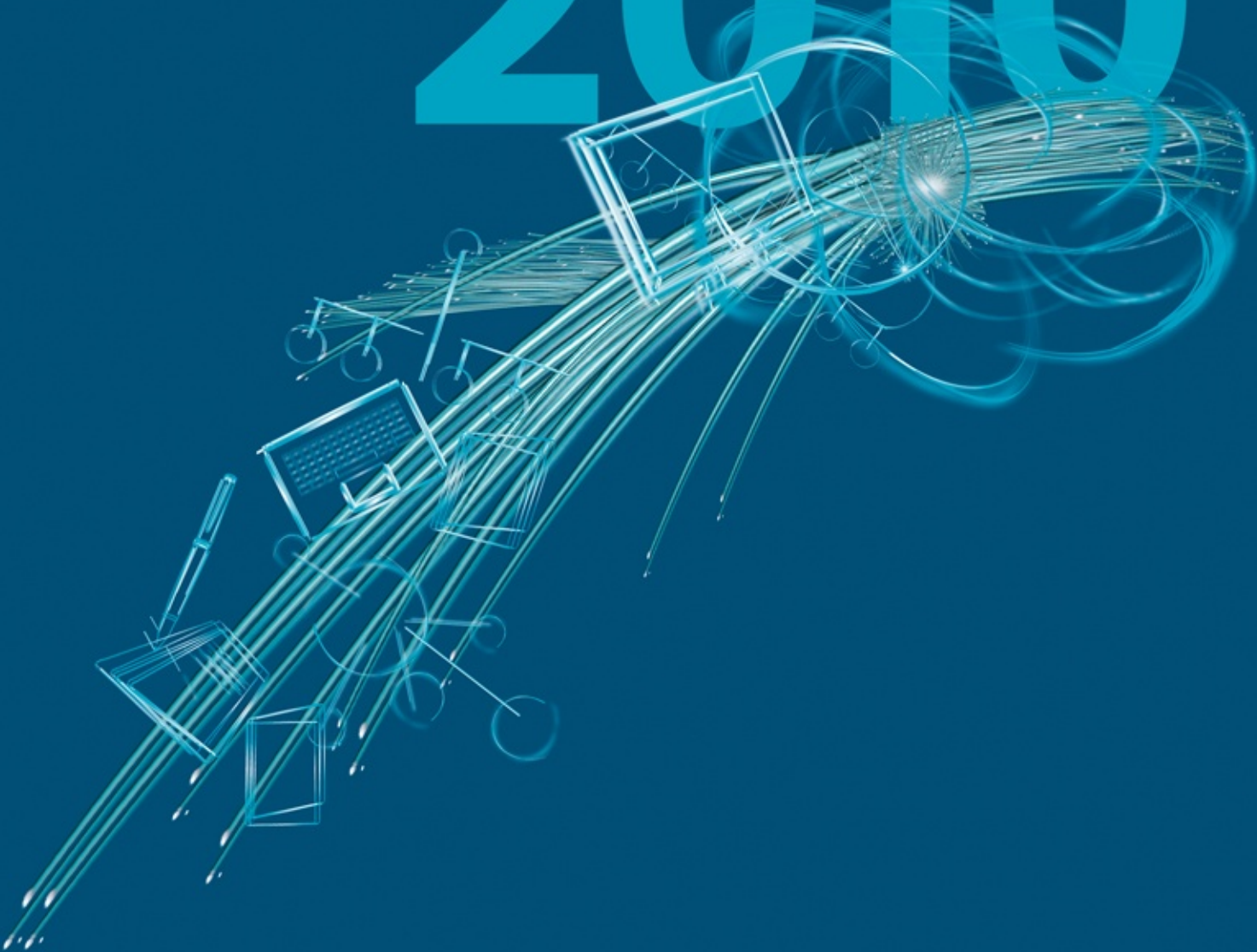


**CORPORATE GOVERNANCE** REPORT

# 2010



**PORTUGAL TELECOM**



**Portugal Telecom, SGPS, SA**

Public Company

Share Capital: Euro 26,895,375

Registered in the Lisbon Commercial  
Registry and Corporate n.º 503 215 058

Avenida Fontes Pereira de Melo, 40  
1069-300 Lisboa

The terms “PT”, “Portugal Telecom Group”,  
“PT Group”, “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 245-A of the Portuguese Securities Code and the form attached to CMVM Regulation no. 1/2010.

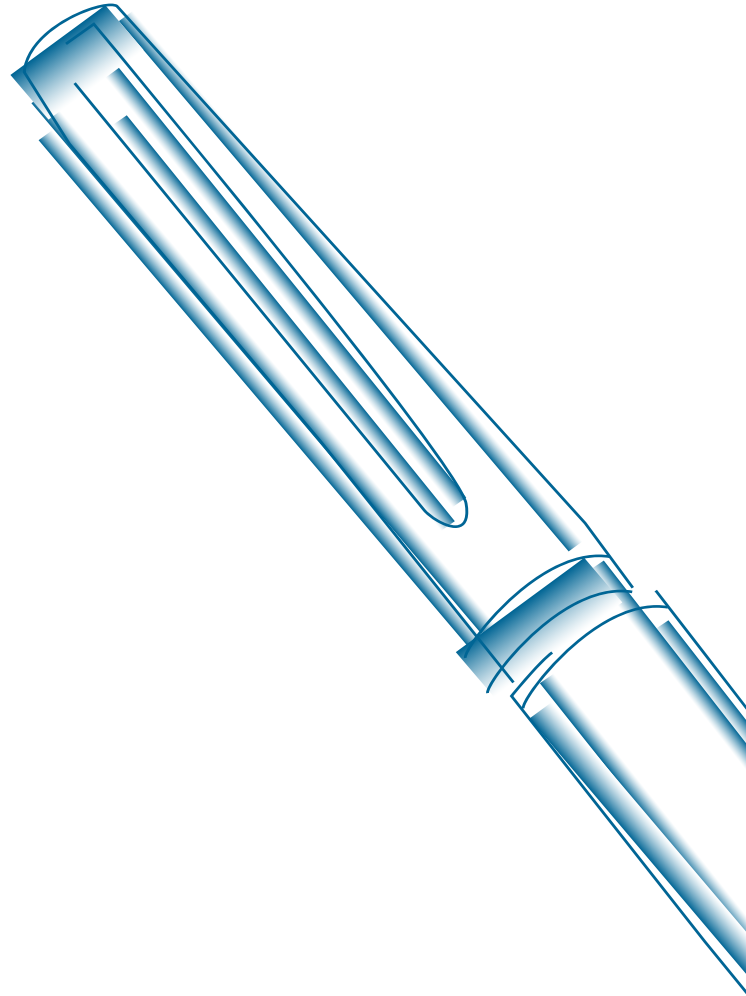
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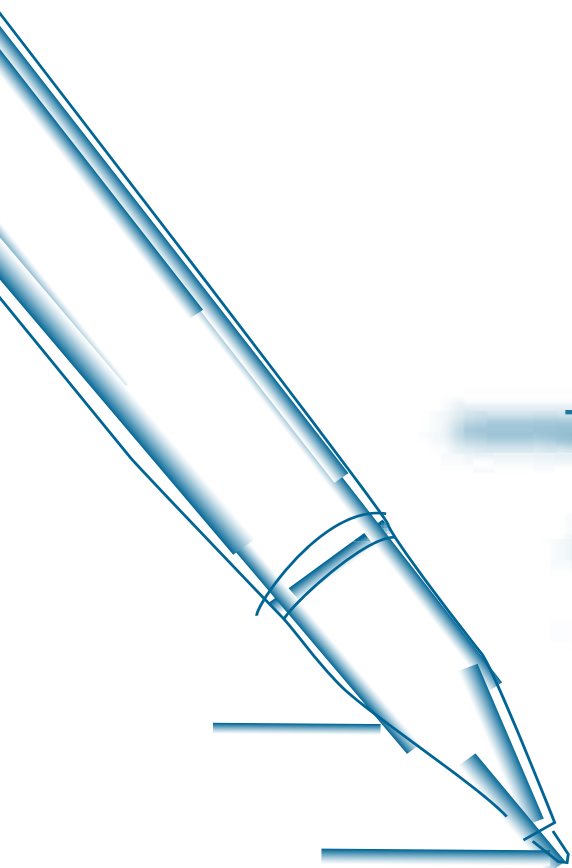
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67	g) Sufficient information on the criteria on which the allocation of a variable remuneration in shares is based, as well as on executive directors keeping any shares granted them in the company, on any agreement executed as to such shares, notably hedging or risk transfer agreements, the limit thereof, and their relationship to the amount of the overall annual remuneration;
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# 00 | CORPORATE GOVERNANCE RULES



# CORPORATE GOVERNANCE RULES

## CORPORATE GOVERNANCE RULES APPLICABLE TO PORTUGAL TELECOM

Most CMVM Recommendations on the governance of listed companies published in January 2010 (“CMVM Recommendations”) <sup>(1)</sup> – compliance with which by Portugal Telecom, SGPS S.A. (“Portugal Telecom”, “PT” or “Company”) is assessed for the first time on this report – are fully adopted by Portugal Telecom, and are reflected on its corporate governance model. 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 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)

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

## STATEMENT OF COMPLIANCE WITH CMVM RECOMMENDATIONS

The Company fully adopts the CMVM Recommendations on Listed Companies Governance as published in January 2010 <sup>(2)</sup>, except for Recommendations I.3.3 and I.6.1, which are not complied with for the reasons identified hereunder.

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

CMVM RECOMMENDATION	COMPLIANCE	REPORT
<b>I. GENERAL MEETING OF SHAREHOLDERS</b>		
<b>I.1 Board of the General Meeting of Shareholders</b>		
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
<b>I.2 Participation in the General Meeting of Shareholders</b>		
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 shareholders meeting 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
<b>I.3 Voting and exercise of the right to vote</b>		
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, <i>inter alia</i> , 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 <sup>(1)</sup>	
<b>I.4 Quorum and resolutions</b>		
Companies shall not establish resolution quorum in excess of the provisions of the law.	Yes	Chapter I.8
<b>I.5 Minutes and disclosure of resolutions passed</b>		
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
<b>I.6 Measures for corporate control</b>		
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 <sup>(2)</sup>	
I.6.2 Defensive measures the effect of which is to automatically cause a 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

(2) Code of Corporate Governance, available on [www.cmvm.pt](http://www.cmvm.pt) (see footnote 1 above).

CMVM RECOMMENDATION	COMPLIANCE	REPORT	
<b>II. MANAGEMENT AND SUPERVISORY BODIES</b>			
<b>II.1 General</b>			
<b>II.1.1 Structure and duties</b>			
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
<b>II.1.2 Incompatibilities and independence</b>			
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.	Yes	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
<b>II.1.3 Eligibility and appointment</b>			
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.	Yes	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
<b>II.1.4 Policy on the report of irregularities</b>			
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
II.1.4.2	Such policy's general guidelines shall be disclosed in the company's Corporate Governance report.	Yes	Chapter II.35
<b>II.1.5 Remuneration</b>			
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	



CMVM RECOMMENDATION	COMPLIANCE	REPORT
(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.	Not applicable	
(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. e 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.	Yes	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. e 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	
<b>II.2 Board of Directors</b>		
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	Capítulo 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	Capítulo 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 and 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
<b>II.3 Executive Committee</b>		
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

CMVM RECOMMENDATION	COMPLIANCE	REPORT
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	
<b>II.4 Audit Committee</b>		
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
<b>II.5 Specialized committees</b>		
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 & 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
<b>III. INFORMATION AND AUDIT</b>		
<b>III.1 General disclosure obligations</b>		
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: 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;	Yes	Chapter III.16

CMVM RECOMMENDATION	COMPLIANCE	REPORT
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.		
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
<b>IV. CONFLICTS OF INTEREST</b>		
<b>IV.1 Relationships with shareholders</b>		
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 organization 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.

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).

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”.

## ➔ (2) CMVM Recommendation no. I.6.1 on defensive measures against take-overs 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 that grant special rights to the Portuguese State as the holder of such shares, it is PT's understanding that its Bylaws do not contain any defensive clauses contrary to the interests of the Company and its shareholders.

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 historically appeared in several European countries – 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 of takeover bids, since only higher levels of acceptance by the addressees of such takeover bids allow the attainment of control thresholds.

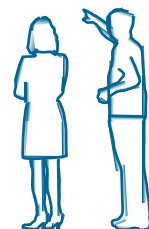
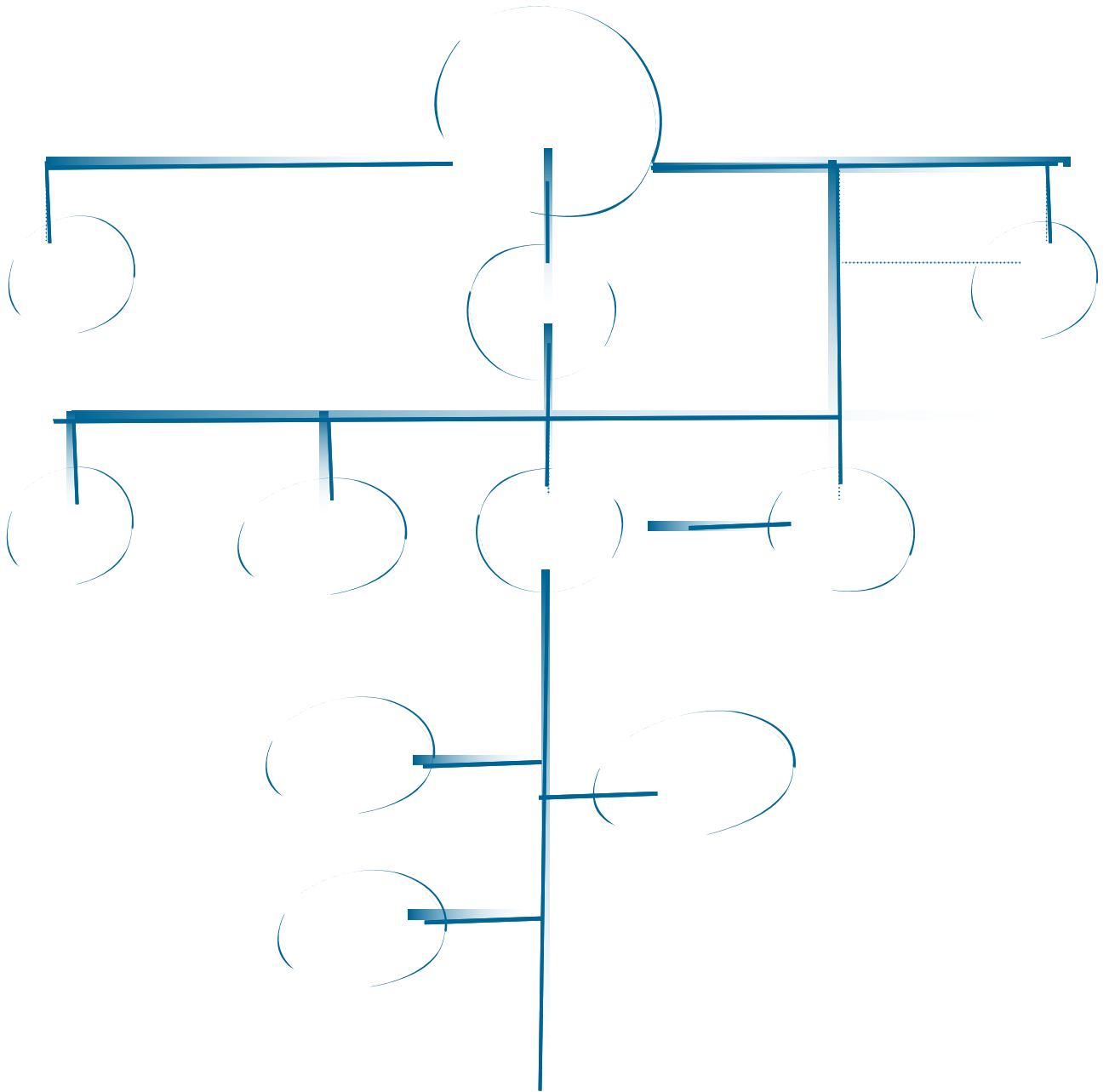
Furthermore, within the context of the tender offer (OPA) to which PT was subject during the 2006 financial year, the abovementioned provision of the Bylaws (see reference to article 13 of the Bylaws above) was particularly visible. In fact, under the terms and conditions of the general tender offer over 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 tender offer 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 tender offer, 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 (or which effect may be) to prevent the success of tender offers 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.

