

CORPORATE GOVERNANCE REPORT

2009



**PEOPLE OF FIBRE**

**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 Recommendations of the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários – “CMVM”) on Corporate Governance of Listed Companies as published in September 2007, 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, which regulation is adopted by PT following indication by the CMVM, under Circular issued on 26 January 2010, that the CMVM would prefer that listed company corporate governance reports for the financial year of 2009 be prepared in accordance with such form.

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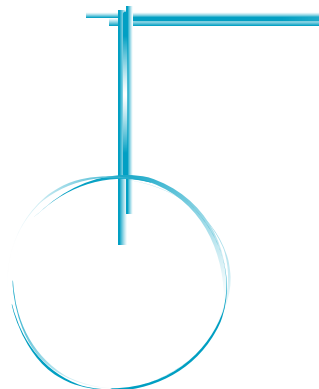
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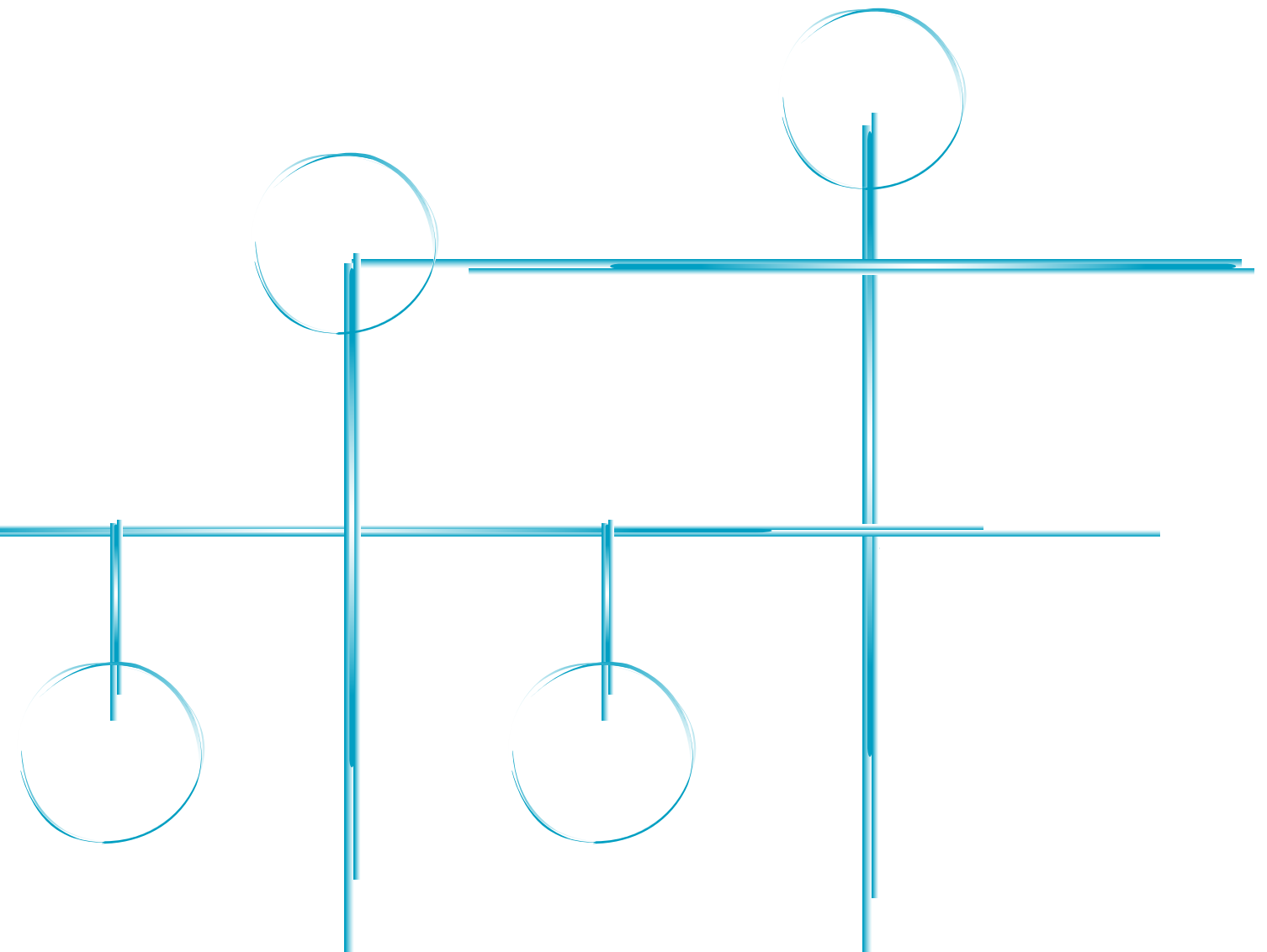
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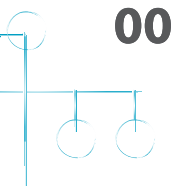




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CORPORATE GOVERNANCE





## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE RULES APPLICABLE TO PT

In this regard, it should be stressed that most CMVM Recommendations on the governance of listed companies published in September 2007 (“CMVM 2007 Recommendations”) <sup>(1)</sup> are fully adopted by Portugal Telecom, and are reflected on its corporate governance model <sup>(2)</sup>. This model’s integrity, transparency and strictness have been reinforced as well by the Company’s compliance with the binding rules and best practices applicable to foreign private issuers with securities admitted to trading on the New York Stock Exchange (“NYSE”).

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

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

Additionally, PT has approved several conduct and transparency rules, i.e. the Group’s Code of Ethics, the Code of Ethics for Senior Financial Officers, the rules on Transactions by Officers and the reviewed rules on Transactions with Related Parties as adopted at the end of the 2009 financial year, 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.

<sup>(1)</sup> Available on [www.cmvm.pt](http://www.cmvm.pt).

<sup>(2)</sup> Notwithstanding the approval by the CMVM, in January 2010, of new Recommendations on Corporate Governance (“CMVM 2010 Recommendations”), such recommendations will be applicable only in respect of the governance report for the financial year ending on 31 December 2010.

## STATEMENT OF COMPLIANCE

The Company fully adopts the CMVM 2007 Recommendations, except for Recommendations I.3.3 and I.6.2, 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 2007 Recommendations are identified hereunder.

CMVM RECOMMENDATION	COMPLIANCE	REPORT
<b>I. GENERAL MEETING</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 <i>Corporate Governance Annual Report</i> .	Yes	Chapter I.3
<b>I.2 Participation in the General Meeting of Shareholders</b>		
I.2.1 Any imposition of a prior deposit or share blocking period for participation in the General Shareholders Meeting shall not exceed 5 business days.	Yes	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.	Yes	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.	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 3 business days.	Yes	Chapter I.11
I.3.3 Companies' bylaws shall provide that one vote shall correspond to each share.	No (1)	
<b>I.4 Quorum and resolutions</b>		
I.4.1 Companies shall not establish a constitutive or resolution quorum in excess of the provisions of the law.	Yes	Chapter I.8
<b>I.5 Minutes and disclosure of resolutions passed</b>		
I.5.1 The minutes of General Shareholder Meetings shall be made available to shareholders on the company's website within 5 days, even though not inside information under the law; also, a historical background of attendance lists, agendas and resolutions at General Meetings held for, at least, the three previous years should be kept on this website.	Yes	Chapter 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.	-(2)	
I.6.2 Corporate bylaws that provide, in observance of the above 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, the maintenance of such bylaw provision shall be subject to a resolution at the General Shareholder Meeting – with no requirements for an aggravated quorum as compared to the legal one – and that upon such resolution all votes cast shall be counted without the operation of such limitation.	No (2)	
I.6.3 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
<b>II. MANAGEMENT AND SUPERVISORY BODIES</b>		
<b>II.1 General</b>		
II.1.1 Structure and duties		
II.1.1.1 The management body shall assess on its corporate governance report 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

