações, SA from January 2004 to December 2005 | Member of the Board of Directors of Páginas Amarelas, SA from January 2004 to May 2005 | Member of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, SA from May 2003 to 2005 | Member of the Board of Directors of CRT Celular Participações, SA from 2003 to 2005 | Member of the Board of Directors of Tele Sudeste Participações, SA from 2003 to 2005 | Member of the Board of Directors of Tele Centro Oeste Celular Participações, SA from 2003 to 2005 | Member of the Board of Directors of Portugal Telecom Brasil, SA from July 2002 to March 2004 | Member of the Board of Directors of BEST – Banco Electrónico de Serviço Total, SA from May 2001 to October 2004 | Member of the Board of Directors of Telesp Celular Participações, SA from April 2001 to December 2003 | Vice-Chairman of the Board of Directors of PT Ventures, SGPS, SA from 2000 to 2002 | Merrill Lynch – Executive Director and Relationship Manager for Portugal Telecom, from 1998 to 1999 | Deutsche Morgan Grenfell – Executive Director and Relationship Manager for Portugal Telecom from 1996 to 1998 | Warburg Dillon Read – Executive Director from 1989 to 1996 | Graduate in Electronic and Electrotechnical Engineering by the University College, London.

Alfredo Baptista (Executive Director)

Portuguese, 61 years old

Elected for the first time in 2011. Former term of office ended on 31 December 2011 and was re-elected in

2012 | Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from 2006 to 2011 | Chief Executive Officer of PT Prime, SA from 2000 to 2002 | Vice-Chairman of PT Prime, SA 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, SA from 1994 to 1996 | Graduate in Electrotechnical Engineering and Telecommunications by the Instituto Superior Técnico.

**Amílcar de Morais Pires
(Non-Executive Director)**

Portuguese, 51 years old

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Engaged to Banco Espírito Santo, Finance Department, in 1986 | Appointed Sub-Manager and Head of the Financial Markets and Securities Department in 1989 | Member of the Board of Directors of Soginpar, Sociedade de Gestão de Fundos de Investimento Mobiliário, SA from July 1991 to February 1992 | Assistant Manager of the Financial Markets and Securities Department and Member of the Board of Directors of ESER, Soc^a until 1995 | Coordinating Manager of the Finance, Markets and Studies Departments and person responsible for the management of the treasury department of BES | Advisor of the Board of Directors of Banco Espírito Santo, SA, in July 2000 | General Manager of Banco Espírito Santo, SA in March 2003 | Director of Banco Espírito Santo, SA since March 2004 | Graduate in Economy Sciences by Universidade Católica Portuguesa.

**Carlos Alves Duarte
(Executive Director)**

Portuguese, 52 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Executive Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from 2008 to 2011 | Chairman of the Board of Directors of PT Sistemas de Informação, SA from May 2006 to April 2011 | Director and Chief Executive Officer of PT Corporate – Soluções Empresariais de Telecomunicações e Sistemas, SA from July 2003 to March 2008 | Executive Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from May 2003 to February 2009 | Director of BEST – Banco Electrónico de Serviço Total, SA from January 2006 to October 2007 | Chief Executive Officer of Oni Telecom from June 2000 to March 2003 | Chief Executive Officer of Oni Açores from June 2000 to March 2003 | Executive Chairman of EDS Ibéria and General Manager of EDS Portugal from November 1996 to May 2000 | Among other duties, he was General Manager of IBM from December 1986 to October 1996 | Chairman of the Board of Directors of Rigorsoft from 1995 to November 1996 | Executive Director of Compensa, SA from 1995 to November 1996 | Graduate in Mechanical Engineering by the Instituto Superior Técnico, post-graduate in Welding Engineering by the ISQ, Master in Marketing Management and Sales by the DS, with several post-graduate courses in the London Business School (United Kingdom), IESE (Spain) and Universidade Católica (Portugal).

**Fernando Magalhães Portella
(Non-Executive Director)**

Brazilian, 61 years old

Elected for the first time in 2012 | Member of the Board of TNL from May 2008 to February 2012 | Managing Chairman of Organização Jaime Câmara from July 2006 to January 2011 | Member of the Advisory Council of Intermédica Sistema de Saúde SA from February 2008 to February 2010 | Graduate in Agricultural Engineering by Universidade Estadual Paulista (UNESP). Executive MBA by Columbia University. Alumni by Harvard Business School, where he completed the General Management Program and the Corporate Leader Program, both at Harvard Business School.