# INTRODUCTION



## INTRODUCTION

### PT STRUCTURE

PT is a global telecommunications operator, the leader at national level in all its operation sectors, and offers, on a global integrated basis, its services, products and solutions to a universe in excess of 85.5 million customers, Oi proforma included.

PT claims its position as the Portuguese corporation with the largest national and international projection, with a presence in the European, Asian and African continents. It has a diversified business portfolio, where quality and innovation are the determining factors, at the level of state-of-the-art of international companies in its sector.

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. Within this context, in September 2010, formalised the disposal to Telefónica, for 7.5 billion euros, of the 50% share PT held in Brasilcel (the holder of 59.42% in VIVO), the largest mobile operator in South America and the fourth largest mobile telecommunications service company in the world.

In the beginning of 2011, in pursuance of its investment strategy in the high growth markets in Latin America, particularly the Brazilian market, PT announced the formalisation of agreements aimed at implementing a strategic partnership with the Oi Group, whereby PT will achieve a direct and indirect minimum economic position in Oi of 22.38%, by means of a maximum investment of 8.32 billion reais. The Oi Group is the leading telecommunications service provider in the Brazilian market and the largest fixed telecommunication operator in South America as regards total number of active accesses. In 2010, the revenues of the Oi Group amounted to 29,479 million reais. The implementation of the strategic partnership with the Oi Group is expected to be completed by the end of March 2011.

Additionally, an agreement was formalised with CTX Participações SA ("CTX"), the holding that controls Contax, and its shareholders aimed at the acquisition by PT of a share in CTX and at the incorporation of Dedic/GPTI in Contax, through the merger of both contact centre operations, IT and BPO. This incorporation will permit: (1) the generation of substantial synergies, thus benefiting all shareholders in Dedic/GPTI and Contax, and (2) the crystallisation by PT of the value of Dedic/GPTI. Contax is one of the leading companies in corporate services and the leader in contact centre services in Brazil. As a result of this transaction, PT will consolidate in 44.4% and hold a direct 19.9% position in CTX, a structure that represents a 19.5% economic position in Contax. The transaction of Dedic/GPTI with CTX and Contax is expected to be completed at the beginning of May 2011.

PT is formally structured as follows: Domestic Wireline Business, Domestic Mobile Business, International Business and Instrumental Companies. Such units are coordinated by a 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

### Domestic Business

#### Wireline Business

100%	PT Comunicações
100%	PT Prime

#### Mobile Business

100%	TMN
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### International Business

25%	Unitel <sup>1</sup>
87.5%	Dedic/GPTI <sup>(2)</sup>
40%	CVT <sup>1</sup>
34%	MTC <sup>1</sup>
51%	CST <sup>1</sup>
41.12%	Timor Telecom
28%	CTM
28.78%	UOL <sup>3</sup>

### Instrumental Companies

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

(1) Shares held by Africatel, which is 75% controlled by PT.

(2) To be incorporated, in 2011, in Contax in which PT will hold a 44.4% economic interest.

(3) On 30 December 2010, PT established an agreement for disposal of its 28.78% share in UOL for the amount of 356 million reais. The sale transaction was completed on 27 January 2011.

## CORPORATE GOVERNANCE

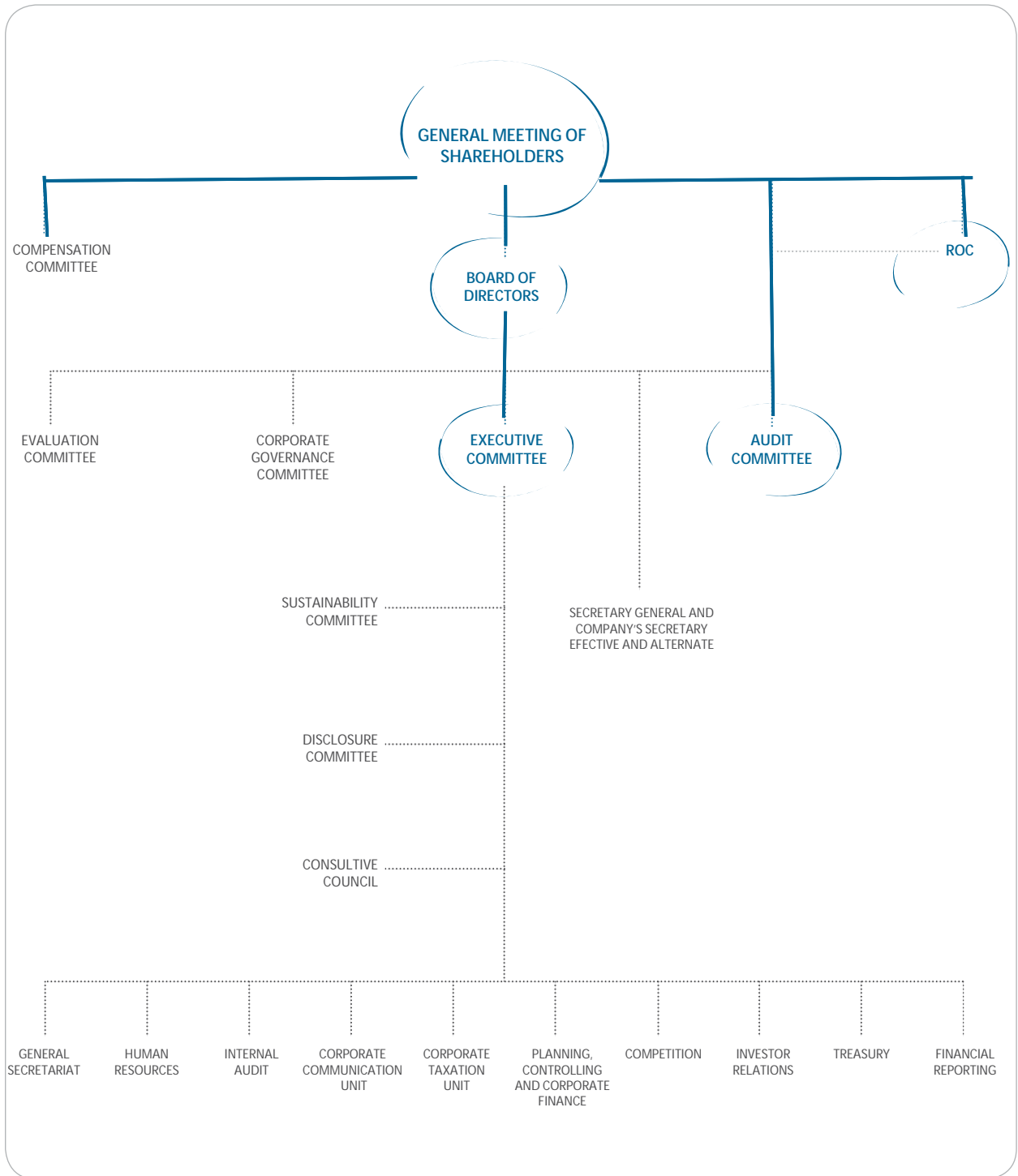
PT follows the Anglo-Saxon governance model, which is based on the existence of a Board of Directors, an Audit Committee composed of non-executive directors specifically appointed by the General Meeting of Shareholders and a Chartered Accountant ("ROC") elected by the General Meeting of Shareholders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

PT's organization 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 schematized as follows:



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 the Corporate Governance Committee and of the 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 Consultive Council, 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 resolves on matters as specially assigned by law or the Company's Bylaws, as well as on matters not comprised within the responsibilities of other corporate bodies.

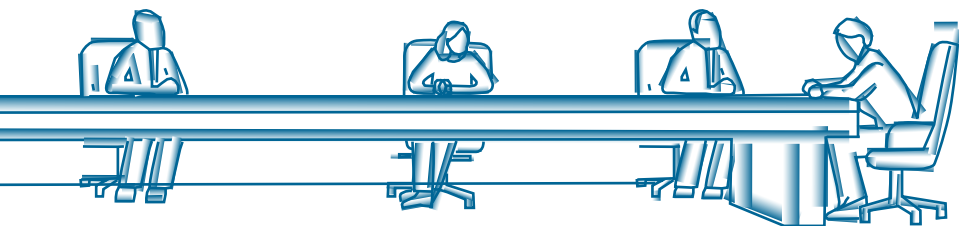
In this way, considering the full implementation and consolidation of the governance model adopted by the General Meeting of Shareholders of 22 June 2007, for purposes of compliance with the CMVM Recommendation no. II.1.1.1, and based on the outcome of the Corporate Governance Committee's resolution pursuant to CMVM Recommendation no. II.5.1. part ii), PT considers that this governance model has ensured 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 organization 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 transparency and accountability of the Company and its management vis-à-vis its shareholders, investors and the market.



# 01

## GENERAL MEETING OF SHAREHOLDERS





## 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, pursuant to applicable law <sup>(3)</sup>, 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](http://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:	<a href="mailto:assembleia-ptsgps@telecom.pt">assembleia-ptsgps@telecom.pt</a>

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



(3) Decree-Law no. 49/2010 of 19 May 2010 determined that holders of shares corresponding to 2% at least of the share capital may apply for notice of the General Meeting of Shareholders of a listed company, and in this way reduced the 5% threshold of the share capital formerly in force. At the General Meeting of 2011, PT's Board of Directors will propose to the shareholders an amendment to various bylaw provisions, among which an amendment to article 17 that governs this matter, thus conforming them to the modifications to the Securities Code made by the above statute.

## **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 March 2009 for the 2009-2011 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 Depositary Receipts (ADR) or Global Depositary Receipts (GDR) programmes having as their object Company shares, the holders of ADR or GDR are deemed to be the shareholders, while the entity in whose name the shares are registered is deemed a simple representative of the shareholders, provided however that such shareholders comply with the conditions set forth in the Bylaws for the exercise of such right. These conditions are communicated to the holders of the right to vote in each notice for the General Meeting of Shareholders.

### **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.

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., and the resolutions whereby special rights pertaining to class A shares should be taken into account are identified in Chapter III.1.

PT's Bylaws do not provide for any separate system for rights with a property content.

### **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](http://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](http://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 has made available on its website, within 5 days as from the Annual General Meeting held on 16 April 2010, an extract of the relevant minutes.

In its turn, following the General Meeting of Shareholders of 30 June 2010, PT has disclosed to the market information regarding the resolutions passed by the shareholders, capital represented and voting results, also within 5 days as from such meeting.

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

### **I.14. BACKGROUND INFORMATION ON GENERAL MEETINGS OF SHAREHOLDERS**

Under the new article 21-C of the 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 are available on the Company's website as provided for by law and regulations.

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. At the General Meetings held on 16 April and 30 June 2010, Mr. Álvaro Pinto Correia, Chairman of PT's Compensation Committee during the current term of office, attended the meetings.

## **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 A PENSION BENEFIT SYSTEM 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 9 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). 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 S.a r.l. ("Helios"), dated 13 August 2007, regarding the company Africa PT, B.V. (currently "Africatel, B.V."), incorporated within the context of the strategic partnership established between the above companies for the purpose of jointly creating and developing a telecommunications service provider operating in the entire Sub-Saharan Africa. Under such shareholders' agreement, in the event of a change of control in Portugal Telecom, Helios shall have a put option to sell to PT its entire shareholding in Africatel, B.V.

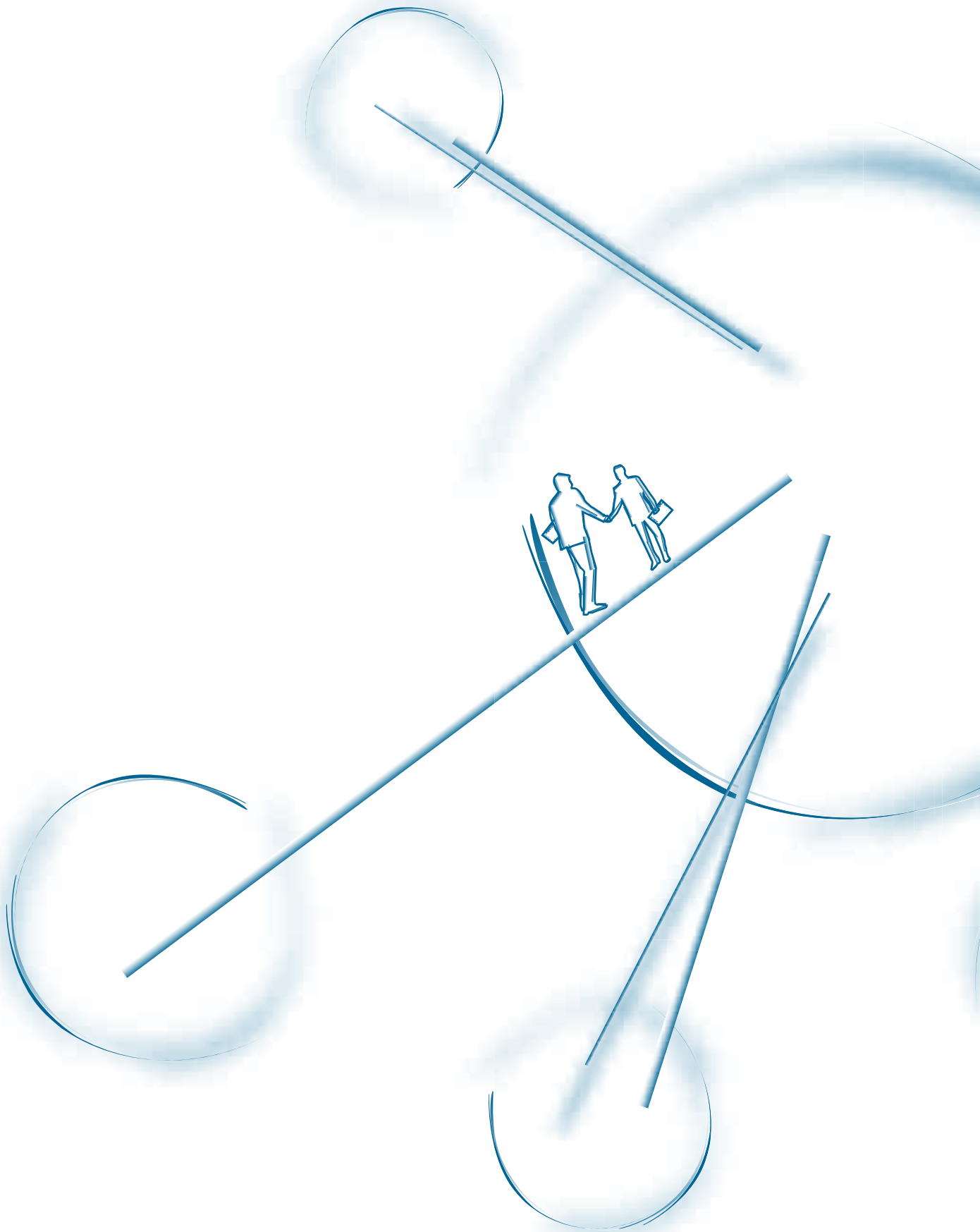
PT describes the financial covenants that may affect the Company as regards change of control clauses under note 35.8 to the consolidated financial statements included in the Report and Consolidated Accounts for 2010.