CMVM RECOMMENDATION	COMPLIANCE	REPORT
II.1.1.2 Companies shall create internal control systems for an efficient tracking down of risks related to the corporate business, to safeguard their assets, and to the benefit of transparency in their corporate governance.	Yes	Chapter II.5
II.1.1.3 Management and supervisory bodies shall be provided with internal regulations and shall have them disclosed on the company's website.	Yes	Chapter II.7
II.1.2 Incompatibilities and independence		
II.1.2.1 The Board of Directors shall include a sufficient number of nonexecutive 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
II.1.3 Eligibility and appointment		
II.1.3.1 The Chairman of the Audit Committee shall be independent, and be qualified as appropriate for his duties.	Yes	Chapter II.14, Audit Committee
II.1.4 Policy on the report of irregularities		
II.1.4.1 The company shall adopt a policy on the report of irregularities allegedly occurred within it, with the following data: (i) indication of the means that can be used for internal reporting of irregular practices, including the persons with legitimacy to receive such communications; (ii) indication of the treatment to be given to any such communications, including confidential treatment where the communicator so wishes.	Yes	Chapter II.35
II.1.4.2 Such policy's general guidelines shall be disclosed in the Company's Corporate Governance report.	Yes	Chapter II.35
II.1.5 Remuneration		
II.1.5.1 The remuneration of the members of the Management Body shall be structured in such a way as to allow the alignment of their interests with the company's interests. Within this framework: (i) the remuneration of directors exercising executive duties shall incorporate a performance-based component, and for such reason it shall take into consideration a performance evaluation carried out, on a regular basis, by the competent body or committee; (ii) the variable component shall be consistent with the maximization of the long-term performance of the company, and dependent on the sustainability of the adopted performance variables; (iii) unless the law so directly imposes, the remuneration of non-executive members of the management body shall be exclusively composed of a fixed sum.	Yes	Chapters II.31, II.32, II.33 & II.34
II.1.5.2 The Compensation Committee and the Management Body shall submit to appraisal by the Annual General Shareholder Meeting a statement on the remuneration policy for the Management and Supervisory Bodies and for all other officers (in the meaning of article 248B-3 of the Securities Code), respectively. Within this framework, shareholders shall be informed, inter alia, of the criteria and main parameters proposed for the performance evaluation in order to determine the variable component, whether such component consists of share prizes or share call options or annual bonuses or otherwise.	Yes	Chapters II.29 & II.30
II.1.5.3 At least one representative of the Compensation Committee shall be present at the Annual General Shareholder Meetings.	Yes	Chapter I.15
II.1.5.4 "A proposal shall be submitted to the General 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	Chapter II.31
II.1.5.5 The remuneration of the members of the management and supervisory bodies shall be subject to individual annual disclosure broken down, as the case may be, into the various components received in terms of fixed remuneration and variable remuneration, as well as remuneration received in other companies of the group or companies controlled by holders of qualified shareholdings.	Yes (3)	Chapters II.31 & II.33, n)
<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 <i>Annual Report on Corporate Governance</i> .	Yes	Chapter II.3, Executive Committee
II.2.2 The Board of Directors shall ensure that any company action is consistent with its goals, and shall not delegate its responsibility, notably, as regards: (i) the definition of the company's strategy and general policies; (ii) the definition of the corporate structure of the group; (iii) any decisions as should be considered strategic decisions due to their amount, risk or special characteristics.	Yes	Chapter II.3, 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

CMVM RECOMMENDATION	COMPLIANCE	REPORT
II.2.4 The <i>Annual Management Report</i> 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 Management Body shall promote a rotation of the member responsible for the financial function, at expiration of each two terms of office at least <sup>(3)</sup> .	Not applicable	Chapters I., Board of Directors, & 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, Disclosure obligations of the Executive Committee
II.3.2 The Chief Executive Officer shall send all notices and minutes of such committee's meetings to the Chairman of the Board of Directors and to the Chairman of the Audit Committee.	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 audit committee 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 Audit Committee shall include a description of its supervisory activity, and mention, inter alia, any constraints faced.	Yes	Report available on PT's website, Chapter II.4
II.4.4 The Audit Committee shall represent the company, for all intents and purposes, vis-à-vis the External Auditor, it being the committee's 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	Chapter III.17
II.4.5 The Audit Committee shall evaluate the External Auditor each year and propose the removal of the same to the General Shareholder Meeting where cause therefor occurs.	Yes	Chapters II.24 & III.17
<b>II.5 Special 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.	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.	Yes	Section IV – Independence of the Members of the Compensation Committee
II.5.3 All committees shall draw up minutes of the meetings held.	Yes	Chapter II.37
<b>III. INFORMATION AND AUDIT</b>		
III.1 General disclosure obligations		
III.1.2 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.1.3 The following information, to be available on the company's website, shall be disclosed in English:		
<ul style="list-style-type: none"> <li>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;</li> <li>b) The bylaws;</li> <li>c) Identification of all members of the Corporate Bodies and the representative for market relations;</li> <li>d) Investor Support Office, its duties and means of access;</li> <li>e) Financial statements;</li> <li>f) Six-month agenda of corporate events;</li> <li>g) Proposals submitted to discussion and voting at the general shareholder meeting;</li> <li>h) Notices for general shareholder meetings.</li> </ul>	Yes	Chapter III.16

<sup>(3)</sup> The member of the Company's management body responsible for the financial function is serving his second term of office.

**(1)****CMVM 2007 Recommendation n.º 1.3.3 on the “one share, one vote” principle**

The principle according to which each share corresponds to one vote is not established in other jurisdictions or reference markets, and in fact, at the end of 2007, the European Union has stopped any efforts regarding its adoption (either by means of a directive or through mere recommendation).

In particular, 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 not possible to establish a clear causal connection between deviations from proportionality and the financial performance or corporate governance of a “listed company”.

It should even be noted that the revision of the CMVM Recommendations on the Governance of Listed Companies, following the publication of the CMVM 2010 Recommendations, caused this principle to be reconsidered since it is no longer categorically recommended that each share must correspond to one vote. This reveals that the regulator itself eventually acknowledged that such principle is not indisputable, and may even generate inefficiencies.

Consistently with its understanding along these past years, PT deems that, as this principle is not universally accepted and it has been lessened by the new CMVM 2010 Recommendations, it is justifiable not to comply with CMVM 2007 Recommendation no. 1.3.3.

In addition, through the bylaws provision establishing that a minimum of 500 shares is required in order to exercise one voting right, the Company seeks to establish conditions in order to allow the General Shareholder Meeting to be carried out efficiently, permitting an actual participation of shareholders that meet that minimum share level. This provision is not intended to create a defensive measure or a control enhancing mechanism.

**(2)****CMVM 2007 Recommendations n.ºs 1.6.1 and 1.6.2 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.

It should also be mentioned that PT’s bylaws contain a limitation on the counting of the votes of a single shareholder, 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 share capital, shall not be counted (article 13). 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 2007 Recommendation no. 1.6.2.

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 corporate 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.