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Francisco T. Pereira Soares (Non-Executive Director)

Portuguese, 63 years old

Elected 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, SA 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, SA, from January 2003 to October 2004 | Chairman of the Board of Directors of API Capital, Sociedade de Capital de Risco, SA, 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 SA 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 (Non-Executive Director)

North-American, 66 years old

Elected 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).

João de Mello Franco (Non-Executive Director and Chairman of the Audit Committee)

Portuguese, 66 years old

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 is Chairman of the Audit Committee since that same year and Member of the Related Parties Transactions Committee since that same year | Chairman of the Supervisory Board of Sporting Clube de Portugal and of Sporting SAD since 2011 | Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 to 2004 | Director of Saponata – Sociedade Portuguesa de Navios Tanques, SA from 1997 to 2000 | Chairman of the Board of Directors of Saponata – Sociedade Portuguesa de Navios Tanques, SA from 2000 to 2001 | Chief Executive Officer and Vice-Chairman of the Board of Directors of LISNAVE from 1995 to 1997 | Chairman of the Board of Directors of Companhia Portuguesa Rádio Marconi from 1994 to 1995 | Chairman of the Board of Directors of TMN – Telecomunicações Móveis Nacionais, SA from 1991 to 1994 | Chairman of the Board of Directors of TLP – Telefones de Lisboa e Porto, SA from 1989 to 1994 | Graduate in Mechanical Engineering by the Instituto Superior Técnico | Additional Training in Strategic Management and High Business Management (PADE).

**João Nuno Palma
(Non-Executive Director)**

Portuguese, 46 years old

Elected for the first time in 2012 | Executive Director (CFO) of REN – Redes Energéticas Nacionais, SGPS from March 2010 to December 2011 | Executive Director of Banco Caixa Geral from February 2008 to March 2010 | Assistant to the Board of Directors of Caixa Geral de Depósitos from December 2007 to February 2008 | Executive Director of Sogrupos SI from June 2004 to December 2005 | Member of the Board of Directors (CFO) of HCB – Hidroeléctrica de Cahora Bassa from August 2003 to November 2007 | Graduate in Economics by Faculdade de Economia da Universidade Nova de Lisboa (FEUNL) | Post-graduation in Business by Associação de Estudos Superiores de Empresa of Navarra University.

**Joaquim Goes
(Non-Executive Director)**

Portuguese, 46 years old

Elected for the first time in 2000. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from August 2002 to September 2007 | Director of ESDATA, Espírito Santo Data, SGPS SA from August 2002 to September 2007 | Director of Companhia de Seguros Tranquilidade-Vida, SA from 2002 to 2006 | Chairman of the Board of Directors of E.S. Interaction, Sistemas de Informação Interactivos, SA from 2000 to 2006 | Member of the Board of Directors of BEST – Banco Electrónico de Serviço Total, SA from May 2001 to July 2007 | Manager of the Strategic Marketing Department of Banco Espírito Santo, SA from 1995 to 1999 | Manager of the Strategic Planning and Studies Department of CIMPOR – Cimentos de Portugal, SA from 1994 to 1995 | Senior Consultant at Roland Berger & Partner, Munich, from 1991 to 1993 | Consultant at Roland Berger & Partner, Portugal, from 1989 to 1991 | Graduate in Business Administration and Management | Specialisation in Marketing and Finance, by Universidade Católica Portuguesa | MBA by INSEAD, Fontainebleau.

**José Xavier de Basto
(Non-Executive Director and Member of the Audit Committee)**

Portuguese, 74 years old

Elected 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).

**José Pedro Cabral dos Santos
(Non-Executive Director)**

Portuguese, 52 years old

Elected for the first time in 2012 | Central Manager of the Direcção de Grandes Empresas of Caixa Geral de Depósitos from March 2002 to March 2012 | Non-Executive Member of the Board of Directors of Lusofactor, Sociedade de Factoring, SA from March 2003 to May 2008 | Manager of the Direcção de Grandes Empresas responsible for the Northern Area from October 1999 to February 2002 | Manager of the Direcção Comercial Norte responsible for the Coordination of the Large-Sized Companies from January 1998 to September 1999 | Manager Coordinator (BFE Group/BPI Group), originally of Banco Borges & Irmão and subsequently with extended duties for Banco de Fomento e Exterior and Banco BPI, from June 1994 to December 1997 | Technical Executive of Finindústria – Sociedade de Investimentos e de Financiamento Industrial, and subsequently assistant manager of Finibanco and Non-Executive Director of Finicrédito SFAC, from March 1989 to May 1994 | Intern and subsequently Technical Executive of União de Bancos Portugueses from March 1984 to February 1989 | Graduate in Economics by Faculdade de Economia da Universidade do Porto.