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 IN CONTROL**

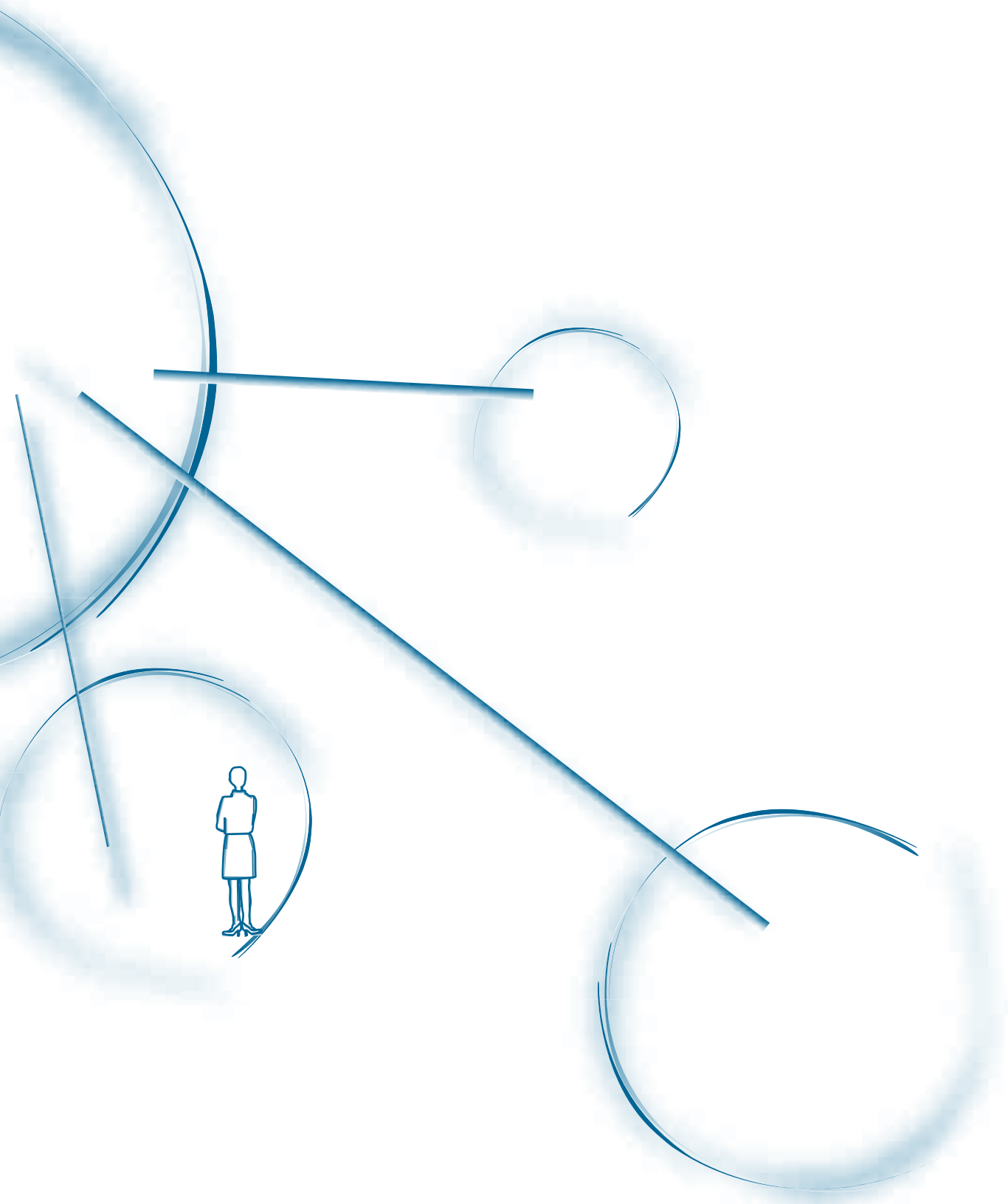
There are no agreements between PT and the members of the management body and officers providing for compensation in the event of resignation, removal without just cause or termination of employment relationship following a change in control in the Company.





02

MANAGEMENT AND  
SUPERVISORY BODIES





# MANAGEMENT AND SUPERVISORY BODIES

## 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 March 2009 for the 2009-2011 three-year term of office. As of 31 December 2010, the composition of the Company's Board of Directors was as follows:

Composition							
Members (date of first appointment)	Board of Directors	Executive Committee	Audit Committee	Corporate Governance Committee	Evaluation Committee	Independence (4)	Nº. of shares
Henrique Granadeiro (2003)	Chairman				Chairman (1)	Yes	150
Zeinal Bava (2000)	Member	Chairman (CEO)			Member (2)		63,161
Luis Pacheco de Melo (2006)	Member	Member (CFO)					45
Carlos Alves Duarte (2009)	Member	Member					40
Manuel Rosa da Silva (2009)	Member	Member					90
Shakhaf Wine (2009)	Member	Member					-
João de Mello Franco (1998)	Member		Chairman	Member	Member (3)	Yes	13,308 (5)
José Xavier de Basto (2007)	Member		Member			Yes	-
Mário João de Matos Gomes (2009)	Member		Member			Yes	-
Francisco Bandeira (2008)	Member						483
Joaquim Goes (2000)	Member			Member	Member		2,437
Gerald S. McGowan (2003)	Member					Yes	-
Rafael Mora Funes (2007)	Member				Member		501 (6)
Maria Helena Nazaré (2009)	Member					Yes	-
Amílcar de Moraes Pires (2006)	Member						2,146
Francisco Soares (2006)	Member			Member	Member	Yes	-
Jorge Tomé (2002)	Member			Member	Member		-
Paulo Varela (2009)	Member			Member			7,134
Milton Silva Vargas (2009)	Member					Yes	-
Nuno de Almeida e Vasconcellos (2006)	Member			Chairman			11,190

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

(2) Inherently in his office as CEO.

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

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

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

(6) 100% held by his spouse.

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

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. Pursuant to the Bylaws, for the election of one-third of the total number of directors, which must comprise the Chairman of the Board of Directors, such majority shall include the votes of the majority of the class A shares.

Additionally, and 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. The 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 shall correspond to, at least, the majority of the directors in office. Amongst the 20 directors of the Company in office on 31 December 2010, 5 were executive directors and 15 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
Luis Pacheco de Melo	Member (CFO)
Carlos Alves Duarte	Member
Manuel Rosa da Silva	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 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 2009-2011 three-year term of office of the Chartered Accountant commenced on 27 March 2009, 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 and in line with CMVM Recommendations no. II.4.4 and II.4.5, PT's Audit Committee assessed the independence of the Chartered Accountant, and appraises his work during the 2010 financial year as positive.

The remuneration of the abovementioned audit firm as paid and/or due by reference to the 2010 financial year was 280,500 euros, including services provided to the following Group companies: Portugal Telecom, PT Investimentos Internacionais, PT Ventures, PT Participações, Timor Telecom, PT Imobiliária, PT Compras, PT ACS and PT Pro.

**II.2. IDENTIFICATION AND COMPOSITION OF SPECIALIZED 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.

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

Composition	
Henrique Granadeiro <sup>(1)</sup>	Chairman
Zeinal Bava <sup>(2)</sup>	Member
João de Melo Franco <sup>(3)</sup>	Member
Joaquim Goes	Member
Rafael Mora Funes	Member
Francisco Soares	Member
Jorge Tomé	Member

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

➔ **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 2010, in addition to the Executive Committee and the Evaluation Committee, the Board of Directors comprised 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	
Nuno de Almeida e Vasconcellos	Chairman
João de Mello Franco	Member
Joaquim Goes	Member
Francisco Soares	Member
Jorge Tomé	Member
Paulo Varela	Member

### → Structures Supporting the Executive Committee

Investor 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, three supporting structures in order to better perform its assignments.

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

### → Disclosure Committee

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

### → Consultive Council

Composition	
Luís Todo Bom	Chairman
José Almeida Mota	Member
Anibal Santos	Member
João Confraria	Member
José Manuel Tribolet	Member
José Lamego	Member



➔ Sustainability Committee

The composition of the Sustainability Committee is defined inherently in the offices exercised within the PT Group, as follows:

Composition
<ul style="list-style-type: none"> <li>• PT CEO;</li> <li>• Manager of Corporate Communication and Image;</li> <li>• Directors of PT Comunicações, TMN and PT Prime responsible for the sustainability function within their respective company;</li> <li>• PT team in charge of the operational coordination and implementation of sustainability programmes.</li> </ul>
<p>Should it be deemed appropriate, the Directors of other PT Group companies responsible for the sustainability function may further incorporate this Committee.</p>

**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 authorized 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-optation of 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 organization;
- 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, 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 Groups business lines and Corporate Governance, the members of the Executive Committee are responsible for the following areas as of 31 December 2010:

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

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 have acted, all along 2010, within the framework of their respective power delegation and have effectively reported their activity to the Board of Directors as provided for under Board of Directors OS 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 the 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 persons 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 or disagreement 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 the 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, and the Chartered Accountant's opinion must equally cover all information in the governance report regarding, inter alia, qualified shareholdings in the Company capital, identity of shareholders of special rights and description of such rights, any restrictions in respect voting rights and the main constituents of the internal control and risk management systems implemented in the Company.

## 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 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 specialized 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 2010 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:

- 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 2009 financial year;
- 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;
- Follow-up of the performance evaluation of the Board of Directors following the report prepared by the Corporate Governance Committee;
- Preparation of the self-evaluation report, including the evaluation of the operation regulation of the Evaluation Committee;
- Evaluation of the performance of the members of PT's Executive Committee, according to the objective criteria approved by the Compensation Committee in 2009;
- Appraisal of the remuneration criteria and indicators for the members of the management body of the Company as approved by the Compensation Committee for the 2009-2011 term of office, taking into account the recent regulatory modifications in this field, notably CMVM Corporate Governance Code approved in January 2010;
- Approval of a recommendation to the Compensation Committee on the remuneration policy for the members of the management bodies for the 2009-2011 term of office, and discussions with such Committee on that same subject, in order to, *inter alia*, define the remuneration criteria applicable to the allocation and payment of the variable remuneration.

## → 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 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.

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 organization 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 conflict of interest prevention and information discipline;
- To assist the Board of Directors in evaluating its performance in order to contribute to efficiency and transparency in this procedure;
- To study, review and re-evaluate the values, principles and practices that must govern the conduct of the 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 2010 financial year, the Corporate Governance Committee carried out the following main activities:

- Appraisal of Portugal Telecom's governance model, through a weighed analysis of governance practices followed, with a view to its sedimentation and continued improvement, as well as assessment of the impact of CMVM Corporate Governance Code.
- Benchmarking analysis on good corporate governance practices in other international reference venues;
- Submission to the Board of Directors of a proposal to amend the Evaluation Committee Regulation, in order to extend the voting impediment applicable to the CEO in the matter of selection of non-executive Directors, thus harbouring CMVM Recommendations nos. II.5.1. and II.1.3.2, which propose that executive directors not interfere with such procedure;
- Submission to the Board of Directors of a proposal as to the function rotation policy in this corporate body, in order to accommodate CMVM Recommendation no. II.2.5., which provides that companies shall detail *their function rotation policy in the Board of Directors, notably as regards the person responsible for the financial function*;
- Submission to the Board of Directors of a proposal on the list of related party transactions subject to approval by this body and prior opinion by the Audit Committee aimed at permitting the adoption by the Company of CMVM Recommendation no. IV.1.2.;
- Submission to the Board of Directors of a proposal on the required by-law amendments in light of the provisions of Decree-Law no. 49/2010 of 19 May 2010, which implemented the so-called "Shareholder Rights Directive".

## → 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.

## → Consultive Council

The mission of the Consultive Council is to consider, together with the Executive Committee, major strategic issues faced by the PT Group, contributing to a corporate management of excellence.

The activity of the Consultive Council consists of assessing, together with the Executive Committee, areas with special relevance for PT or issues which level of importance so advise, notably regulation, competition, international investments, mergers, acquisitions and disposals, technological strategies and their implication in the Group's business structure.

It is incumbent on the members of the Consultive Council, as to activities and shareholdings held or to be acquired by the PT Group to:

- Provide the Chief Executive Officer and the Executive Committee with information, assessments and opinions on matters of a regulatory, technological, economic and corporate nature;
- Analyse relevant aspects of economic trends, concerning both present and future prospects, notably in what regards factors capable of influencing or enhancing the PT Group business;
- Assist the Chief Executive Officer and the Executive Committee in developing corporate strategies and the best management practices;
- Issue opinions and recommendations on any matters eventually submitted to it by the Chief Executive Officer or by the Executive Committee.

## → Sustainability Committee

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

The Committee has the following main global goals:

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

The Sustainability Committee has the following duties:

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

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

## II.4. ANNUAL REPORT ON THE ACTIVITY CARRIED OUT BY THE AUDIT COMMITTEE

The annual report on the activities of the Audit Committee during the 2010 financial year is available to shareholders on the Company's website, together with the financial statements, in compliance with CMVM Recommendations n.os II.4.2 and II.4.3.

## II.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

### A. RISK MANAGEMENT

PT has defined, as a priority commitment, the implementation of a process to evaluate and manage the risks that might affect its operations and the execution of the plan and strategic goals defined 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 systematized approach, risk management is integrated in the Company's strategic planning and operational management procedures, and relies on the commitment of all employees to adopt risk management as an integral part of their duties, notably by identifying, reporting and implementing risk mitigation measures and behaviours.

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

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

- Implementation a corporate risk management model in line with the PT Group's strategic goals;
- Identification and analysing the main risks to which PT and its subsidiaries are exposed within the framework of the conduct and pursuance of their business;
- Identification and assessment of the main risk factors and events that might 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 materialize;
  - 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 as to the 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 board members. During the exercise and enforcement of its duties, regarding the oversight of the quality, integrity and efficacy of the Company's risk management system, the Audit Committee is responsible for the following:

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

It should be stressed that the instituted model also address the corporate sustainability goals classified as strategic by PT, and it is subject to analysis and benchmarking to the industry best practices by the Dow Jones Sustainability 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 organization. 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 wide major categories according to their nature:

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



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.