### **(3)**

#### **CMVM 2007 Recommendation n.º II.1.5.5 on the disclosure of the remuneration of the members of the management and supervisory bodies**

Especially considering all the legislative modifications occurred in 2009 in the matter of disclosure of the remunerations of the members of the management and supervisory bodies of listed companies (in particular, Law no. 28/2009 of 19 June 2009), PT will disclose the annual remuneration earned by the members of its management and supervisory bodies, in aggregate and individual terms. To that extent, PT will comply with CMVM 2007 Recommendation no. II.1.5.5.

In addition, it is deemed relevant to inform the Shareholders that the members of the Company's management and supervisory bodies performing duties in other management bodies of the group earn no remuneration other than the one referred to herein.

As regards the remuneration of the members of the management and supervisory bodies in companies controlled by shareholders of qualified holdings, PT believes, in an actualistic interpretation of this Recommendation, that PT is in compliance with the same.

In other words, taking into account the wording of the CMVM 2010 Recommendations, PT has no reason to consider that PT is in breach of the best practices supported by the CMVM in this field. Moreover, as mentioned on PT's governance report for last year, the information in question does not seem relevant for the shareholders to become aware of the "agency costs" incurred by the Company.



## 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 70 million customers.

PT claims its position as the Portuguese corporation with the largest national and international projection, with a presence in the European, American, 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, where the company is currently the largest Portuguese investor. PT holds a 50% stake 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.

PT is structured in organization units: Wireline Business in Portugal, Mobile Business in Portugal, International Business and Instrumental Companies. Such units are coordinated by the holding company, led by its Executive Committee with the support of the corporate centre. Subsidiaries report functionally, not hierarchically, thus ensuring an effective articulation.

PORTUGAL TELECOM		
Domestic Business		
Wireline Business		
	100%	PT Comunicações
	100%	PT Prime
Mobile Business		
	100%	TMN
International Business		
	50%	Brasilcel, the holder of 59,42% in Vivo
	25%	Unitel <sup>(1)</sup>
	100%	Dedic
	40%	Cabo Verde Telecom <sup>(1)</sup>
	34%	MTC <sup>(1)</sup>
	51%	CST <sup>(1)</sup>
	41,12%	Timor Telecom
	28%	CTM
	29%	UOL inc
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.

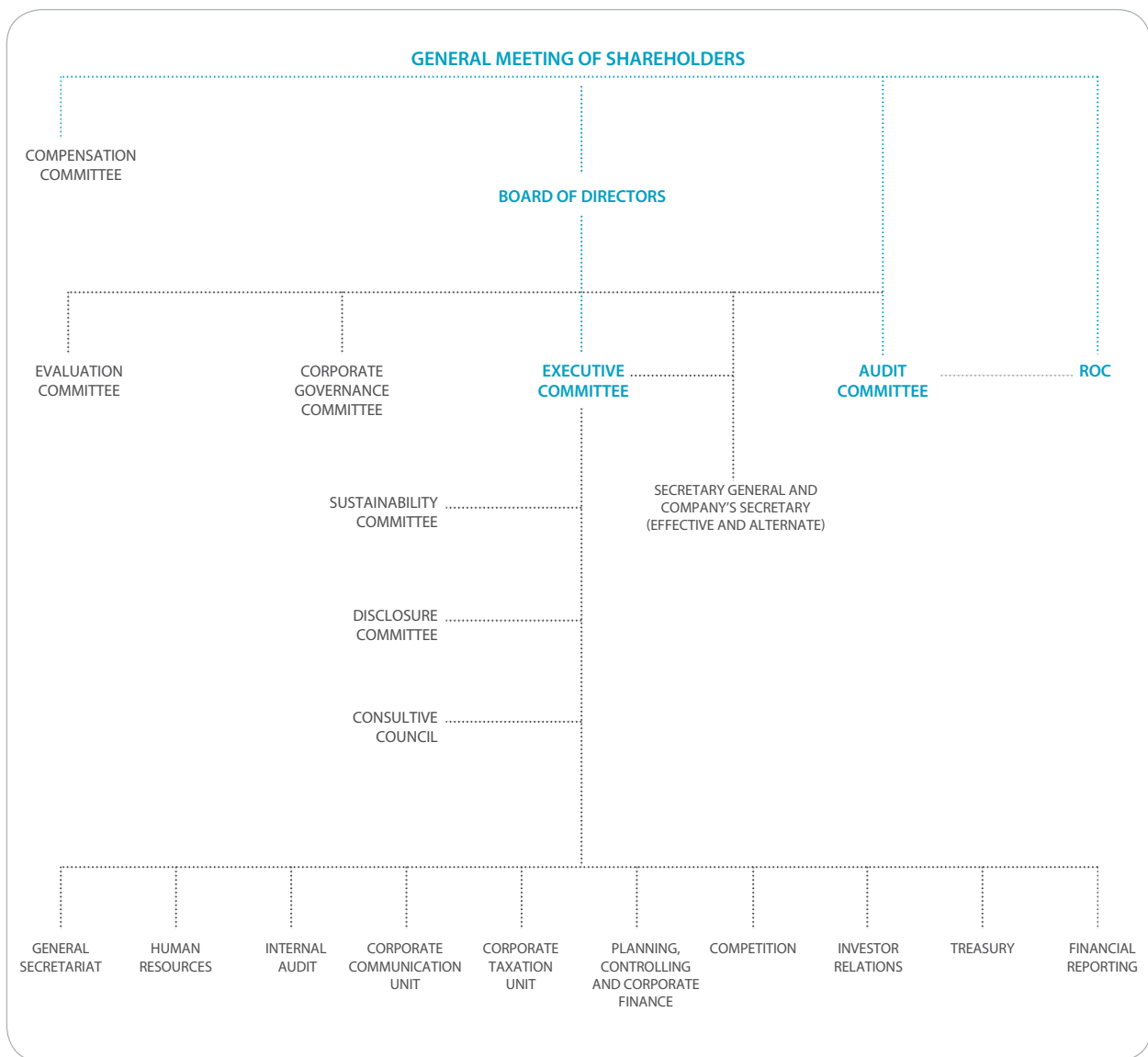
## CORPORATE GOVERNANCE

PT follows an 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.

Portugal Telecom'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 the 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 a Corporate Governance Committee and an Evaluation Committee created in October 2008, each such internal committee acting within the scope of its respective 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.