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Luís Pacheco de Melo (Executive Director)

Portuguese, 46 years old

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Director of Tele Norte Leste Participações, SA from April 2011 to February 2012 | Member of the Board of Directors of Vivo Participações, SA 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 SA from June 2002 to April 2006 | Central Manager and invited member of the Executive Committee of BES Investimento from 1998 to 2002 | Associate and Director of UBS Warburg from 1994 to 1998 | Graduate in Civil Engineering by Instituto Superior Técnico with an MBA by IESE Barcelona.

Manuel Rosa da Silva (Executive Director)

Portuguese, 45 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from April 2007 to December 2011 | Director of PT Prime Tradecom – Soluções Empresariais de Comércio Electrónico, SA from July 2009 to January 2011 | Director of PT Multimédia – Serviços de Telecomunicação e Multimédia, SGPS SA from April 2006 to October 2007 | Director of PT Comunicações, SA from 2004 to 2006 | Group Director of Corporate Finance in Portugal Telecom, SGPS SA from 2002 to 2003 | Group Director of Investor Relations in Portugal Telecom, SGPS SA from 2002 to 2003 | CFO of PTM.com, Serviços de Acesso à Internet, SGPS SA from 2000 to 2002 | Vice-Chairman of Merrill Lynch London | Director of mergers and acquisitions at Morgan Grenfell London | Associate in Investment Banking Associate at SG Warburg London | Consultant at KPMG Consulting London, where he worked with the European Telecommunications team in several projects in Europe, United States of America, Eastern Europe and Latin America | Graduate in Systems Engineering by the Instituto Superior Técnico de Lisboa.

Maria Helena Vaz de Carvalho Nazaré (Non-Executive Director)

Portuguese, 63 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Vice-President of the European University Association from 2009 to 2011 | Principal of the University of Aveiro from January 2002 to 22 February 2010 | Chair of the Coordination Committee of the Institutional Evaluation Programme of the European University Association (EUA) | Chair of the College of Health Sciences of the University of Aveiro, between June 2000 and January 2002 | Member of the Board of Directors of Administração do Porto de Aveiro, SA (1999-2000) | Chair of the Columbus Association: network of European and Latin American universities | Coordinator of the University research unit “Física de Semicondutores em Camadas, Optoelectrónica e Sistemas Desordenados” (1996-1999) | Vice-Principal of UA (1991-1998) | Chair of the Research Institute of the University of Aveiro (1995-1998) | Chair of the Executive Board of Fundação João Jacinto de Magalhães (1993-1998) | Member of the Coordination Committee of the International Conference of Defects in Semiconductors (1997) | Vice-Chair of the University of Aveiro Scientific Board (1990-1991) | Chair of the governing board of the Department of Physics (1978-1980; 1986 – 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
(Non-Executive Director and Member of the Audit Committee)

Portuguese, 65 years old

Elected 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 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
(Non-Executive Director)

Brazilian, 56 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Statutory Departmental Director, from December 1997 to March 2000, Executive Director, from March 2000 to March 2002, and Executive Vice-Chairman of Banco Bradesco, SA, from March 2002 to June 2009 | He was also a member of the management bodies of the other companies of the Grupo Bradesco | He was a Member of the managing body and Managing Director of Fundação Bradesco, Member of the Board of Directors and Managing Director of Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (FIMADEN), Member of the Board of Directors of the Investor Relations Brazilian Institute – IBRI, Effective Member of the Supervisory Board of Fundo Garantidor de Créditos – FGC, Member of the Board of Directors of the Brazilian Association of Public Companies – ABRASCA, Member of the Auto Regulation Board of FEBRABAN, and Bradesco representative in the Managing Board of the Instituto Brasileiro de Pesquisas Contábeis, Atuariais e Financeiras – IPECAFI | Member of the Board of Directors of CPMBráxis from July 2009 to July 2012 | Graduate in Business Administration by UNIFIEO – Centro Universitário FIEO, Osasco.

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Nuno de Almeida e Vasconcellos (Non-Executive Director)

Portuguese, 48 years old

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 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 & Struggle from 1995 to 2006 | Member of the Compensation Committee of a banking entity until 2007 | Manager of Andersen Consulting (currently Accenture) from 1987 to 1995 | Graduate in Business Administration by the Curry College, Boston.

Otávio Marques de Azevedo (Non-Executive Director)

Brazilian, 61 years old

Elected for the first time in 2011. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chairman of the Consultive Council of Anatel between 2001 and 2002 | Graduate in Electric Engineering by Universidade Católica de Minas Gerais and Economic Engineering by Universidade Federal de Minas Gerais. Post-graduation in Strategic Planning by Fundação Getúlio Vargas.