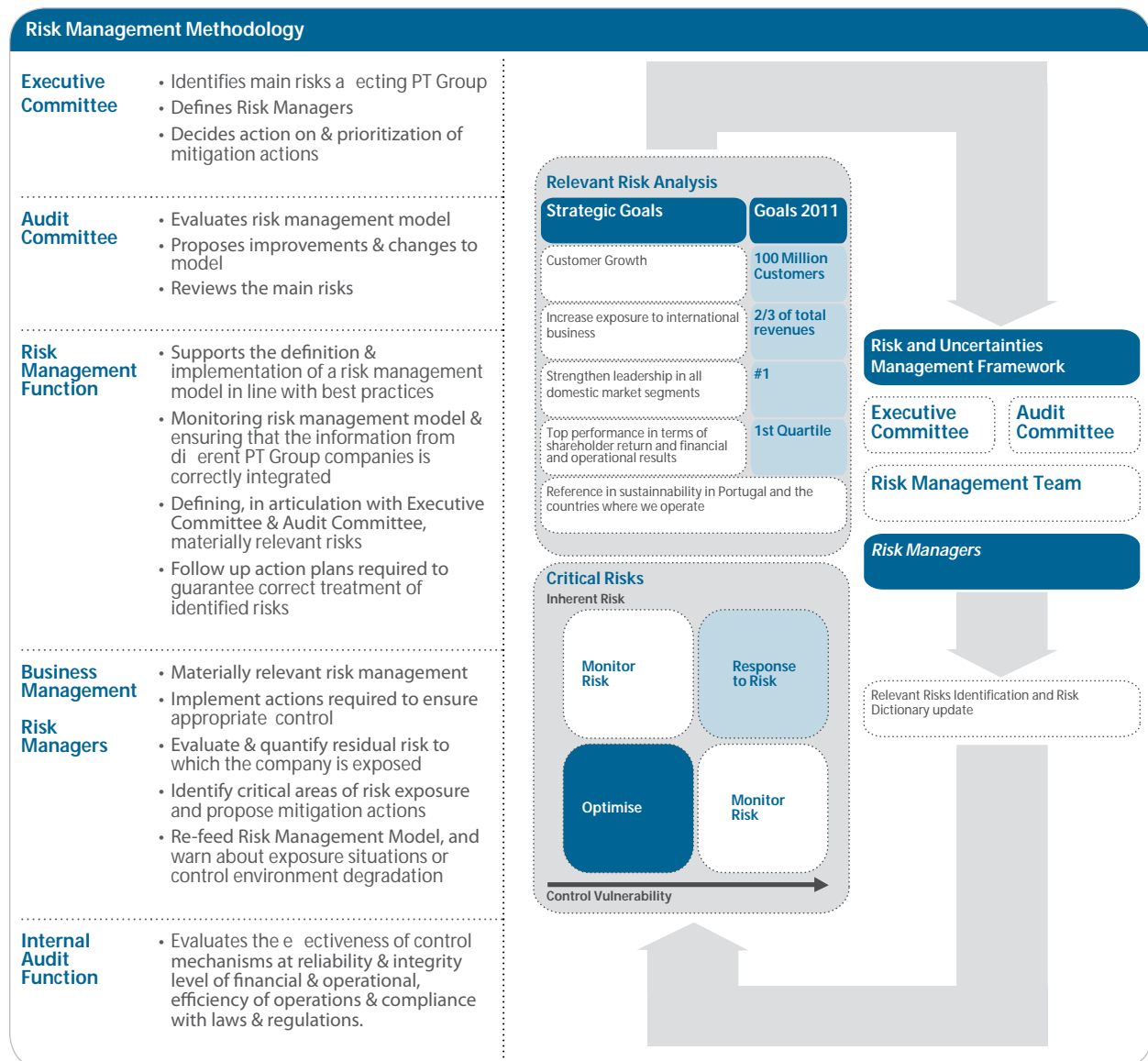
Risks			
<b>Environment Risks</b>		<ul style="list-style-type: none"> <li>• Competition</li> <li>• Customer needs / Economic environment</li> <li>• Technological innovations</li> <li>• Sensitivity</li> <li>• Shareholder expectation management</li> </ul>	<ul style="list-style-type: none"> <li>• Capital availability</li> <li>• Politics / Sovereignty</li> <li>• Legal and fiscal</li> <li>• Regulation</li> <li>• Business sector</li> <li>• Financial markets</li> <li>• Catastrophic loss</li> </ul>
<b>Process Risks</b>	<b>General</b>	<ul style="list-style-type: none"> <li>• Governance</li> </ul>	<ul style="list-style-type: none"> <li>• Reputation &amp; image</li> </ul>
	<b>Operations</b>	<ul style="list-style-type: none"> <li>• Customer satisfaction</li> <li>• Human Resources</li> <li>• Talent management &amp; retention</li> <li>• Development of Products &amp; services</li> <li>• Inefficiency</li> <li>• Revenue assurance / Billing</li> <li>• Licence / concession management</li> <li>• Capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Supply</li> <li>• Sales channel &amp; customer support</li> <li>• Partnerships</li> <li>• Compliance</li> <li>• Business interruption</li> <li>• Service failure / product deficiency</li> <li>• Environmental &amp; public health</li> <li>• Hygiene &amp; safety</li> <li>• Brand erosion</li> </ul>
	<b>Empowerment</b>	<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Authority / limits</li> <li>• Outsourcing</li> </ul>	<ul style="list-style-type: none"> <li>• Performance incentives</li> <li>• Change management</li> <li>• Communication</li> </ul>
	<b>Information technologies</b>	<ul style="list-style-type: none"> <li>• Relevancy</li> <li>• Integrity</li> <li>• Access</li> </ul>	<ul style="list-style-type: none"> <li>• Availability</li> <li>• Infrastructure</li> </ul>
	<b>Financial</b>	<ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Exchange</li> <li>• Equity</li> <li>• Materials &amp; raw materials prices</li> <li>• Financial instruments</li> </ul>	<ul style="list-style-type: none"> <li>• Cash-fow</li> <li>• Cost of opportunity</li> <li>• Concentration</li> <li>• Default</li> <li>• Liquidity</li> <li>• Covenants</li> </ul>
	<b>Integrity</b>	<ul style="list-style-type: none"> <li>• Fraud</li> <li>• Illegal Acts</li> </ul>	<ul style="list-style-type: none"> <li>• Non-authorized use / access</li> </ul>
	<b>Decision-taking information risks</b>	<b>Strategic</b>	<ul style="list-style-type: none"> <li>• Environment analysis</li> <li>• Business portfolio</li> <li>• Investment evaluation</li> <li>• Organization structure</li> </ul>
	<b>Operational</b>	<ul style="list-style-type: none"> <li>• Price determination</li> <li>• Planning &amp; budgeting</li> </ul>	<ul style="list-style-type: none"> <li>• Contractual commitments</li> <li>• Performance evaluation</li> <li>• Alignment with strategy</li> </ul>
	<b>Financial</b>	<ul style="list-style-type: none"> <li>• Accounting information</li> <li>• Financial reporting</li> <li>• Fiscal</li> </ul>	<ul style="list-style-type: none"> <li>• Information for regulators/ supervisors</li> </ul>

## Risk Management Methodology

The risk management methodology formalizes 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 analyzed and mitigated;
- Monitoring procedures for mitigation actions for each risk, according to the risk management strategy adopted by the Executive Committee and supervised by the Audit Committee;
- Disclosure and reporting procedures for information issued from the risk management procedure.

Operational implementation of the risk management methodology is repeating cyclical process that may be summarized on the following table:





During the 2010 financial year, a re-evaluation was carried out on the risk areas that might affect, in a more significant manner, PT Group's capacity to achieve its strategic goals, notably: (i) Customer growth; (ii) Increase in revenue originated in international markets; (iii) Leadership in all market segments and geographies; (iv) Higher performance at shareholder return, operational and financial level; (v) Reference at corporate sustainability level in countries where the PT Group operates.

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

The impact and probability of occurrence was measured for all of the 224 identified risk factors, and, according to the level of exposure or residual risk, a risk response strategy was defined, notably: (i) **to reduce the risk** through implementation of controls reducing the probability of risk occurrence or its impact in case the risk materializes; (ii) **to accept the risk** in situations where the residual risk is deemed acceptable and the cost of implementation of additional controls exceeds the expected benefits; (iii) **to share the risk**, by reducing the exposure of the PT Group through the total or partial transfer to other entities, resorting to insurance, derivatives or joint-ventures; or (iv) **to avoid the risk**, by abandoning the business or procedures generating such risk (e.g.: abandoning a geographical area or a business). It should be stressed that an analysis was made to the implementation of mitigation measures provided for 2010, and it was observed that all situations classified as a priority in terms of risk mitigation were timely implemented.



### Centralized Risk Record

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

In order to further improve the risk management process, the PT Group plans to implement a new online Risk portal, a tool that will enable to increase the scope of the assessment and streamline the process of identifying, assessing and evaluating risk.

## C. INTERNAL CONTROL SYSTEM

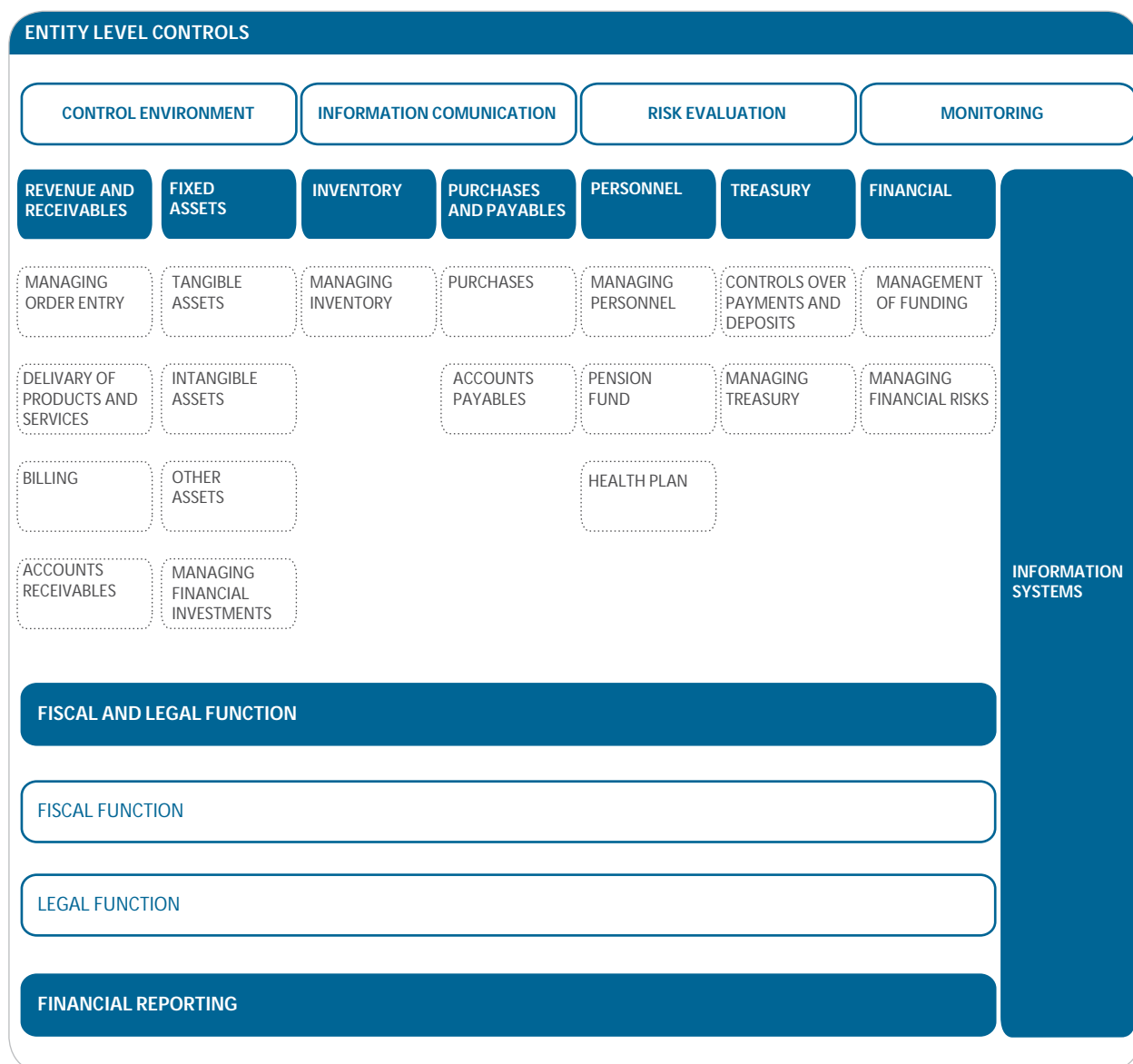
The Internal Control System implemented at PT was based on an acknowledged international model COSO (Committee of Sponsoring Organizations of the Treadway Commission), making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii) Process 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 organization, 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 Group to define corporate policies.

The PT Group has implemented controls for each business cycle and classes of transaction 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 identification of outputs or control evidences. 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:

- **59 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;
- **1,123 Process Level** controls executed according to the business cycles and classes of transaction 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;
- **1,244 IT General** 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.

Currently, the PT Group has already identified around 238 processes and 2,426 critical controls for financial reporting. As to information systems, the PT Group has identified 19 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 keeps a Fraud Manual, the purpose of which consists in 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, and it is revised each year on the basis of the job carried out by the Internal Auditing in the pursuance of its activity, as well as on the basis of whistleblowing, if any, and benchmarking with other companies of the same sector.

#### D. INTERNAL CONTROL SYSTEM EVALUATION

The Internal Audit Department is responsible, at corporate structure level, for the evaluation of the PT Groups internal control system and for the risk management procedures.

The internal audit plan is annually submitted and approved by the Audit Committee and Executive Committee of Portugal Telecom, 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 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 drivers, 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. This evaluation is subject to certification by the External Auditor.
- Information Systems Audits – verification of the effectiveness of the controls addressing the risks associated to Information Systems, that ensure the security, integrity and availability of information that is critical for the business and recovering the systems in the event of interruption of operations.

Internal control reviews are based on the COSO Framework (Committee of Sponsorship Organizations 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). In 2006, Internal Audit at Portugal Telecom was submitted to an external quality assessment and through which achieved its certification. For 2011, Internal Audit is going to undergo to a new external assessment in order to renew its certification.

The audit plan execution and progress as well the audit results are quarterly reported to the Audit Committee and Executive Committee of Portugal Telecom for follow up on the company's internal control framework and its risk management process.

## **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:  
[http://ir.telecom.pt/NR/rdonlyres/3A5CB127-53A8-4A8F-B96A-765D72A75BD5/1449457/RegulamentoCA\\_4abr10p1.pdf](http://ir.telecom.pt/NR/rdonlyres/3A5CB127-53A8-4A8F-B96A-765D72A75BD5/1449457/RegulamentoCA_4abr10p1.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/67EC0B7D-5B4B-49DA-B5E0-87B32C5D3B22/1411230/Regulamento\\_Comisso\\_de\\_Auditoria\\_PT.pdf](http://ir.telecom.pt/NR/rdonlyres/67EC0B7D-5B4B-49DA-B5E0-87B32C5D3B22/1411230/Regulamento_Comisso_de_Auditoria_PT.pdf).

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

Additionally, the Audit Committee may meet, on its own initiative, at least once every quarter of each financial year, separately with the Executive Committee, the 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 provides 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 electronic addresses respectively:

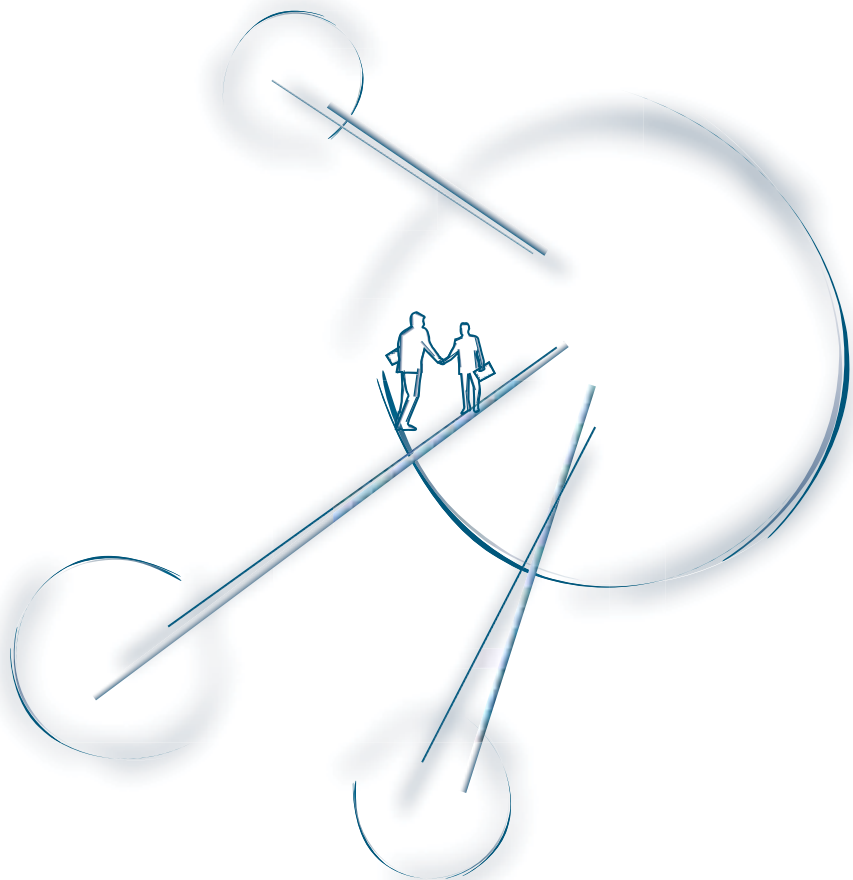
[http://ir.telecom.pt/NR/rdonlyres/D89CD20B-7B0D-44D6-B9BB-B646F3E162AF/1452307/reg\\_com\\_avaliao1.pdf](http://ir.telecom.pt/NR/rdonlyres/D89CD20B-7B0D-44D6-B9BB-B646F3E162AF/1452307/reg_com_avaliao1.pdf) e [http://www.telecom.pt/NR/rdonlyres/37D12C5A-E282-4AC8-BAE7-0BFCB830CBD5/1449459/Regulam\\_CGovSocietrio30Abr09p.pdf](http://www.telecom.pt/NR/rdonlyres/37D12C5A-E282-4AC8-BAE7-0BFCB830CBD5/1449459/Regulam_CGovSocietrio30Abr09p.pdf).