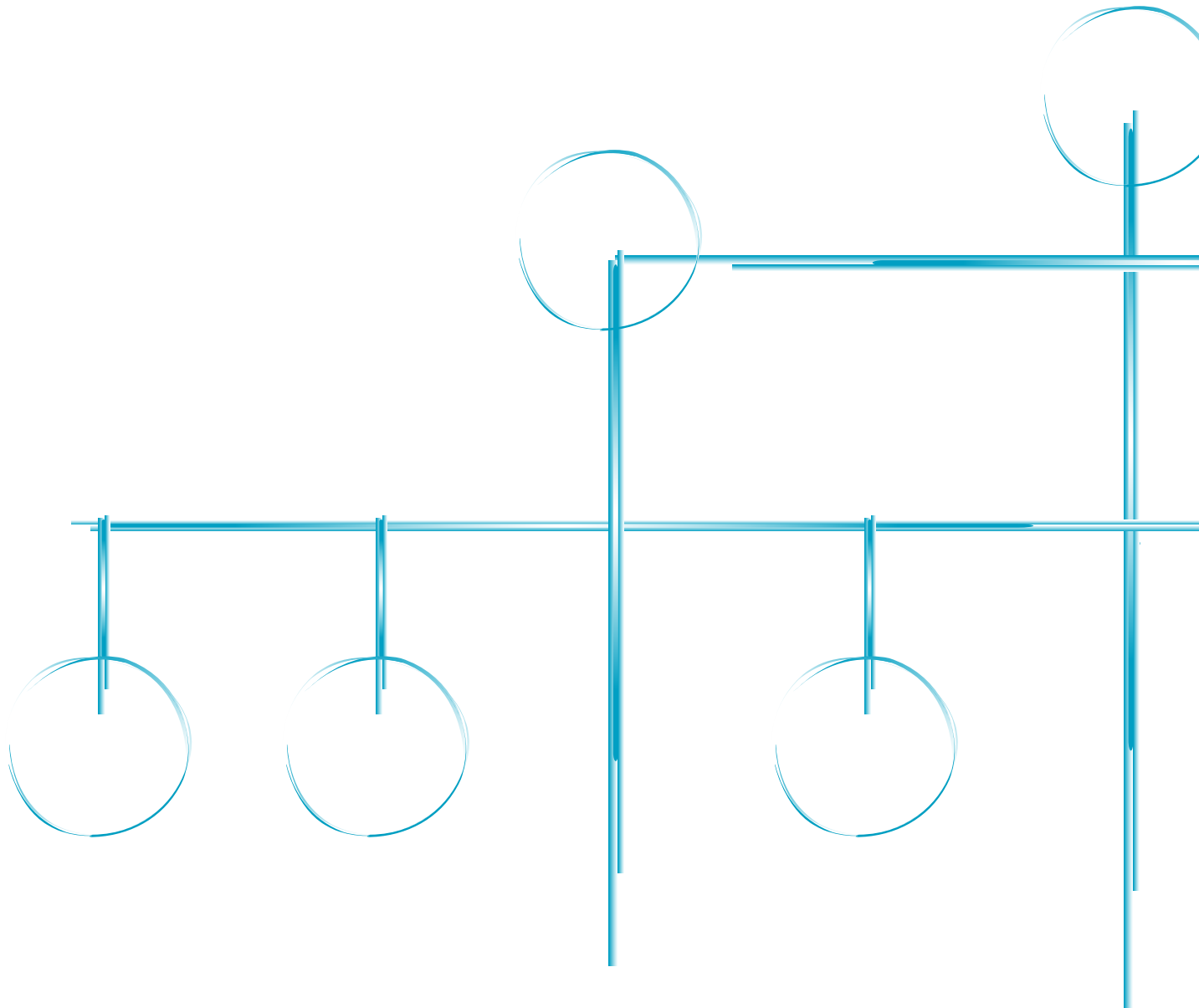
A Consultive Council, a Disclosure Committee and a Sustainability Committee, as well as several operational departments that guarantee an effective and transparent management of the Company complete the Executive Committee's supporting structures.

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.

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 II.1.1.1, and based on the outcome of the Corporate Governance Committee's resolution pursuant to Recommendation 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.





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## 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 shareholders representing at least 5% 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, nº 40-10º piso, 1069-300 Lisboa
Telephone:	+351.800.207.369
Fax:	+351.215.001.890
E-mail:	assembleia-ptsgps@telecom.pt

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

### I.1. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

#### BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

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

## **I.2. MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS – COMMENCEMENT AND EXPIRATION OF TERMS OF OFFICE**

The members of the Board of the General Meeting of Shareholders were elected on 27 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**

For confirmation of entitlement to voting rights, the Bylaws require that shareholders provide evidence of registration of their shares in a book-entry securities account no later than 5 business days prior to the relevant meeting, and such shares should remain inscribed in the name of the shareholder at least until the General Meeting is closed.

With this blocking period the Company adopts CMVM 2007 Recommendation no. I.2.1.

## **I.5. INDICATION OF RULES APPLICABLE TO SHARE BLOCKING IN THE EVENT OF ADJOURNMENT OF THE GENERAL MEETING OF SHAREHOLDERS**

Following an amendment to paragraph 4 of article 13 of the Bylaws approved by resolution of the Annual General Shareholder Meeting of the Company held on 27 March 2009, and consistently with the past practice of the Company, it was expressly provided for that share blocking may be released in the event of adjournment of the General Meeting, with such blocking being made once again a mere 5 business days in advance of the date on which the meeting is resumed.

In this way, PT adopts a CMVM 2007 Recommendation no. I.2.2.

## **I.6. NUMBER OF SHARES CORRESPONDING TO ONE VOTE**

Under the Company's Bylaws, each 500 shares grant the right to one vote. Shareholders holding a lesser number of shares may group together and be represented by one of the group members, so as to jointly accumulate the number of shares necessary to exercise the right to vote. Only shareholders entitled to vote may attend a General Meeting of Shareholders.

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

## **I.7. LIMITATIONS ON VOTING RIGHT EXERCISE OR VOTE COUNTING**

In addition to chapter I.6. above, and according to article 13 of the Company's Bylaws, the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total voting rights corresponding to the share capital shall not be counted. Shares held by a person in situations as provided for under article 20 of the Portuguese Securities Code shall be deemed to belong to the shareholder, and the limitation on the counting of votes cast by each person affected by the said provision shall be proportional to the number of votes held and cast.

There are no shares not granting voting rights.



### **I.8. BYLAW RULES ON THE EXERCISE OF VOTING RIGHTS**

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

In this way, the constitutive and resolute quorum of the General Shareholder Meeting 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 2007 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 27 March 2009, an extract of the relevant minutes to comply with CMVM 2007 Recommendation no. I.5.1. This practice is also adjusted to the new CMVM 2010 Recommendation I.5.

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

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 for a period of no less than 15 days prior to the meeting. The content of such documents is also disclosed on the Company's website, both in Portuguese and in English.

Additionally, the financial statements are made available to shareholders on the CMVM Information Disclosure System, also at least 15 days prior to the meeting.

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 notice for the General Meeting of Shareholders and of the proposals received by the Board of the General Meeting of Shareholders will be available on the Company's website sufficiently in advance of the day of the General Meeting and 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 attendance to the meetings.

PT also makes available on its website the result of the votings of its General Meeting of Shareholders held during the last three years.

Taking into account the new CMVM 2010 Recommendation no. I.5, the Company hereby adopts the practice of keeping all voting results on resolutions taken at General Meetings of Shareholders held in the last three years on its website.

**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 annual General Meeting held on 27 March 2009, Mr. João Mello Franco, one of the three members of PT's Compensation Committee in office on that date, attended the meeting.

**I.16. INTERVENTION OF THE GENERAL MEETING OF SHAREHOLDERS IN THE REMUNERATION AND EVALUATION POLICY**

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

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

**I.17. INTERVENTION OF THE GENERAL MEETING OF SHAREHOLDERS IN SHARE ALLOTMENT PLANS FOR MANAGEMENT, SUPERVISION AND OTHER OFFICERS**

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

**I.18. INTERVENTION OF THE GENERAL MEETING OF SHAREHOLDERS IN A PENSION BENEFIT SYSTEM FOR MANAGEMENT, SUPERVISION AND OTHER OFFICERS**

There are no retirement benefit systems 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 Shareholder Meetings.