Paulo José Lopes Varela (Non-Executive Director)

Portuguese, 44 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | For long related to Grupo Visabeira (where he started performing his duties in 1992), he lived for some years 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, SA | In November 2009, he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, SA | Graduate in Law by the Faculdade de Direito, Universidade de Coimbra.

Pedro Leitão (Executive Director)

Portuguese, 42 years old

Elected for the first time in 2011. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Non-Executive Director of Páginas Amarelas, SA from November 2007 to October 2012 | Director of Tele Norte Leste Participações, SA from April 2011 to February 2012 | Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from September 2007 to December 2011 | Director of PT Multimédia, SGPS SA from 2004 to 2007 | Director of TV Cabo Portugal, SA from 2004 to 2007 | Director of PT Conteúdos, SGPS SA from 2004 to 2007 | Director of Lusomundo Audiovisuais, SA from 2004 to 2007 | Managing Director of PTM.com, SGPS SA from 2002 to 2004 | Managing Director of Telepac, SA from 2002 to 2004 | Managing Director of Saber e Lazer, SA from 2002 to 2004 | Graduate in Business Management by Universidade Católica Portuguesa | MBA by Kellogg School of Management – Northwestern University (USA).

**Rafael Luís Mora Funes
(Non-Executive Director)**

Spanish, 47 years old

Elected for the first time in 2007. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Sustainability and Governance Committee of the Millenium BCP Group until 2007 | Graduate in Economics and Management by Málaga University.

**Shakhaf Wine
(Executive Director)**

Brazilian, 43 years old

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | 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 NV, Chairman of the Control Committee of Brasilcel N.V. and Vice-Chairman of the Board of Directors of Vivo Participações SA up to September 2010 | Member of the Board of Directors of Universo Online SA up to January 2011 | Chairman of the Board of Directors of Mobitel, SA up to June 2011 | Member of the Board of Directors of PT Investimentos Internacionais – Consultoria Internacional, SA from May 2006 to March 2009 | Member of the Board of Directors of PT Participações, SGPS SA from March 2008 to March 2009 | Member of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS SA from May 2006 to March 2009 | Member of the Board of Directors of PT Ventures, SGPS SA from May 2006 to March 2009 | Member of the Board of Directors of Tele Centro Oeste Celular Participações, SA from March 2004 to October 2006 | Member of the Board of Directors of Tele Sudeste Celular Participações, SA from March 2004 to February 2006 | Member of the Board of Directors of Tele Leste Participações SA from July 2005 to February 2006 | Member of the Board of Directors of Celular CRT Participações SA from March 2004 to February 2006 | Member of the Board of Directors of Banco1.net SA 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.

APPENDIX IV

Declaration of the Board of Directors on the remuneration applicable to PT Group officers (in the meaning of article 248B,3 of the Portuguese Securities Code)

Remunerations as defined for the PT Group officers (in the meaning of article 248B,3 of the Portuguese Securities Code) are determined, within each Group operational company, by a compensation committee composed of two executive directors of the PT Group and a corporate manager in the field of Human Resources, by taking into account the job performed in each business area and corporate body or management office.

Along the years, fixed remunerations have been subject to an internal harmonisation process, as well as to benchmarking with similar companies.

In addition to a fixed remuneration, the said officers – notably subsidiary directors – earn a variable remuneration. The definition of the overall amount of such variable remuneration depends on several factors. The variable remuneration is actually fixed each year by PT's Executive Committee, taking into account the evaluation of individual performance for the immediately preceding period and the accomplishment of goals in each officer's area or function, as well as each officer's contribution to the achievement of the overall goals defined for the PT Group.

In determining such variable remuneration, the committee takes into consideration, notably, quantitative indicators, operational and financial included, and indicators of a qualitative nature (such as management and leadership proficiency), which are weighed together with the nature of the job performed and the relative importance of the company in question within the Portugal Telecom Group structure.

The evaluation of the performance of such officers is further based on an analysis of the risks undertaken by the same, chiefly of business risks as listed in item II.5 of this Governance Report, and in their compliance with the checks and balances mechanisms instituted for the Group, notably by involving the various relevant corporate management offices and their respective subsidiary board members in decision-making procedures entailing risk undertaking. Compliance, generally, with the rules applicable to the Company business is also taken into account in this evaluation, which proves to be of a particular relevance given the seniority of the jobs performed by the said officers.

The purpose of the remuneration policy described herein is, inter alia, to contribute to the alignment of the interests of the officers – in particular the directors of the subsidiaries – with the long term interests of the Company.