## → **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 the PT Group, the following should be highlighted:

RELEVANT RISKS		
Environment Risks	Regulation	PT 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. 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. The risk management strategy and response is coordinated with the different operational areas. Within the follow-up of the various risks and opportunities related to regulation, we highlight the following matters: (i) Next Generation Networks; (ii) Digital Terrestrial Television; (iii) Retail offers and pricing; (iv) Wholesale reference offers; (v) Universal Service; (vi) Radio-electric spectrum; (vii) Relevant Broadband Markets; (viii) Roaming regulation; and (ix) Digital Dividend.
	Competition	<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) development of new products and services; (ii) aggressive marketing and sales policies; (iii) improvements in product or service quality; (iv) increase in productivity and cost reduction; and (v) re-configuration of the value chain from the customer's viewpoint.</p> <p>PT acts proactively in expanding, diversifying and continued improvement of its product and service portfolio, in order to satisfactorily respond to this risk. Within this scope, the following initiatives/actions should be highlighted:</p> <ul style="list-style-type: none"> <li>• IPTV triple play service deployment;</li> <li>• Massive Fiber-to-the-home (FTTH) offer, supported by an internationally awarded next generation network;</li> <li>• Launching of new data and video mobile services for last generation cellular phones;</li> <li>• Convergent offers and packages to capitalize the PT Group's technological know-how in the wireline and mobile areas.</li> </ul> <p>It should be stressed that these actions are completed by a constant benchmarking of the PT vis-à-vis its competitors' business, in order to ensure leadership and excellence of the offer to its customers.</p>



## RELEVANT RISKS

### Environment Risks

#### Technological Innovation

In view of the background of quick technological changes in the business sector of the Group, PT is subject to the risk of failing to leverage technological advances and developments in its business model, in order to obtain or maintain competitive advantages.

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:

- PT Inovação: a company aimed at the technological development of the Group's businesses, in terms of applied research, engineering services and development of innovative solutions and services, both in the domestic and the international market.
- OPEN development and innovation programme: having as its purpose the implementation of systematized research practices and information processing, involving the whole organization, for the materialization of innovative projects.
- Strategic planning of network infrastructures and rollout of new technologies, which implies the preparation of reports and periodic analysis on the evolution, standardization and adoption of new technologies by the sector, including the carrying out of international benchmarks.
- Strategic partnerships with technological, equipment and content suppliers and service providers.

#### Economic Environment

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 PT. In this sense, management continuously monitors impacts on the operational and financial performance of the PT Group.

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 ensure the growth and profitability of the business.

### Financial Risks

#### Exchange Rates

Portugal Telecom 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.

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.

#### Interest Rates

Recent events have increased uncertainty and volatility in financial markets. Risk premium in the markets has increased significantly. In this way, the current conditions of the financial markets might have an adverse effect on the PT Group's ability to access the capital it needs to support its growth, its strategies, and to generate future financial returns. The management of the financial market risk is ensured by the Corporate Finance Department.

The PT Group is exposed to the risk of interest rates varying from its expected value resulting in lower investment returns than anticipated or higher product or loan costs than forecast. The instability of the financial markets and the fluctuation of the interest rate on the Portuguese sovereign debt raise the potential for the materialization of this risk factor.

Portugal Telecom executes agreements regarding a set of derivative financial instruments so as to minimize 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 permanent follow-up of the evolution of the financial markets and of the positions held by the Company.



RELEVANT RISKS

Operations Risks

Infrastructure Capacity

The capacity and availability of network infrastructures are essential features for the PT Group to ensure continued critical operations within high quality parameters aimed not only at customer satisfaction, but also in compliance with regulatory requirements. In this way, the PT Group has strongly emphasized the management of this risk, not only at infrastructure availability level, but also in the increase of infrastructure capacity, in such a way as to support new product and service offers to its customers. 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. Within this scope, follow-up and risk mitigation actions are carried out as follows:

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

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

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

Strategic Partnerships

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.

Such alliances are not restricted to a single field, as they include as partners: (i) technology suppliers; (ii) infrastructure and maintenance providers; (iii) R&D experts; (iv) terminal equipments and handhelds suppliers; and (v) content suppliers, among others.

Environmental

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

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 suppliers sustainability program; (v) Awareness and training campaigns.

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.

## RELEVANT RISKS

### Operations Risks

### Talent Retention

The PT Group'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:

- 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 authorize 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.

In December 2008, making use of the above authorization, 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

In 2010, the Board of Directors approved a set of general principles that will 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 specialized 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 specialized functions (such as the financial function and technical functions);
- g) Non-executive members of the specialized committees of the Board of Directors shall tend to be subject to rotation among specialized 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 for the management body.



### 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.

Where the definitively absent director is one of those elected in application of the bylaw rule requiring the votes of the majority of class A shares, and the majority of the directors elected pursuant to this provision and still in office did not vote in favour in the co-optation resolution, then substitution of the director must be through election by the General Meeting of Shareholders.



### 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 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 2010 financial year, 18 meetings of the Board of Directors and 12 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 2010 financial year, 49 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.

As set out in the same Chapter, as of 31 December 2010 the Board of Directors includes 8 independent non-executive directors, which corresponds to more than one-fourth of the total number of members pursuant to the provisions of CMVM Recommendation no. II.1.2.2.

Additionally, all non-executive members of the Board of Directors that are identified above as independent (obviously, other than directors incorporating the Audit Committee) have complied, where applicable, will all incompatibility rules provided for under article 414A-1 of the Portuguese Companies Code, except as provided for under subparagraph (b).

### **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 2010, the Audit Committee complies with the provisions of 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.

In this regard, it should be mentioned that, should CMVM understand 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, and exclusively as regards the 2010 financial year, 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.

However, taking into account the provisions as expressly mentioned on the said rule, as well as the nature of the supervisory duties, the Audit Committee understands that all its members are independent and its Chairman holds the qualifications required to carry out such duties. Therefore, the Audit Committee complies with the provisions of CMVM Recommendation no. II.1.3.1.

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.

## II.15. RULES FOR EVALUATION OF INDEPENDENCE OF MANAGEMENT MEMBERS

### Board of Directors

The concept of independence set out in article 414-5 of the Portuguese Companies Code and 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, were taken into consideration in the qualification of director independence.

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.

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 specialization of the members of the Audit Committee as such, the Audit Committee and the Board of Directors of PT have 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 specialization 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 n.º 4,08.

Additionally, where a member of the Audit Committee is or should be aware that a subsequent change regarding the independence, incompatibility and specialization 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 specialization 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 specialization 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, which apply because the Company is an entity with shares listed for 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 specialized 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 six non-executive directors among its seven 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 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 2010 financial year, which report was approved at the meeting of such members held on 24 March 2011 and is disclosed on the annual management report in compliance with CMVM Recommendation no. II.2.4.

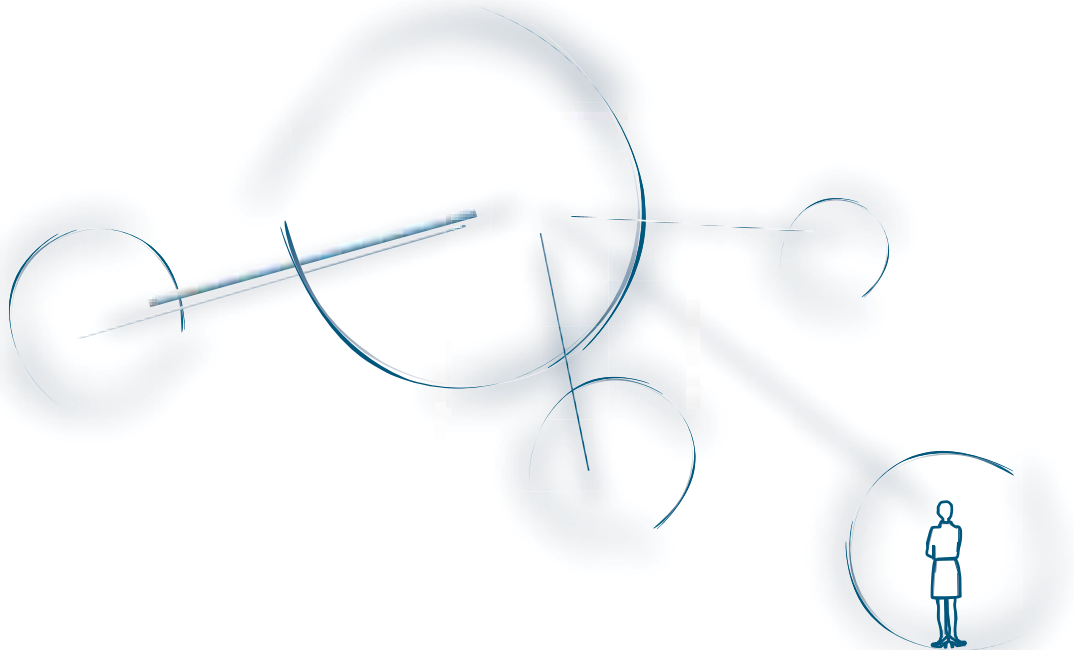
### II.18. PROFESSIONAL QUALIFICATIONS OF THE MEMBERS OF THE BOARD OF DIRECTORS, INDICATION OF PROFESSIONAL ACTIVITIES CARRIED OUT BY THE SAME IN THE LAST FIVE YEARS AT LEAST, NUMBER OF SHARES IN THE COMPANY HELD BY THE SAME, DATE OF FIRST APPOINTMENT AND DATE OF EXPIRATION OF TERM OF OFFICE

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 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 in other companies by the directors 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 together with the financial statements.

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 persons 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 Groups 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 2011 Annual General Meeting of Shareholders, in compliance with the part concerning this matter of CMVM Recommendation no. II.1.5.3. Such declaration is attached hereto as Appendix IV.

A description of the remuneration policy for the PT Groups officers, other than those incorporating the management or supervisory bodies, in a text incorporated in the Report and Accounts for the relevant financial year, was also submitted to the annual General Meeting held on 16 April 2010.

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' 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 March 2009 for the 2009-2011 three-year term of office, which will end on 31 December 2011.

#### Composition

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

### → Independence of the members of the Compensation Committee

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

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) is described on the declaration on this matter to be submitted by the Compensation Committee to the Annual General Meeting of Shareholders to be held in 2011, pursuant to article 2-1 of Law no. 28/2009 of 19 June 2009. Such declaration is reproduced in Appendix VI hereto.

At the Annual General Meeting of Shareholders dated 16 April 2010, under an autonomous item on the agenda, the declaration of the Compensation Committee on the remuneration policy for the members of PT's management and supervisory bodies and of its implementation during the 2009 financial year was also submitted to the shareholders.

## 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 received by the members of the management body and Audit Committee of the Company, paid either by PT or the companies in a control or group relationship with it, during the 2010 financial year, are shown hereinafter:

**BOARD OF DIRECTORS IN OFFICE FROM 1 JANUARY 2010 TO 31 DECEMBER 2010**

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

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

(b) Director Rui Pedro Soares resigned to his office on 17 February 2010. In addition to the fixed and variable remuneration mentioned in the table above, during 2010 fiscal year Rui Pedro Soares was also paid the amounts described in paragraph I) of Chapter II.33. below.

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

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

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

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

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

The annual variable paid in the 2010 financial year set forth above refers to the performance of the executive directors during the financial year ended on 31 December 2009.

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 2010 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 Securities Code).

Remunerations earned by the members of the management and supervisory bodies are submitted in aggregate on Note 44 to the consolidated financial statement for the year of 2010.

## **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 applicable to the 2009-2011 term of office, 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.

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 criteria established by the Compensation Committee for evaluation of the performance of executive directors as a function of the goals defined by the Evaluation Committee are described under the remuneration policy set out in Appendix V.

**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, are described under the remuneration policy set out in Appendix V.

Executive management member remuneration components take into account PT's performance, in the short and medium-term, as well as the benchmarking performance as compared to other companies with a similar size and business.

In this way, the remuneration of executive directors is composed of a fixed and a variable constituent, where the latter is dependent on achievement of pre-determined goals and is composed of: (i) an annual variable remuneration (AVR) that, in the event of a 100% pre-determined goal achievement, may amount to 90% of the fixed remuneration, and (ii) a variable remuneration associated to medium-term performance (VRMT) that, in the event of a 100% pre-determined goal achievement, may reach 70% of the fixed remuneration.

Following the determination of AVR according to this method, the Compensation Committee may increase or reduce the variable remuneration of the Chief Executive Officer and all the other members of the Executive Committee, upon proposal by the Evaluation Committee and the Chief Executive Officer, respectively.

In any case, and depending on the level of achievement of pre-defined goals, the AVR shall not exceed the fixed remuneration in more than 110%, and should it exceed in 50% the overall variable remuneration for the year concerned, the payment of the amount in excess shall be deferred for a 3-year period.

**e) Indication of the deferment of payment of the variable component of the remuneration, mentioning the deferment period;**

As described under the remuneration policy set out in Appendix V hereto, a deferment for a 3-year period of the payment of 50% of the overall variable remuneration allocated to executive directors, in each financial year, is provided for.

**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 the variable remuneration amounts allocated, in each financial year, to executive directors, is deferred for a three-year period and subject to the condition of the positive performance by the Company during such period not being affected in terms as mentioned on the remuneration policy attached hereto as Appendix V.

**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 prize system and any other non-pecuniary benefits;**

There are no significant prizes, annual bonuses or non-pecuniary benefits of any nature whatsoever.

**j) Remuneration paid in the form of profit sharing and/or prize payment, and the reasons why such prizes and/or profit sharing were granted;**

No such remuneration exists, without prejudice to the possibility of allocation of a prize to the Chairman of the Board of Directors as described under the remuneration policy attached hereto as Appendix V.

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

During the 2010 financial year, the following compensations were paid to former executive directors in connection with termination of their office during the financial year: to former director Rui Pedro Soares, the amount of 648,701 euros, and to former director Fernando Soares Carneiro, the amount of 973,052 euros, added by the sum of 175,791 euros paid as compensation for a non-competition commitment.

**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;**

No limits are 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, unless otherwise agreed or resolved by the Compensation Committee, PT and its directors must act in compliance with the general principle whereby, in the event of removal or termination by mutual agreement of the management relationship, no compensation shall be paid where such removal or termination is provenly due to inappropriate performance.

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

During the 2010 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.

**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;**

No current PT director is covered by any complementary pension or early retirement system for directors.

**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 44 to the consolidated financial statement for 2010 are the only benefits applicable, mutatis mutandi, 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 attached hereto as Appendix V, unless otherwise agreed or resolved by the Compensation Committee, PT and its directors must 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 corporate bodies or for members of the supervisory body is provided for (notwithstanding the possibility of allocation of a prize to the Chairman of the Board of Directors as described under the remuneration policy attached hereto as Appendix V).

## 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.

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.

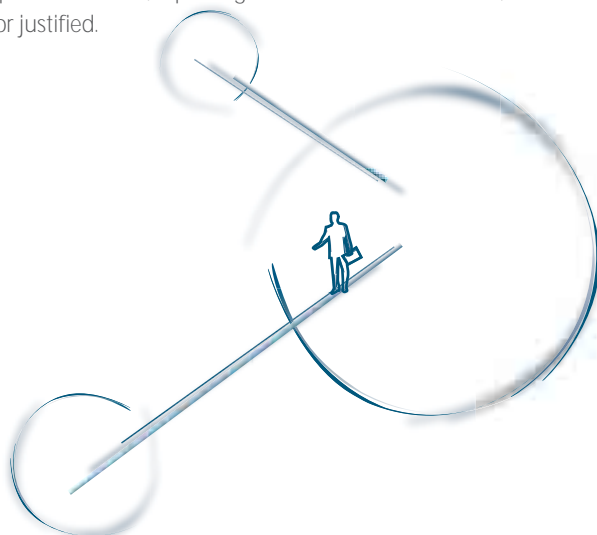
Any employee or person outside the Group (meaning a person that does not belong to the company's staff – for instance, a shareholder, customer or supplier) may report undue practices through a website specifically created for such purpose: <https://napq.telecom.pt>.