**I.19. BYLAWS 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**

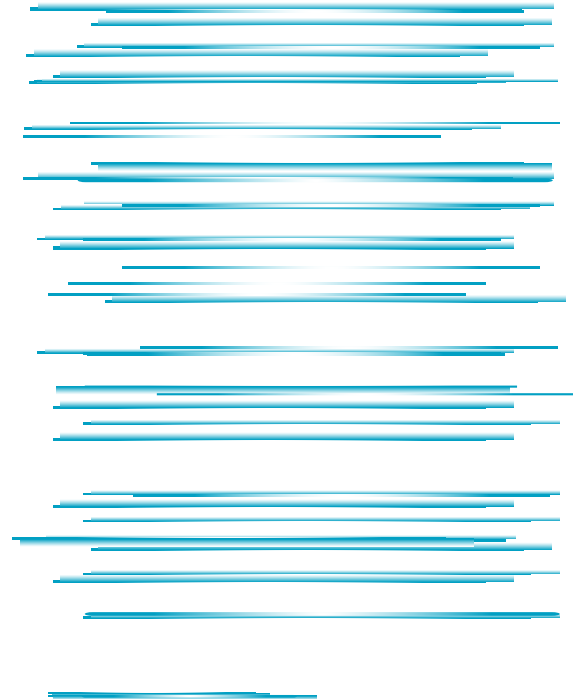
In the normal course of business, PT has entered into agreements that might be amended or terminated in the event of a change of control in the Company. Due to their relevance the following should be highlighted: Shareholders' Agreement dated 17 October 2002 between Telefónica and PT, whereby it was agreed that Telefónica Móviles shall be entitled to sell to PT, who shall be obliged to purchase, its shareholding in Brasilcel in the event of a change of control in PT or in any of its subsidiaries owning, directly or indirectly, a shareholding in Brasilcel. Similarly, PT shall be entitled to sell to Telefónica, who shall be obliged to purchase, its shareholding in Brasilcel in the event of a change of control in Telefónica or in any of its subsidiaries owning, directly or indirectly, a shareholding in Brasilcel.

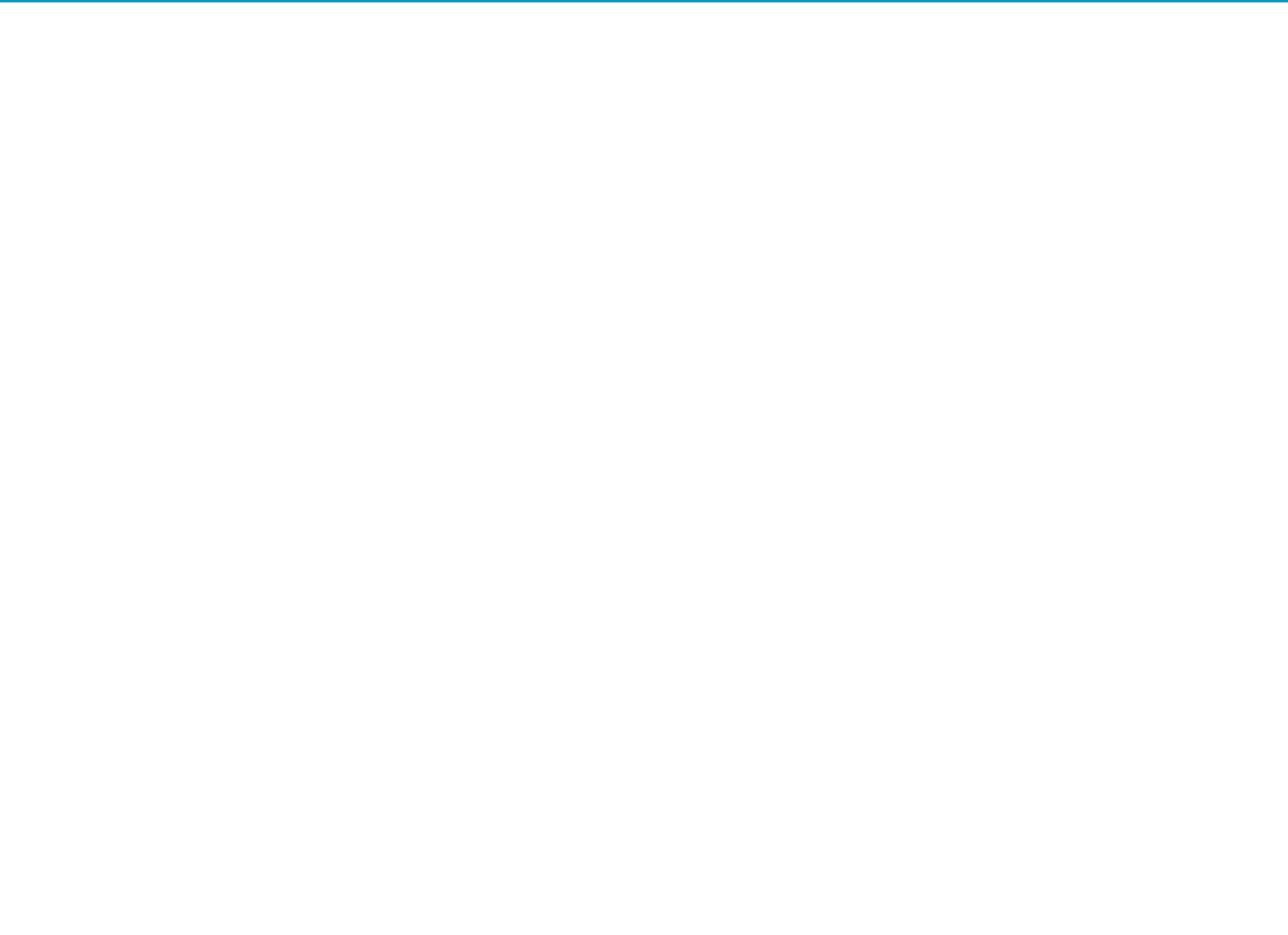
PT describes the financial covenants that may affect the Company as regards change of control clauses under note 34 to the consolidated financial statements included in the Report and Consolidated Accounts for 2009.

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 2009, 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 (5)	Nr. Of shares
Henrique Granadeiro (2003)	Chairman				Chairman (2)		150
Zeinal Bava (2000)	Member	Chairman (CEO)			Member (3)		63,161
Luís Pacheco de Melo (2006) (1) (CFO)	Member	Member					45
Carlos Alves Duarte (2009)	Member	Member					40
Rui Pedro Soares (2006) *	Member	Member					50
Manuel Rosa da Silva (2009)	Member	Member					90
Fernando Soares Carneiro (2006) *	Member	Member					-
Shakhaf Wine (2009)	Member	Member					-
João de Mello Franco (1998)	Member		Chairman	Member	Member (4)	Yes	13,308
José Xavier de Basto (2007)	Member		Member			Yes	-
Mário João de Matos Gomes (2009)	Member		Member			Yes	-
José Maria Alvarez-Pallete (2008)	Member						100
Francisco Bandeira (2008)	Member						483
Santiago Fernandez Valbuena (2008)	Member						100
Joaquim Goes (2000)	Member			Member	Member		2,437
Gerald S. McGowan (2003)	Member					Yes	-
Rafael Mora Funes (2007)	Member				Member		-
Maria Helena Nazaré (2009)	Member					Yes	-
Amílcar de Moraes Pires (2006)	Member						2,146
António Palma Ramalho (2009)	Member			Member		Yes	474
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) Director Luís Pacheco de Melo is only serving his second term of office as Chief Financial Officer as he has been in office since 2006, therefore CMVM 2007 Recommendation no. II.2.5, which determines that the board shall promote rotation of the member responsible for the financial function at the end of two terms of office, is not applicable.

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

(3) Inherently in his office as CEO.

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

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

\* The Executive Director Rui Pedro Soares resigned to his office on 17 February 2010 and the Executive Director Fernando Soares Carneiro resigned to his office on 22 February 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 reelection 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 25 directors of the Company in office on 31 December 2009, seven were executive directors and 18 were non-executive directors (this proportion largely exceeds the one taken as reference in the CMVM Circular of 15 January 2009 and in the CMVM Circular of 18 February 2010, in the corporate governance chapter – one third of the total of members of the Board of Directors should be non-executive).