APPENDIX V**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 2012 financial year**

Whereas:

1. Following the entry into force of Law no. 28/2009 of 19 June 2009 (“Law on Remunerations”), the management body or the remuneration committee, if applicable, 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.1.5.2 of the Corporate Governance Code approved by the Portuguese Securities Market Commission in January 2010 (“CMVM Governance Code”) recommends the submission of a statement on the remuneration policy of the managing 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 remuneration policy;
4. The current remuneration policy for the members of PT SGPS corporate bodies was prepared by the Compensation Committee in office and will be applicable during the 2012 financial year, without prejudice to any adjustment that the Compensation Committee eventually elected for the 2012-2014 term of office may deem fit to make.

Pursuant to the Law on Remunerations and to CMVM Recommendation no. II.1.5.2, 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 managing and supervisory bodies to be applied during the 2012 financial year, which includes the following models drawn up and implemented in line with the best national and international practices:

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

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

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

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

The remuneration of the Chairman of the Board of Directors of PT SGPS corresponds to an annual fixed amount indexed to the annual fixed remuneration of the Chief Executive Officer and does not include a variable component. This fact does not preclude, however, the capacity recognised to the Evaluation Committee of the Board of Directors to propose to the Compensation Committee the granting of a bonus to the Chairman of the Board of Directors at the end of the term of office, taking into account the performance evaluation of his functions (notably as regards his by-law powers), without being subject, however, to the performance of the Company. This is intended to cause that none of the Non-Executive directors, the Chairman of the Board of Directors included, 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.

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

II. Remuneration policy of executive Directors:

The remuneration of executive Directors takes into account the short and medium term performance of PT SGPS, as well as such performance when compared to other companies 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 was determined taking into account a benchmarking study extended to listed companies in the main financial centres, which covered around 140 companies. Such study considered companies in the European Tier 1 Telecom (including Deutsche Telekom, France Telecom, British Telecom, Telecom Italia and Telefónica) and Tier 2 Telecom (including KPN, Belgacom, Telenor and Telecom Austria), as well as companies integrating the USA Telecom Sector; TOP 5 UK, USA and Brazil; IBEX 35; CAC40 and DJ Eurostoxx 50.

The study allowed for concluding that the overall remuneration fixed for the members of the Executive Committee in the previous term of office as compared to the Tier 2 segment in Europe was generally in line with the 2nd quartile, and the fixed remuneration of the CEO was below such quartile.

Determining such fixed component has also taken into account that the remunerations of the CEO and members of the Executive Committee underwent, during the term of office ended on 31 December 2011, on

the initiative of the CEO, a 10% reduction as compared to the remuneration established for the previous term of office. In this way, taking into account the continuity pursued in defining the composition of the Executive Committee as proposed, as well as the importance of the challenge of operational implementation on the various strategic markets where the PT Group is present, it is our understanding that the same level of fixed remuneration as defined for the 2009-2011 term of office should be maintained.

b. Variable remuneration:

In determining the variable component of executive members of the Board of Directors it was further taken into consideration that, during the 2011 financial year, the remuneration policy in force up to that time was changed in order to include the modifications that had recently 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 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 is kept between the variable remuneration and pursuance of medium- and long-term goals of the Company in accordance with the best practices at national and international level.

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 Recommendation no. II.1.5.1:

- 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 a 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.

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The determination of the variable remuneration to be allocated to 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 pursuance of a set of indicators connected to the performance and sustainability of the Company, with each indicator reaching at least 85% of the goals established for such indicator.

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 provenly 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 economic and financial context of the Company, of the country and of international markets, as well as of the sector where it is incorporated, apart from exceptional factors out of the management's control that might affect the performance of the Company.

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 – up to such time is not provenly 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 the CEO respectively. In any case, and even if the level of pursuance of pre-determined goals exceeds 100%, the 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 the 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 its sustainability and ability to achieve certain strategic goals of the Group.

The current remuneration policy further allows, as confirmed on the abovementioned 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 contributing to: *(i)* optimise the long term performance and to disincentiving 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 abovementioned goals, and consequently the variable remuneration in terms of individual and joint evaluation;
- 3) In the event of removal or termination by agreement of the management relationship, no compensation will be paid to the Directors if the same is provenly due to an unsuitable performance.

d. Payments related to removal or termination by mutual agreement of director functions:

The Company has no defined general policy on payments related to removal or termination by mutual agreement 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.

II. Remuneration policy of the Chartered Accountant

The Company's Chartered Accountant is remunerated in accordance with the usual practices and conditions for similar services, further to its services agreement and the proposal of the Company's Audit Committee.

The Compensation Committee of PT SGPS



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