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. SPECIALIZED COMMITTEES

PT has three specialized committees in the Board of Directors, as well as two structures supporting the Executive Committees 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, Consultive Council and Sustainability Committee are shown in Chapter II.1 and 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 2010 financial year, the Evaluation Committee held 2 meetings, the Corporate Governance Committee held 4 meetings, the Disclosure Committee held 5 meetings, the Consultive Council held 1 meeting 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

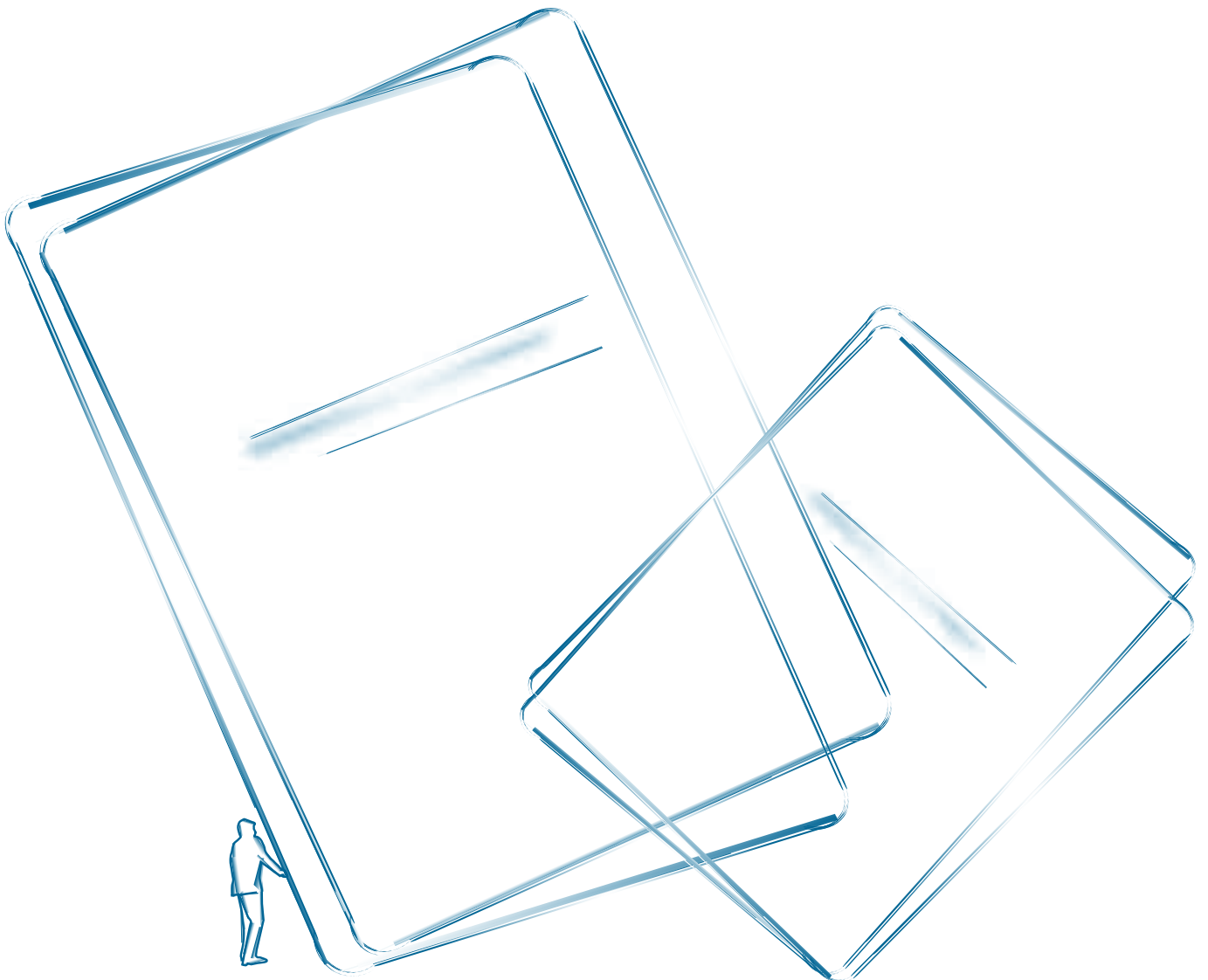
In the performance of its remuneration determination powers under article 399 of the Portuguese Companies Code, PT's Compensation Committee is supported by the Evaluation Committee, which, as described above, has consultive powers as required to provide technical support to the Compensation Committee.

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 specialization of policy evaluation and definition processes and remuneration amounts, serves as a catalyst to the remuneration evaluation and determination system in PT.

During the 2010 financial year, for the purpose of performance of its duties of assistance and support to the Board of Directors and Compensation Committee within the framework of the above processes, the Evaluation Committee did not resort to the services of companies hired by PT for the provision of other services, or of the current consultants to the Company.

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.

# 03 | INFORMATION AND AUDITING





# INFORMATION AND AUDITING

## 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.

Class A shares grant their holders special rights as provided for under article 14-2 and article 19-2 of the Company's Bylaws, as follows:

The following matters may not be approved at a General Meeting of Shareholders against the majority of the votes corresponding to Class A shares:

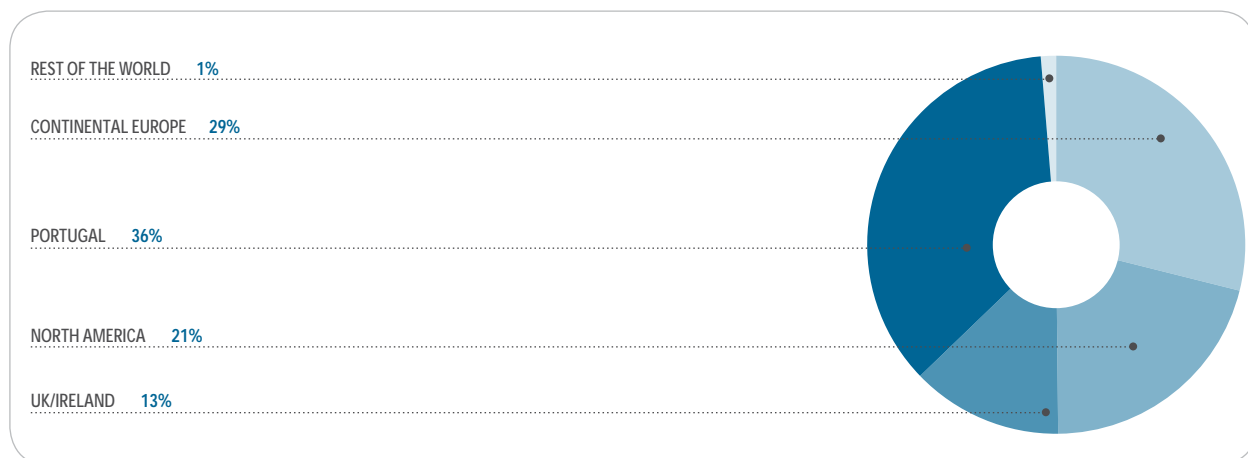
- Authorization for the acquisition of ordinary shares representing more than 10% of the share capital by shareholders that directly or indirectly carry out a business competing with that of the companies in a control relationship with PT;
- Amendments to the bylaws and share capital increases, as well as the limitation or suppression of pre-emptive rights and the determination of parameters for share capital increases as may be resolved upon by the Board of Directors;
- Issuance of bonds or other securities, determination of the value of issuance to be resolved by the Board of Directors and limitation or suppression of pre-emptive rights in the issuance of bonds convertible into shares, as well as determination of parameters for the issuance of such bonds as may be resolved upon by the Board of Directors;
- Resolutions on the application of the financial year results, in the event of a dividend in a percentage in excess of 40% of the distributable profits;
- Election of the Board of the General Meeting of Shareholders, as well as of the Chairman of the Audit Committee and the Chartered Accountant;
- Approval of the general goals and fundamental principles of the Company's policies;
- Definition of the general principles concerning the policy for shareholdings in companies, as well as, in cases where those principles require prior authorization by the General Meeting of Shareholders, the approval of resolutions on such acquisitions and disposals;
- Moving the Company's registered office.

In addition, the election of one third of the total number of directors, including the Chairman of the Board of Directors, requires the votes issued by the State, in its capacity as holder of the Class A shares.

The Company's Bylaws further determine that, among the members of the Executive Committee designated by the Board of Directors, at least one or two designated directors, according to the Executive Committee being composed of five or seven members, must be elected in accordance with the election rule that grants special rights to the State as holder of the class A shares.

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	N.º of shares	% of capital	% of voting rights
25/Nov/10	Capital Research and Management	90,421,315	10.09%	10.09%
31/Dec/10	Espirito Santo Group (1)	89,174,416	9.95%	9.95%
08/Jun/10	RS Holding, SGPS, S.A.	60,698,090	6.77%	6.77%
31/Dec/10	Caixa Geral de Depósitos Group	56,158,965	6.26%	6.26%
03/Dec/10	The Income Fund of America, Inc.	45,091,419	5.03%	-
31/Dec/10	Brandes Investments Partners, L.P.	46,953,365	5.24%	4.11%
24/Nov/10	Norges Bank	44,324,863	4.94%	4.94%
22/Dec/10	TPG-Axon Capital Management, LP (2)	37,929,088	4.23%	4.23%
24/Nov/10	Barclays Group	26,373,929	2.94%	2.94%
31/Dec/10	Visabeira Group	23,642,885	2.64%	2.64%
22/Dec/10	Deutsche Bank AG (3)(4)	22,014,272	2.46%	2.46%
07/Dec/10	BlackRock Inc.	21,025,118	2.35%	2.35%
03/Feb/10	Controlinveste Comunicações	20,419,325	2.28%	2.28%
29/Dec/10	The Royal Bank of Scotland, N.V. (5)	19,720,324	2.20%	2.20%
24/Jun/10	Telefónica, S.A. (6)	18,122,662	2.02%	2.02%
11/Oct/10	Europacific Growth Fund	18,061,608	2.01%	-
17/Aug/10	UBS AG	17,961,777	2.00%	2.00%

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

\* On 15 March 2011, PT disclosed that Telemar Norte Leste SA, a company having no qualified holding in the share capital in PT as at 31 December 2010, became the holder of a qualified holding corresponding to a total 26,895,360 ordinary shares in PT, representing 3.00% of its share capital and corresponding voting rights.

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

### III.3. IDENTIFICATION OF SHAREHOLDERS WITH SPECIAL RIGHTS AND DESCRIPTION OF SUCH RIGHTS

Special rights pertaining to class A shares and their respective owner(s) are described in Chapter III.1.

### 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 authorization 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.



#### 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.

In any case, no resolutions on an amendment to the Bylaws may be approved against the votes of the majority of class A shares, as referred to in Chapter III.1. hereof.

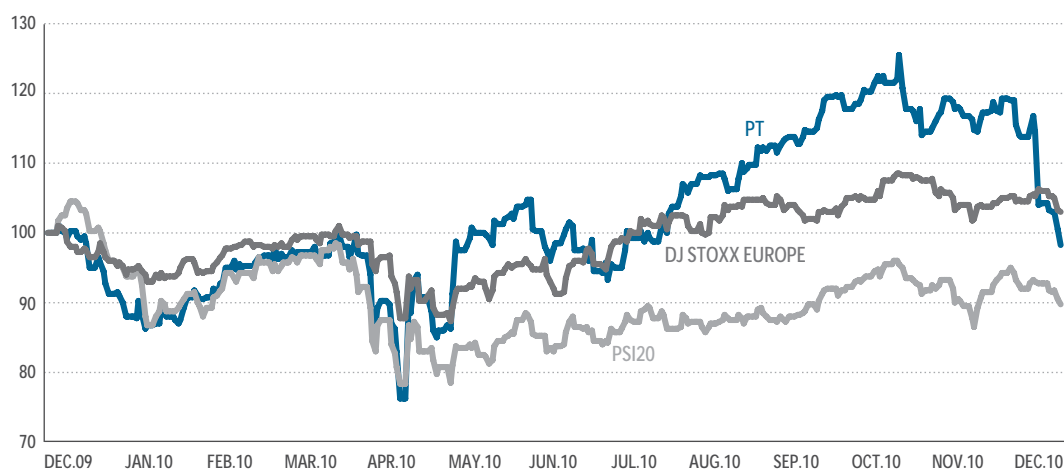
Additionally, the Board of Directors is authorized to increase the share capital, subject to an opinion in favour issued by the Audit Committee and following a resolution of the General Meeting of Shareholders, according to the terms described in Chapter II.10 hereof. The Board of Directors may also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

### III.7. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHT ARE NOT EXERCISED BY SUCH EMPLOYEES

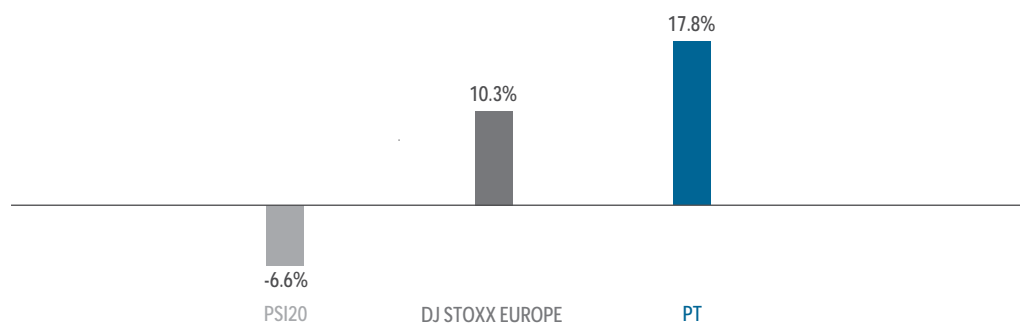
There is no system specifically providing for any share capital holding by employees in the Company as a result of which the relevant voting rights are not directly exercised by such employees.



### III.8. DESCRIPTION OF THE ISSUER'S SHARE PRICE EVOLUTION



#### TOTAL SHAREHOLDER RETURN IN 2010



#### MOST RELEVANT FACTS ANNOUNCED DURING THE FINANCIAL YEAR

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

### 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.

As regards the resolution approving the application of results, the votes of the majority of class A shares are required to resolve on the distribution of a dividend higher than a percentage of 40% of the distributable net profits.

#### ➔ Dividend distributed in the last financial years

As from the 2005 financial year, and within the takeover bid to which the Company was subject, in 2006 and beginning of 2007, the Board of Directors submitted to the shareholders a remuneration package that included the payment of an annual dividend of 0.475 euros per share in 2006-2007 (concerning the financial years of 2005 and 2006) and 0.575 euros per share in 2008-2009 (concerning the financial years of 2007 and 2008).

The said shareholder remuneration package also included a remuneration of 2.1 billion euros corresponding to a share buyback programme, at market price, which was executed through the acquisition of a minimum of 16.5% of the share capital as of 31 December 2006. Implementation of such programme was completed on 25 July 2008, PT having acquired and cancelled a total of 232,344,000 own shares within the framework of such programme (the last shares acquired within the programme were cancelled in December 2008) corresponding to 20.58% of the share capital on the date the share buyback programme was proposed to the shareholders in 2007.

Furthermore, during the 2007 financial year, the Company freely allotted to its shareholders its holding in its subsidiary PT Multimédia, also in accordance with the terms of the abovementioned shareholder remuneration package, thus executing the spin-off of such company and its subsidiaries. Within this framework PT disposed of 180.6 million PT Multimédia shares.