### Executive Committee

The Board of Directors appoints the Chief Executive Officer and all other members of the Executive Committee. These members are appointed upon proposal by the CEO.

Composition	
Zeinal Bava	Chairman
Luís Pacheco de Melo	Member
Carlos Alves Duarte	Member
Rui Pedro Soares*	Member
Manuel Rosa da Silva	Member
Fernando Soares Carneiro*	Member
Shakhaf Wine	Member

\* The Executive Director Rui Pedro Soares resigned to his office on 17 February 2010 and the Executive Director Fernando Soares Carneiro resigned to his office on 22 February 2010.

### 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	
João de Mello Franco	Chairman
José Xavier de Basto	Member
Mário João de Matos Gomes	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 II.4.4 and II.4.5, the Company’s Audit Committee assessed the independence of the Chartered Accountant, and appraises his work during the 2009 financial year as positive.

Under the service agreement entered into between PT and the abovementioned audit firm, the total remuneration for the 2009 audit services of the accounts of PT, PT Investimentos Internacionais, PT Ventures, PT Participações, Timor Telecom and PT Imobiliária was of 224,000 Euros.

**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 the CMVM within this framework and with the Final Rules approved by the New York Stock Exchange on corporate governance following the Sarbanes-Oxley Act, the 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 the Board of Directors shall appoint one of the Committee’s non-executive members as Chairman.

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

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

**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 2009, in addition to the Executive Committee and the Audit 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 Melo Franco	Member
Joaquim Goes	Member
António Ramalho	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
Pedro Guterres	Member
Bruno Saldanha	Member

### Consultive Council

#### Composition

Luís Todo Bom	Chairman
José Almeida Mota	Member
Aníbal Santos	Member
João Confraria	Member
José Manuel Tribolet	Member
José Lamego	Member
João Ribeiro da Fonseca	Member
Amílcar Martins	Member

### Sustainability Committee

#### Composition

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

- PT CEO (Chairman);
- Directors of PT Comunicações, TMN, PT PRO, PT Compras, PT II and PT Inovação responsible for the Sustainability function within their respective company;
- PT Secretary General (Coordination with Fundação Portugal Telecom);
- PT Financial Report Manager;
- PT Human Resources Manager;
- PT Investor Relation Manager;
- PT Internal Audit Manager;
- PT Corporate Communication and Image Manager (Operational coordination and implementation)

## 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 in the follow up of the corporate governance system and support in the matter of remuneration, evaluation of director performance, and within the scope of selection procedures to the Corporate Governance Committee and to the Evaluation Committee, respectively, 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.

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 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 divestment, 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 2007 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 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.

Following 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 also the Chief Executive Officer, the powers and duties referred to on the foregoing subparagraphs shall be performed by a non-executive member of the Board of Directors.

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

**Division of functions within the Executive Committee**

Within the framework of the corporate decision-making procedure concerning the PT Group’s business lines and Corporate Governance, the members of the Executive Committee are responsible for the following areas (as of 31 December 2009):

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> </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> </ul>	<ul style="list-style-type: none"> <li>• PT Compras</li> <li>• Africatel</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>Rui Pedro Soares</b>	<ul style="list-style-type: none"> <li>• Real Estate</li> <li>• Financial Holdings</li> <li>• Institutional Sponsorship</li> <li>• Relations with Regions &amp; Local Authorities</li> </ul>	<ul style="list-style-type: none"> <li>• PT Centro Corporativo</li> <li>• PT Imobiliária</li> <li>• PT ACS</li> <li>• Timor Telecom</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>Fernando Soares Carneiro</b>	<ul style="list-style-type: none"> <li>• Pension Fund Strategy</li> <li>• Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Previsão</li> <li>• CTM</li> <li>• Hungaro Digital</li> <li>• Inesc</li> </ul>
<b>Shakhaf Wine</b>	<ul style="list-style-type: none"> <li>• Brazil Holdings</li> </ul>	<ul style="list-style-type: none"> <li>• PT Brasil</li> <li>• Vivo Participações</li> <li>• Dedic</li> <li>• PT Inovação Brasil</li> </ul>

It is the opinion of the Corporate Governance Committee, on its Report on the performance of the management body, that the Executive Committee and its CEO have acted, all along 2009, within the framework of their respective power delegation and have effectively reported their activity to the Board of Directors as provided for under OS no. 1,06 of the Board of Directors 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.

## **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 a previous binding opinion on the proposals for relevant transactions between the Company or its subsidiaries and related parties as described in Chapter III.13. hereof.Revisor Oficial de Contas

### Chartered Accountant

Under articles 420(c), (d), (e) & (f) and 446 of the Portuguese Companies Code, it is the duty of the chartered account 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.

## 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 some PT subsidiaries and of any specialized committees created within the Board of Directors.

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 the Chairman of the Board of Directors or shareholders having the capacity to submit lists to voting) and appointment and substitution of directors that compose the specific 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.

The Evaluation Committee had a particularly relevant activity in 2009 in order to fulfil its purpose and its duties, in particular:

- 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;
- Evaluation of the performance of the members of the Executive Committee of Portugal Telecom, according to the objective criteria approved by the Compensation Committee at its meeting dated 14 December 2006, for the purposes and within the framework of the procedure of determination of the multi-annual variable component of the remuneration for the 2006-2008 term of office;
- Approval of a recommendation to the Compensation Committee on the remuneration policy for the corporate 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 goals and criteria that may consider the plans approved by the Board of Directors;
- Approval of a report disclosed to the Shareholders on the PT Director selection procedure for the 2009-2011 term of office;
- Appraisal of a proposal to the Executive Committee on the filling in of management positions in the so-called "Relevant Subsidiaries".

### 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, 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 and to review and 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 2009 financial year, the Corporate Governance Committee carried out the following main activities:

- Appraisal of PT’s governance model, through a weighed analysis of governance practices followed, with a view to its sedimentation and continued improvement, including:
  - Follow-up of the implementation of the Board of Directors Regulation approved at the end of 2008, and activity and rooting level in the Company’s governance structure of the internal committees created within such management body, in particular the Evaluation Committee also created at the end of 2008;
  - Implementation of internal rules and procedures aimed at periodically reviewing independence and incompatibilities of directors, independence and specialization of members of the Audit Committee;
- Benchmarking analysis on good corporate governance practices in other international reference venues;
- Preparation of comments on CMVM plans to amend the Regulation on Listed Company Governance and the Recommendations included in the Corporate Governance Code, as well as the draft Good Governance Code of the Portuguese Institute for Corporate Governance, after a in-depth internal and external analysis and discussion of the content of the same;
- Appraisal, discussion and comments on the Executive Committee’s proposals to revise the PT Group’s Code of Ethics and revise the internal regulation on Related-Party Transactions, in order to update and reinforce the PT Group’s internal rules on these fields;
- Preparation of a communication to be addressed to the Board of Directors on the level of compliance by the Company with national and international rules, recommendations and best practices applicable to corporate structure and governance and principles and practices of conduct;
- Assessment of the governance practices of the Board of Directors;
- Appraisal of the draft governance report of the Company for the 2009 financial year;
- Preparation of the self-evaluation report, including the evaluation of the Committee’s internal operating rules.

### Structures Supporting the Executive Committee

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

#### Disclosure Committee

##### Assignments

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 releases, reports and accounts (annual, interim and quarterly), 20-F Forms, notices to the CMVM 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

### Assignments

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 advises, 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

### Assignments

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 disseminate this information 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, evaluating and approving projects that these companies may develop in this area and 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 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 evaluate, approve and support implementation initiatives and plans that subsidiaries may define in this area;
- To develop, promote and supervise projects and actions as required for the proposed goals;
- To identify, define and control the best teams to carry out such projects;
- To guarantee internal and external communication by reinforcing the performance of the PT Group as a sustainable company and making it recognized as such;
- To control and evaluate the action plan as established and incorporated in the sustainability strategy.

## 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 2009 financial year is available to shareholders on the Company's website, together with the financial statements, in compliance with CMVM 2007 Recommendations no.s II.4.2 and II.4.3.

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

As a company listed on the Euronext Lisbon and on the New York Stock Exchange, therefore subject to high corporate governance requirements acting in a globalization and strong corporate dynamism context, the PT Group has since long ago strongly committed itself to the existence of an actual Internal Control Environment, notably in the areas related to the preparation and disclosure of financial information.

The existence of the above Internal Control Environment is ensured by the implementation of an Internal Control System, which includes Controls for Financial Reporting and the Risk Management System, served by a full engagement and commitment of the Executive Committee translated into the involvement of all management teams and making available of all means required for actual implementation.

The Internal Control System, in line with the best international practices and the provisions of the Sarbanes-Oxley Act, is implemented in all relevant companies of the PT Group, and contemplates a set of procedures related to the execution, supervision, monitoring and continuous improvement of business processes for financial reporting.

The implementation of the Internal Control System for preparation and disclosure of financial information in the PT Group is ensured by a permanent allocation of resources, notably through Internal Control, Risk Management and Corporate Internal Auditing Teams, and the definition of its goals, its supervision, effectiveness evaluation and continuous improvement in the activities carried out are in charge of the Chief Executive Office and the Executive Director with financial functions. The Audit Committee of the PT Group has also played a predominant role as regards the evaluation of the implementation process of the Internal Control System for financial reporting. Furthermore, the Internal Control System has been certified by the External Auditors since 2006 pursuant to the Sarbanes-Oxley rules, with no material weakness.

### Financial Reporting Controls

The Internal Control System implemented at PT was based on an acknowledged international model - COSO <sup>(4)</sup>, 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 <sup>(5)</sup> requirements, goals were identified as required to ensure that any processes, systems and organization having an impact on the steps conducive to the financial reporting have appropriate operational controls.

The responsibility of the Internal Control Unit 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. In this way, other than the legal obligations and tools as appropriate to identify financial risks, this Unit makes use of any information collected from the Risk Management System in order to identify and improve processes that are relevant to financial reporting.

The identification, design and updating 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.

In the pursuance of the goals of promoting and implementing an 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.

As concerns risk fraud, the SOX <sup>(6)</sup> rules are very specific to the extent that they require a particular assessment, monitoring and documentation. In this way, PT has identified and implemented controls as required to appropriately and systematically reduce identified risk factors, thus minimizing, inter alia, the qualitative and quantitative impact of fraud risk.

The assessment of the effectiveness of Internal Controls for financial reporting is ensured by the PT Group's Corporate Internal Audit, and additionally, as mentioned above, an assessment by the external auditor is procured.

### Risk Management System

As mentioned above, the PT Group has determined, as its priority commitment, to implement evaluation and management mechanisms for the risks affecting its businesses, based on an integrated transversal management model, and so ensuring the implementation of good Corporate Governance practices and transparency in the communication to the market and shareholders.

The PT Group has a Risk Management Team, whose mission consists in carrying out a permanent evaluation of the risk management procedures instituted and making any improvements and adjustments as may be identified.

<sup>(4)</sup> Committee of Sponsoring Organizations of the Treadway Commission

<sup>(5)</sup> Securities and Exchange Commission

<sup>(6)</sup> Sarbanes-Oxley Act, of 2002

PT has been investing in implementing a Risk Management System based on an internationally acknowledged model – COSO II, by using the following methodology:



**RISK EVALUATION** - During a first stage, internal and external risks that might affect in a materially relevant way the pursuance of the PT Group's strategic goals are identified and prioritized with the management team of the PT Group, including: (i) Customer growth; (ii) Increase in the revenue originated in international markets; (iii) Leadership in all market segments and geographies; (iv) Superior performance at shareholder return, operational and financial level; and (v) Reference to the corporate sustainability level of the countries where the PT Group operates.

**RISK DIAGNOSIS** - Then workshops are held with those responsible for the management of each risk, in order to identify risk factors and events that might affect the PT Group's operations and activities, as well as control procedures and mechanisms. Additionally, the impact and probability of occurrence of each risk factor are measured, and according to the level of exposure or residual risk the need for a response to the risk is assessed (eliminate, reduce, transfer or accept). During 2009, 32 workshops were developed with those responsible for risk management, where 213 risk factors associated to relevant risks were identified.

**IMPLEMENTATION AND MONITORING** – This consists in a follow-up stage in connection with the risk mitigation actions as defined during the previous stage; and in monitoring the evolution of the level of exposure to critical risks and identification of new risk factors. This stage contemplates the adoption of internal information and communication mechanisms on the various components of the system and risk warnings.

**DISCLOSURE** – I.e. using the results and information generated by the Risk Management System to convey to the market and shareholders any critical risk factors that might affect the PT Group's operations and activities.

It should also be mentioned that the whole process is followed up and supervised by the Audit Committee, a supervisory body composed of non-executive members of the Board of Directors.

A summary of the main risks to which the Company is subject is shown in Chapter II.9.

## 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.

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 granted 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://www.telecom.pt/NR/rdonlyres/67EC0B7D-5B4B-49DA-B5E0-87B32C5D3B22/1411230/Regulamento\\_Comisso\\_de\\_Auditoria\\_PT.pdf](http://www.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, either separately or with the Executive Committee, the Corporate Internal Audit Department or the Company's External Auditors. Its members may 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 the annual evaluation of the performance of the members of the Executive Committee.

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

The operation regulations of the Evaluation Committee and Corporate Governance Committee are available for consultation on the PT website.

### 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 regulations and CMVM and NYSE recommendations, 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 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

As an economic group that carries out its business in several business areas, the PT Group is exposed to various risks, the following being the main risk factors:

**Regulation:** The PT Group is subject to the risk of regulatory change or actions of national, international or European Union regulatory entities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner. The Corporate Regulation Office is in charge of the management of the regulation risk, and must be up to date on new business regulations applicable to the sector with an impact on the PT Group as issued by national and international entities.

**Competition:** Potential reduction in the wireline service revenues as a result of the progressive effect of wirelinemobile replacement, as well as potential reduction in the PT Group's revenues by virtue of 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 and service quality, (iv) increase in productivity and cost reduction, and (v) re-configuration of the value chain from the customer's point of view.

**Technological evolution:** In view of historical quick technological changes, the PT Group is subject to the risk of failing to leverage technological advances and developments in its business model in order to obtain or maintain competitive advantages. The PT Group holds PT Inovação, a company targeted to implement the technological development of the Group's businesses at applied research, engineering services and development of innovating solutions and services levels, both in the domestic and international market.

**Network infrastructure management:** The capacity and availability of network infrastructures are essential for the PT Group to ensure its continued critical operations in its customer service provision within high quality parameters with a view not only to customer satisfaction but also in compliance with regulatory requirements. Thus, the PT Group has strongly emphasized the management of this risk, not only at infrastructure availability level, but also in the increase of such 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 breakdown and incidents. Within this scope, preventive maintenance and/or risk transfer to insurance companies actions are carried out.