Taking into account the general dividend distribution policy described above, the Board of Directors announced, on 14 May 2009, its intent to submit to the approval by the shareholders, pursuant to the law, of a degree of dividend per share of 0.575 euros for the years ended on 31 December 2009, 2010 and 2011, such proposal to be subject to the market conditions and PT financial position prevailing at the time, as well as to other factors deemed relevant by the Board of Directors.

In line with such proposal of the management body, the General Meeting of Shareholders approved, on 16 April 2010, the distribution among PT shareholders of an overall amount of 515,494,687.50 euros, which corresponds to the application of results for the 2009 financial year and resulted in the payment, on 14 May 2010, of an ordinary dividend of 0.575 euros per share.

In the last quarter of 2010, on 3 November, following the disposal of the share held by the PT Group in the Brazilian telecommunications operator Vivo and in anticipation of the proposed investment in Oi, the Board of Directors resolved to submit to PT shareholders a new dividend distribution policy that is consistent, *inter alia*, with the Company's financial profile resulting from such transaction.

The shareholder remuneration policy then outlined by the Board of Directors contemplates the distribution of (i) an exceptional dividend of 1.65 euros per share, of which 1.00 euro was paid on 28 December 2010 (as a 2010 profit advance), and 0.65 euros per share will be paid in 2011 (subject to approval by the General Meeting of Shareholders); and (ii) an ordinary dividend of 0.65 euros per share for the financial years ended on 31 December 2010 and 2011, representing a 13% increase as compared to the Company's original commitment, i.e. 0.575 euros per share for that same period (also subject to approval by the General Meeting of Shareholders).

Additionally, that same policy provides for the adoption by PT of a progressive dividend policy, in order to increase between 3% and 5% the dividend per share for the period 2012-2014.

Furthermore, as from the 2011 financial year, it is the Board of Directors' intention to approve, as regards the annual ordinary dividend, the payment of an interim dividend based on the Company's financial performance, in such a way as to allow for a more homogeneous return to its shareholders all along the year.

Obviously, the shareholder remuneration policy as above described is subject to the market conditions, to PT's financial condition, to the applicable law on distribution of net profits, including additional approvals by the General Meeting of Shareholders, where applicable, and to other factors as the Board of Directors deems relevant from time to time.

In this way, PT strengthened its commitment to provide attractive returns to its shareholders, and simultaneously sustain its financial flexibility in order to continue to invest in its key markets and new products and services, maintaining its long-term competitive position.

In short, the gross dividend per share for the last financial years was as follows:

- 2010 (exceptional dividend paid on 28 December) – 1.00 euros
- 2009 - 0.575 euros
- 2008 – 0.575 euros
- 2007 – 0.575 euros
- 2006 – 0.475 euros
- 2005 – 0.475 euros
- 2004 – 0.350 euros
- 2003 – 0.220 euros

As mentioned above, in addition to the 1.00-euro exceptional dividend already paid on 28 December 2010, the Board of Directors will submit to the annual General Meeting of Shareholders a proposal for allocation to the shareholders of an exceptional dividend in the amount of 0.65 euros per share, as well as an ordinary dividend of 0.65 euros per share for the 2010 financial year, both payable after the 2011 annual General Meeting of Shareholders<sup>(4)</sup>.

### III.10. MAIN CHARACTERISTICS OF SHARE ALLOTMENT AND SIMILAR PLANS

During the 2010 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, regarding Group directors or employees or any third parties.

### III.11. TRANSACTIONS WITH THE MANAGEMENT AND SUPERVISION OR COMPANIES IN A CONTROL OR GROUP RELATIONSHIP

Relevant transactions with members of corporate bodies or companies in a control or group relationship with PT are described in Note 45 to the consolidated financial statements included in the Report and Consolidated Accounts 2010.

(4) Calculated in light of the net income evidenced on the individual financial statements and determined according to the accounting principles in force in Portugal, after deduction of retained losses and a 5% allocation to the legal reserve until it has reached 20% of the share capital, and amortization of expenses as provided for under article 33 of the Companies Code.

### **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 in Note 45 to the consolidated financial statements included in the Report and Consolidated Accounts 2010.

### **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 certain 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 2010 financial year, ten transactions with related parties, in an average amount of 1,080 million euros and a maximum amount of 7,500 million 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 (both qualified investors and retail) and analysts.

During 2010, 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.

In 2010, PT held three roadshows in Europe, US and Middle East, thus expanding the reach of such initiatives. Additionally, PT held over 232 meetings with analysts and investors.

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:	+351 215 001 701
Fax:	+351 215 000 800
E-mail:	nuno.t.vieira@telecom.pt
Address:	Av. Fontes Pereira de Melo, 40-9º, 1069-300 Lisboa – Portugal
Company Switchboard:	+351 215 002 000
Websites:	<a href="http://www.telecom.pt">http://www.telecom.pt</a> ; <a href="http://ir.telecom.pt">http://ir.telecom.pt</a>

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;
- An 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 2010 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 2,449,610 euros. Such payment was distributed among the following services:





## REMUNERATION TO PT'S EXTERNAL AUDITORS

	2010		2009	
	Amount	%	Amount	%
Auditing services	1,912,974	78%	1,667,480	69%
Other reliability guarantee services	193,420	8%	227,532	9%
Tax consultancy services	143,000	6%	181,417	8%
Services other than auditing services	200,216	8%	340,621	14%
<b>Total</b>	<b>2,449,610</b>	<b>100%</b>	<b>2,417,050</b>	<b>100%</b>

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 2010, such services did not reach 30% 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 2010 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.

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 Auditors' company.

Pursuant to its duties and in line with CMVM Recommendations 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 2010 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 2010 financial year. For any additional information on this subject, we recommend that you read the annual report of the activity carried out by the Audit Committee as referred to in Chapter II.4. of this Report.

### III.18. REFERENCE TO THE ROTATION PERIOD OF THE EXTERNAL AUDITOR

Up to closing of the accounts for the 2003 financial year, the duties of External Auditor to PT were performed by the firm Freire, Loureiro & Associados, SROC, S.A., which company became a member of the Deloitte international network as from mid-2002 and which was incorporated in the auditing firm as of then styled Deloitte & Associados, SROC, S.A. in mid-2004.

This firm performs the duties of PT External Auditor under an agreement that was originally executed for the 2004 and 2005 financial years, following a request for tenders launched in 2003, which agreement has been successively extended for the following financial years. In this way, PT External Auditor has not yet completed the three-year term of office of the corporate bodies, which will occur at the end of the 2011 financial year.

In any case, within the scope of a specific opinion on independence conditions of PT External Auditor and on the benefits and costs of its substitution, it was the Audit Committee's understanding that not interrupting Deloitte's term of office, now in progress, is not only appropriate but also suitable for PT, taking into account, *inter alia*, the following aspects:

- a) Independence of the External Auditor in the light of both the Portuguese and the US legislation, by which PT is bound as a foreign private issuer;
- b) Pursuant to the applicable requirements, a new partner was appointed, in 2009, as the person responsible for directing or directly conducting the external auditing jobs;
- c) Benefits of a technical, coordination and company knowledge nature, which are critical to auditing quality in PT as an organization having securities admitted to trade on Euronext Lisbon and NYSE.





# APPENDIX

## 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")<sup>(5)</sup>, as well as the rules approved by the U.S. Securities and Exchange Commission ("SEC") implementing such provisions<sup>(6)</sup> (both SOX and SEC rules and regulations are fully complied with by PT):

SARBANES-OXLEY ACT	
Sections 201 and 202	Prohibition of rendering of certain <i>non-audit services</i> by auditors and prior approval of audit services.
Section 203	Rotation of the audit partner.
Section 204	Auditor's report to the audit committee.
Section 206	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.
Section 301	Standards relating to audit committees (including independence).
Section 302 and 906	Certification of Form 20-F by the CEO and CFO.
Section 303	Prohibition of exercising improper influence on audits by directors and officers or any other person acting under their direction.
Section 304	CEO and CFO disgorgement of incentive compensation following restatement of financial reports.
Section 306	Prohibition of certain transactions by insiders during certain blackout periods.
Section 307	Professional liability and reporting duties by the issuer's attorneys regarding potential breaches of securities laws and fiduciary duties.
Section 402	Prohibition on issuer loans to directors and executive officers.
Section 406	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.
Section 407	Disclosure of whether the issuer has an audit committee financial expert (and if not, why not).

- 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")<sup>(7)</sup>, which are fully complied with by PT:

(5) Available at [http://pcaobus.org/About/History/Documents/PDFs/Sarbanes\\_Oxley\\_Act\\_of\\_2002.pdf](http://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf).

(6) Available at [www.sec.gov](http://www.sec.gov)

(7) Available at: <http://nysemanual.nyse.com/lcm/>.

## SECTION 303 A

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 SEC<sup>(8)</sup>.
- 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: (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: (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.

(8) Available at:

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=e5a5da6f2ac0d20d097bfb7a59ae1faf&rgn=div5&view=text&node=17:3.0.1.1.1&idno=17#17:3.0.1.1.1.1.58.84>

## APPENDIX II

### CODE OF ETHICS

The PT Group's Code of Ethics, as revised on 17 December 2009, applies to all employees of the Group in order to guarantee a set of common ethical standards for all the 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 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](http://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 laws applicable to the 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 Officers and Related Party Transactions

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

### a) Transactions by Group Officers

In 2006, the transactions by the PT Group's officers were regulated through a Regulation on Transactions by the Group's Officers, 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.

Transactions by corporate officers 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: (1) 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 (2) 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.

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 the United States Securities and Exchange Commission (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 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. 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 the sole Portuguese company with a presence 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.

## 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

#### 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 Prime – Soluções Empresariais de Telecomunicações e Sistemas, 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 Fundação Portugal Telecom

**Functions in other entities:** Member of the Council of Founders of Casa da Música | Member of the Board of Directors of Fundação Luso-Brasileira | Member of the Board of Directors of Fundação Portugal África | Member of the General Board of Cotec Portugal | Member of the General Board of Fundação Portuguesa das Comunicações

#### 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 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 | Vice-Chairman of the Board of Directors of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, SA | Vice-Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS SA | Vice-Chairman of the Board of Directors of PT Participações, SA | Member of the Board of Directors of UOL, SA | Director of Africatel Holdings B.V. | Director of Unitel, SARL | Chairman of the Management Board of Portugal Telecom Ásia, Limitada

**Functions in other entities:** Not applicable.

#### Carlos Alves Duarte (Executive Director)

**Functions in other PT Group companies:** Director of PT Portugal, SGPS SA | Executive Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA | Executive Director of PT Comunicações, SA | Executive Director of TMN – Telecomunicações Móveis Nacionais, SA | Chairman of the Board of Directors of PT Sistemas de Informação, SA | Vice-Chairman of the Board of Directors of CaixaNet SA | Chairman of the Board of the General Meeting of INESC

**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 | Executive Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA | Director of PT Prime Tradecom – Soluções Empresariais de Comércio Electrónico, SA

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

### 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 | Chairman of the Board of Directors of Mobitel SA | Chairman of the Board of Directors of PT Multimédia.com Brasil Ltda.

**Functions in other entities:** Not applicable.

### Francisco Manuel Marques Bandeira (Non-Executive Director)

**Functions in other PT Group companies:** Not applicable.

**Functions in other entities:** Vice-Chairman of the Board of Directors of Caixa Geral de Depósitos, SA | Chairman of the Board of Directors of Banco Português de Negócios SA | Chairman of the Board of Directors of Banco Efisa | Vice-Chairman of the Board of Directors of Banco Nacional de Investimento, SA (Mozambique) | Non-Executive Chairman of Banco Caixa Geral Totta Angola, SA | Chairman of Parbanca, SGPS, SA | Member of the Board of Partang, SGPS, SA | Member of the Board of Parcaixa, SGPS, SA | Non-Executive Vice-Chairman of the Board of Directors of Banco Comercial e de Investimentos, SARL (Mozambique) | Non-Executive Chairman of the Management Board of Caixa Geral de Aposentações, I.P. | Non-Executive Director of Visabeira, SGPS, SA | Member of the Compensation Committee of REN – Redes Energéticas Nacionais, 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 (CTOC)

### 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

### 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-Companhia de Seguros, SA | Director of Glintt, Global Intelligent Technologies, SGPS SA

### 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.

### **Gerald McGowan (Non-Executive Director)**

**Functions in other PT Group companies:** Not applicable.

**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 | Vice-Chairman of the Board of Directors of Grupo Económica, SGPS SA | Member of the Supervisory Board of INDEG-ISCTE Business School | Member of the Board of Automóvel Clube de Portugal | Managing Partner of Heidrick & Struggles

### **Maria Helena Nazaré (Non-Executive Director)**

**Functions in other PT Group companies:** Not applicable.

**Functions in other entities:** Chairman of the Advisory Board of Fundação Galp Energia | President of the Portuguese Physics Society Vice-President of European University Association since March 2009 | Chair of the working group of the EUA on Internationalization Member of the Institutional Evaluation Group of the EUA since 2004 | Chair of the Specialized Committee for the Research and Transfer of Knowledge Transfer 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 of the Institutional Evaluation EUA since 2005

### **Amílcar de Moraes Pires (Non-Executive Director)**

**Functions in other PT Group companies:** Not applicable.

**Functions in other entities:** Director of Banco Espírito Santo, SA | Director of BES-Vida, Companhia de Seguros, SA | Director of Banco Espírito Santo de Investimento, SA | Chairman of the Board of Directors of Bank Espírito Santo (International) Limited | Chairman of the Board of Directors of BIC – International Bank, Ltd (BIBL) | 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 | Chairman of the Board of Directors of AVISTAR, SGPS SA | Director of BES Africa, SGPS SA

### **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

### **Jorge Tomé (Non-Executive Director)**

**Functions in other PT Group companies:** Not applicable.

**Functions in other entities:** Director of Caixa Geral de Depósitos, SA | Chairman of the Board of Directors of Caixa – Banco de Investimento, SA | Chairman of the Board of Directors of Gerbanca, SGPS, SA | Director of Banco Comercial e de Investimentos, SA | Chairman of the Board of Directors of TREM – Aluguer de Material Circulante, ACE | Chairman of the Board of Directors of TREM II – Aluguer de Material Circulante, ACE | Chairman of the Board of Directors of CREDIP – Instituição Financeira de Crédito, SA | Member of the Advisory and Strategy Committee of Fomentinvest, SGPS, SA | Vice-Chairman of the Board of Directors of Banco Caixa Geral – Brasil, SA | Member of the Board of Directors of Parcaixa, SGPS SA | Member of the Board of Directors of Cimpor – Cimentos de Portugal, SGPS SA

**Paulo José Lopes Varela (Non-Executive Director)**

**Functions in other PT Group companies:** Not applicable.

**Functions in other entities:** Chief Executive Officer 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

**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 CPM Braxis SA since July 2009, having held that same office during the period of June 2000 – April 2005 | 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 Ongoing Technology | 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 | Non-Executive Director of Heidrick & Struggles | Member of the General Board of ISCTE | Member of the Board of Automóvel Clube de Portugal

## PROFESSIONAL QUALIFICATIONS AND PROFESSIONAL ACTIVITIES PERFORMED DURING THE LAST 5 YEARS

### Henrique Granadeiro (Chairman of the Board of Directors) | Portuguese, 67 years old

Elected for the first time in 2003 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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, 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 Perfil 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 Pescas 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 Organization and Business Administration by the Instituto Universitário de Évora (Sociology Department).

### Zeinal Bava (Chief Executive Officer) | Portuguese, 45 years old

Elected for the first time in 2000 | Former term of office ended on 31 December 2008 and was re-elected in 2009. Appointed Chief Executive Officer of Portugal Telecom SGPA SA in March 2008 | Chairman of the Board of Directors of PT Ventures, SGPS SA from November 2008 to July 2010 | Chief Executive Officer of TMN – Telecomunicações Móveis Nacionais, SA from December 2005 to May 2006 | 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 | 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 | 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 Leste 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.

### **Luís Pacheco de Melo (Executive Director) | Portuguese, 44 years old**

Elected for the first time in 2006 | Former Term of office ended on 31 December 2008 and was re-elected in 2009 | Non-Executive Director of BEST – Banco Electrónico de Serviço Total, SA until 2007 | Non-Executive Director of PT PRO, Serviços Administrativos e de Gestão Partilhados, SA from February 2003 to May 2008 | Chairman of the Board of Directors of PT PRO, Serviços Administrativos e de Gestão Partilhados, SA from May 2008 to March 2009 | Director of PT Compras – Serviços de Consultoria e Negociação, SA from April 2008 to March 2009 | Director of Previsão – Sociedade Gestora de Fundos de Pensões, SA from May 2006 to October 2007 | Director of PT Compras – Serviços de Consultoria e Negociação, SA from April 2008 to March 2009 | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA from October 2007 to May 2009 | Chairman of the Board of Directors of PT Contact – Telemarketing e Serviços de Informação, SA from July 2008 to March 2009 | Chairman of the Board of Directors of PT-ACS – Associação de Cuidados de Saúde from May 2007 to April 2009 | Director of PT Centro Corporativo, SA from November 2006 to April 2009 | Director of PT Rede Fixa, SGPS SA from November 2007 to June 2009 | Member of the Board of Directors of Telemig Celular Participações, SA from August 2008 to July 2010 | 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 Multimedia, SGPS SA from June 2002 to April 2006 | Director of Cabo TV Madeirense, SA from April 2004 to September 2006 | Chairman of the Board of Directors of Cabo TV Açoreana, SA from December 2004 to October 2007 | Director of TV Cabo Portugal, SA from 2002 to 2006 | Director of Lusomundo Audiovisuais, SA from 2002 to 2006 | Director of Lusomundo Cinemas, SA from 2002 to 2006 | Director of Lusomundo – Sociedade de Investimentos Imobiliários, SGPS SA from March 2006 to March 2007 | Director of Lusomundo Imobiliária 2, SA from March 2006 to March 2007 | Director of PT Conteúdos SA from 2002 to 2006 | Director of PT Televisão por Cabo, SGPS, SA from 2002 to 2006 | Director of Sport TV from June 2002 to November 2005 | Director of Lusomundo España, SL from February 2003 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 the Instituto Superior Técnico with an MBA by IESE Barcelona.

### **Carlos Alves Duarte (Executive Director) | Portuguese, 50 years old**

Appointed for the first time in 2009 | 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 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).

### **Manuel Rosa da Silva (Executive Director) | Portuguese, 43 years old**

Elected for the first time in 2009 | 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.

### **Shakhaf Wine (Executive Director) | Brazilian, 41 years old**

Elected in 2009 | Vice-Chairman of the Board of Brasilcel N.V., Chairman of the Control Committee of Brasilcel N.V. and Vice-Chairman of the Board of Directors of Vivo Participações SA up to September 2010 | Member of the Board of Directors of Universo Online SA up to January 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.

### **Francisco Bandeira (Non-Executive Director) | Portuguese, 53 years old**

Elected for the first time in 2008 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | Non-Executive member of the Board of Directors of Grupo Pestana Pousadas from January 2007 to March 2009 | Non-Executive member of the Board of Directors of AdP – Águas de Portugal, SGPS SA from October 2006 to March 2009 | Chairman of the Board of Directors of Banco Caixa Geral from January to December 2008 | Chairman of the Board of Directors of Locarent—Companhia Portuguesa de Aluguer de Viaturas, SA from October 2006 to March 2008 | Director of Caixa Geral de Depósitos SA from 2005 to 2008 | Chairman of the Board of Directors of Caixa Leasing e Factoring-Instituição Financeira de Crédito, SA from 2006 to 2008 | Non-Executive Director of RAVE from 2001 to 2002 | Non-Executive Director of FIEP from 1997 to 2001 | Vice-Chairman of the Board of Directors of ICEP from 1996 to 2000 | Member of the committees for EXPO 98 and for the Pavilhão of Portugal, from 1996 to 1999 | Officer, Sub-manager, Assistant-manager, Manager and Coordinating Manager of Banco de Fomento e Exterior, from 1988 to 1996 | Assistant to the Coordination Committee of the Portuguese Central Territory (*Assessor da Comissão de Coordenação da Região Centro*), in the PIDR for Baixo Mondego, from 1986 to 1988 | Officer at the IFADAP, from 1981 to 1986 | Lecturer in special education school (*Ensino Especial*), from 1975 to 1979 | Graduate in Economics by the University of Coimbra.

### **José Xavier de Basto (Non-Executive Director and Member of the Audit Committee) | Portuguese, 72 years old**

Elected for the first time in 2007 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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).

### **João de Mello Franco (Non-Executive Director and Chairman of the Audit Committee) | Portuguese, 64 years old**

Elected for the first time for the Audit Committee in 2007, and non-executive Director since 1997 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | Director of José de Mello Participações, SGPS, SA from 2002 to 2006 | Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 to 2004 | Chairman of the Board of Directors of José de Mello Residências e Serviços from 2001 to 2004 | Chairman of the Board of Directors of Imopólis (SGFII) from 2001 to 2004 | Chairman of the Board of Directors of Engimais from 2001 to 2004 | Member of the Board of Directors of International Shipowners Reinsurance Co from 1998 to 2005 | Member of the Senior Council of Portugal Telecom from 1996 to 1997 | Chairman of the Board of Directors of Soponata – Sociedade Portuguesa de Navios Tanques, SA from 1997 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 Marconi from 1994 to 1995 | Chairman of the Board of Directors of Guiné Telecom from 1994 to 1995 | Chairman of the Board of Directors of Companhia Santomense de Telecomunicações from 1994 to 1995 | Member of the Board of Directors of CN – Comunicações Nacionais, SA from 1993 to 1995 | Chairman of the Board of Directors of Associação Portuguesa para o Desenvolvimento das Comunicações from 1993 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 | Manager of TDC – Tecnologia das Comunicações, Lda. from 1986 to 1989 | Graduate in Mechanical Engineering by the Instituto Superior Técnico | Scholarship by Junta de Energia Nuclear for a specialization in Nuclear Power Plant Mechanical Technology | Additional Training in Strategic Management and High Business Management (PADE).



**Joaquim Goes (Non-Executive Director) | Portuguese, 44 years old**

Elected for the first time in 2000. Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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 | Specialization in Marketing and Finance, by Universidade Católica Portuguesa | MBA by INSEAD, Fontainebleau.

**Mário João de Matos Gomes (Non-Executive Director and Member of the Audit Committee) | Portuguese, 63 years old**

Elected for the first time in 2009 | 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 also collaborates, as a Controller-Rapporteur, within the 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 Convocado 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)

**Gerald McGowan (Non-Executive Director) | North-American, 64 years old**

Elected for the first time in 2003. Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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).

**Rafael Luis Mora Funes (Non-Executive Director) | Spanish, 45 years old**

Elected for the first time in 2007 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | Member of the Sustainability and Governance Committee of the Millenium BCP Group until 2007 | Graduate in Economics and Management by Málaga University.

**Maria Helena Vaz de Carvalho Nazaré (Non-Executive Director) | Portuguese, 61 years old**

Elected in 2009 | Vice-President of the European University Association | Principal of the University of Aveiro from January 2002 to February 2010 | Chairman of the Coordination Committee of the Institutional Evaluation Programme of the European University Association (EUA) | President 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) | President 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) | President of the Research Institute of the University of Aveiro (1995-1998) | Chairman 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-Chairman of the University of Aveiro Scientific Board (1990-1991) | President 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.

### **Amílcar de Morais Pires (Non-Executive Director) | Portuguese, 49 years old**

Elected for the first time in 2006 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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<sup>a</sup> until 1995 | Coordinating Manager of the Finance, Markets and Studies Departments and person responsible for the management of the treasury department of BES | Adviser 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.

### **Francisco T. Pereira Soares (Non-Executive Director) | Portuguese, 61 years old**

Elected for the first time in 2006 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | 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).

### **Jorge Tomé (Non-Executive Director) | Portuguese, 56 years old**

Elected for the first time in 2002. Former term of office ended on 31 December 2008 and was re-elected in 2009 | Chief Executive Officer of Caixa – Banco de Investimento, SA from 2001 to 2007 | Non-Executive Director of Caixa Gestão de Patrimónios from 2001 to 2005 | Director of the Insurance Companies of Grupo BANIF: Açoreana, O Trabalho, O Trabalho Vida, and Director of Pension and Mutual Funds managing companies from 1996 to 2001 | Partner at Coopers & Lybrand in Portugal from June 1995 to November 1996 | Manager of the International Division of Banco Pinto & Sotto Mayor, SA, in 1995 | Director of Banco Pinto & Sotto Mayor from March 1994 to January 1995 | Executive Director of SULPEDIP, SA (currently PME Investimentos, SA) from June 1989 to March 1994 | Technical Officer at the Securities Directorate of Banco Pinto & Sotto Mayor in 1985 | Securities sub-manager and Manager of Banco Pinto & Sotto Mayor from 1986 to 1994 | Technical Officer of Coopers & Lybrand Lda., from 1980 to 1982 | Economist at the IAPMEI (Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento), from 1979 to 1980 | Graduate in Business Organization and Administration by the ISCTE and Master in Applied Economy by the Faculdade de Economia, Universidade Nova de Lisboa.

### **Paulo José Lopes Varela (Non-Executive Director) | Portuguese, 42 years old**

Elected in 2009 | Related to Grupo Visabeira since 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 2006, he took the function of Chairman of the Board of Directors of Visabeira Global, 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.

### **Milton Almicar Silva Vargas (Non-Executive Director) | Brazilian, 54 years old**

Elected in 2009 | 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, | Graduate in Business Administration by UNIFIEO – Centro Universitário FIEO, Osasco.

### **Nuno de Almeida e Vasconcellos (Non-Executive Director) | Portuguese, 46 years old**

Elected for the first time in 2006. Former term of office ended on 31 December 2008 and was re-elected in 2009 | From 1995 to 2006, Managing Partner in Portugal for consulting field of Heidrick & Struggles | 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.

## 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 harmonization 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, among which we highlight the consolidated results of the PT Group, and taking into consideration the performance and long term prospects of the PT Group.

The variable remuneration of such officers 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

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. Also according to such Law on Remunerations, Listed Companies shall disclose in their annual financial statements the remuneration policy of the members of the management and supervisory bodies, as well as the annual remunerations earned by such members, on an individual and aggregate basis;
3. In its turn, Recommendation 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;
4. The recent law and recommendation evolution in this field essentially covers the content of the remuneration policy, particularly Recommendation II.1.5.1 of CMVM Governance Code (largely inspired in the European Commission Recommendation of 30 April 2009 on the system of remuneration of directors of listed companies) and the tax rules on autonomous taxation of variable remunerations;
5. In the light of this context and for the purpose of, on the one hand, complying with those provisions, and on the other hand, strengthening the transparency of the process for determining the remunerations, the Compensation Committee of Portugal Telecom, SGPS S.A. ("PT SGPS" or the "Company") submits the said statement on the remuneration policy of the managing and supervisory bodies to the approval of the Annual General Meeting of Shareholders to be held on 6 May 2011;
6. 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;
7. The policy approved by the Compensation Committee in office, at its meetings held on 29 May 2009 and 23 March 2011, is applicable to the current term of office (2009-2011) of the members of PT SGPS corporate bodies and is effective as of the date of the General Meeting of Shareholders that has elected them (i.e., 27 March 2009).

Pursuant to the Law on Remunerations and to CMVM Recommendation 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 made by reference to the financial years of 2009 to 2011, 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 and/or the fact that some of those are deemed as independent Directors under the terms and for the purposes of article 414(5) of the Portuguese Companies Code. In particular, the Chairman of any internal committee of the Board (who does not also discharge the functions of Chairman of the Board of Directors, of Executive Committee or of Audit Committee), as well as the independent members who are part of more than one internal committee, receive a supplement corresponding to twice the remuneration of a Member.

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

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

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

## **II. Remuneration policy of executive Directors:**

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

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

### **a. Fixed remuneration:**

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

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

### **b. Variable remuneration:**

The variable remuneration of executive Directors, which depends on the pursuing of the determined goals, is composed of: (i) an annual variable remuneration (AVR) that, in the event of a 100% pre-determined goal achievement, may amount to 90% of the fixed remuneration, and (ii) a variable remuneration associated to the medium-term performance (VRMT) that, in the event of a 100% pre-determined goal achievement, may reach 70% of the fixed remuneration.

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

- Pursuing and achievement of goals through the quality, work capacity, dedication and business know-how;
- 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 professionalized management approach based upon the definition and control of the pursuance of ambitious (although achievable) and measurable goals on a yearly and pluri-annual (term of office) basis, thus considering the evolution on the performance of the company and of the Group;
- Devolving 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 shall be implemented.

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

### **(i) Annual Variable Remuneration (AVR)**

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

The determination of the AVR to be granted as a result of the performance in the 2009, 2010 and 2011 financial years is determined on the basis of a percentage of the annual fixed remuneration, calculated through the weighted average of the level of achievement of any of the following indicators (with each one of such indicators being considered achieved only if at least 85% of the goals established for such indicator are reached), and if the company maintains the investment grade qualification at the end of each year (except if the loss of such qualification is a consequence of a strategic decision of the Board of Directors):

- Total shareholder return ("TSR") ratio of PT SGPS as compared with the sector DJ Stoxx Telecom Europe (1<sup>st</sup> quartile), where the TSR is understood as the sum of the share price variation and the value of the dividend per share;
- Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;
- Earning per share ("EPS") growth delta as compared to the budget;
- Revenues growth delta vis-à-vis a group of comparable companies, including KPN, Swisscom, TeliaSonera, Belgacom, Telenor, Telecom Austria and OTE;
- EBITDA growth delta vis-à-vis the same group of comparable companies;
- EBITDA growth delta minus CAPEX as compared to the budget.

In each year of the current term of office, the AVR should correspond to an amount of up to 50% of the total variable remuneration allocated for the relevant financial year, and it is determined and paid in cash by the Company following the annual General Shareholder Meeting of approval of the accounts for the financial year to which such remuneration relates.

After determining the AVR in accordance with this methodology, the Compensation Committee may increase or reduce the variable remuneration of the Chief Executive Officer and of the other executive Directors, upon a proposal, respectively, of the Evaluation Committee of the Board of Directors and of the Chief Executive Officer. In any case and depending on the level of achievement of the pre-established goals, the AVR will not exceed the fixed remuneration in more than 110%, and should it exceed 50% of the total variable remuneration allocated in the year in question, the payment of the amount allocated in excess will be deferred for a period of 3 years.

The payment of the AVR amounts thus deferred will be made under the conditions provided for the payment of the MTRV deferred amounts as established in item 3) below.

### (ii) Variable remuneration associated to the medium-term performance (MTVR)

The determination and allocation of the MTVR to be earned for the account of the 2009, 2010 and 2011 performance are subject to the following rules:

1) MTVR is allocated on an annual basis (following the annual General Shareholder Meeting of approval of the accounts for the financial year to which such remuneration relates) as a function of the weighed average of the level of achievement of the following quantitative and qualitative indicators:

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

2) The MTVR allocated each year further depends on the pursuing of the goals determined for the various indicators, with each indicator reaching at least 85% of the goals determined for such indicator.

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

The payment of the AVR amounts in excess of 50% of the total variable remuneration allocated in the relevant year and of the MTVR amounts allocated will be deferred for a period of 3 years, and it is further subject to the condition of the Company's positive performance during the deferment period not being provenly affected as a direct result of the conduct of the Director concerned.

In the event the office of the executive Director is terminated, for any reason whatsoever, the payment of the AVR or MTVR amounts granted and deferred will be made at the time of termination of the management relationship.

The deferment conditions provided for in this item 3) will be the ones applicable to the MTVR for the 2009 financial year already granted in 2010, following the 2010 Annual General Meeting of Shareholders.

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

As results from all the above, the AVR and the MTVR 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 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) optimize 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.

**III. 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