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

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

**Exchange rate exposure:** Portugal Telecom holds financial investments in foreign countries which currency is not the euro, including Brazil and several 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. Portugal Telecom does not have a hedging policy regarding the financial investment amount; however, the Executive Committee is considering the execution of cash flow hedging of the dividends or other capital income between the time of allocation and actual receipt.

**Strategic partnerships:** The growth strategy at international level is based on a combination of alliances, joint ventures and partnerships that may affect in a favourable way 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 reinforcing existing opportunities.

**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 serious punitive damages.

**Talent retention:** The Company's ability to retain and obtain 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 Corporate Human Assets Office, which identifies key constituents of the PT Group in order to subsequently implement retention strategies as appropriate to the segments as 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**

Currently, PT has no policy on rotation of functions within the Board of Directors. Taking into account that a new CMVM 2010 Recommendation was adopted on this matter – and to be considered on the governance report for 2010 –, the relevance of adopting such policy may be analysed during the 2010 financial year.

Additionally, CMVM Recommendation no. II.2.5, which provides for the management body to promote the rotation of a member of the financial function upon termination of each two terms of office, does not apply to PT as director Luís Pacheco de Melo has been carrying out duties of Chief Financial Officer since 2006, i.e. he is now serving his second term of office.

### **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 2009 financial year, 14 meetings of the Board of Directors and 13 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 2009 financial year, 42 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 2009 the Board of Directors includes 9 independent non-executive directors, which corresponds to more than one-fourth of the total number of members pursuant to the provisions of CMVM 2007 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) would comply with all incompatibility rules provided for under article 414A-1 of the Portuguese Companies Code, if the same were applicable to them, 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 2009, the Audit Committee complies with the provisions of article 414-6 of the Portuguese Companies Code, since all its members are independent pursuant to paragraph 5 of that same article.

In this regard, it should be mentioned that, should the CMVM understand that pursuant to its new CMVM 2010 Recommendation no. II.1.2.3., 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 2009 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 non-executive directors and its Chairman holds the qualifications required to carry out such duties. Therefore, the Audit Committee complies with the provisions of CMVM 2007 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**

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, SGPS SA, other than the members of its Audit Committee, approved on 31 January 2008, were taken into consideration in the qualification of director independence on the table above.

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 the 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 no. 4,08.

Additionally, where a member of the Audit Committee is or should be aware that a subsequent change regarding the independence, incompatibility and 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.

## 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 seven non-executive directors among its eight members (including, other than the Chairman of the Audit Committee, the Chief Executive Officer), and it is chaired by the Chairman of the Board of Directors, who is a non-executive director.

In this way, any interference of executive directors in the selection of non-executive director candidates is limited.

## 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 2009 financial year, which report was approved at the meeting of such members held on 3 March 2009 and is disclosed on the annual management report in compliance with CMVM 2007 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**

### **II.20. TO 11.23.**

The information as provided for this chapters by CMVM Regulation n.º 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 2007 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, as well as 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.

### **II.25. TO 11.28.**

The information as provided for this chapters by CMVM Regulation n.º 1/2010 does not apply to PT, taking into account that the Company has adopted an Anglo-Saxon governance model.

### **II.29. COMPANY REMUNERATION POLICY**

The remuneration policy applicable to the PT Group's officers (in the meaning of article 248B-3 of the Portuguese Securities Code), other than those incorporating the management and supervisory bodies, is described in the declaration on this matter to be submitted by the Board of Directors to the annual General Meeting of Shareholders to be held on 16 April 2010, in compliance with the part concerning this matter of CMVM 2007 Recommendation no. II.1.5.2. Such declaration is attached hereto as Appendix IV.

A description of the remuneration policy for the PT Group's officers, other than those incorporating the management or supervisory bodies, in a text incorporated in the Report and account for the relevant financial year, was also submitted to the annual General Meeting held on 27 March 2009.

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 duties assigned, 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.

### 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 on 16 April 2010, pursuant to article 2-1 of Law no. 28/2009 of 19 June 2009 and in compliance with the part concerning this matter of CMVM 2007 Recommendation no. II.1.5.2. Such declaration is reproduced in Appendix V hereto.

At the annual General Meeting of Shareholders dated 27 March 2009, a description of the directors' remuneration policy and of its implementation during the 2008 financial year was also submitted to the shareholders in a text incorporated in the corporate governance report for such year.

### 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, 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, are shown hereinafter:

**BOARD OF DIRECTORS IN OFFICE FROM 1 JANUARY 2009 TO 26 MARCH 2009**

	2009 YEAR			COMMITTEES AS OF 26 MARCH 2009			
	Fixed	Variable FY 2008	Total	Notes	Audit	Governance	Evaluation
<b>Chairman of the Board of Directors</b>							
Henrique Granadeiro	165,485	-	165,485				Chairman
<b>Executive Committee</b>							
Zeinal Bava	165,485	794,236	959,721				Member
Luis Pacheco de Melo	134,005	555,965	689,970				
António Caria	115,840	448,685	564,525				
Rui Pedro Soares	134,005	448,685	582,690				
	<b>549,334</b>	<b>2,247,571</b>	<b>2,796,905</b>				
<b>Non-Executive Board Members</b>							
<b>Audit Committee</b>							
João de Mello Franco	58,158	-	58,158		Chairman	Chairman	Member
José Xavier de Basto	27,123	-	27,123				Member
Thomaz Paes de Vasconcellos	54,226	-	54,226				Member
	<b>139,507</b>	<b>-</b>	<b>139,507</b>				
<b>Other Non-Executive Board Members</b>							
José Maria Alvarez-Pallete	9,441	-	9,441				
Franquelim Alves	26,241	-	26,241				Member
Francisco Bandeira	-	-	-	(a)			
Fernando Soares Carneiro	21,229	-	21,229				Member
Luis Azevedo Coutinho	13,551	-	13,551				
Santiago Fernandez Valbuena	9,441	-	9,441				
Joaquim Goes	18,282	-	18,282			Member	Member
Gerald S. McGowan	9,441	-	9,441				
Rafael Mora Funes	18,282	-	18,282			Member	Member
Amílcar de Morais Pires	9,441	-	9,441				
Francisco Soares	18,282	-	18,282			Member	
Jorge Tomé	-	-	-	(a)		Member	Member
Nuno de Almeida e Vasconcellos	9,441	-	9,441				
	<b>163,072</b>	<b>-</b>	<b>163,072</b>				
	<b>1,017,399</b>	<b>2,247,571</b>	<b>3,264,970</b>				

(a) Non-executive directors that renounced to their remuneration due to incompatibility with other professional duties.

The annual variable paid in the 2009 financial year set forth above refers to the performance of the executive directors during the financial year ended on 31 December 2008, thus regarding the 2006-2008 term of office.

## BOARD OF DIRECTORS IN OFFICE AFTER 27 MARCH 2009

	FIXED	COMMITTEES AS OF 31 DECEMBER 2009		
		Notes	Audit	Governance
<b>Chairman of the Board of Directors</b>				
Henrique Granadeiro	485,423			Chairman
<b>Executive Committee</b>				
Zeinal Bava	546,101			Member
Luis Pacheco de Melo	364,105			
António Caria	364,105			
Rui Pedro Soares	364,105			
Manuel Rosa da Silva	364,105			
Fernando Soares Carneiro	364,105			
Shakhaf Wine	364,105	(a)		
	<b>2,730,730</b>			
<b>Non-Executive Board Members</b>				
<b>Audit Committee</b>				
João de Mello Franco	213,246		Chairman	Member
José Xavier de Basto	99,451		Member	
Mário João de Matos Gomes	137,504		Member	
	<b>450,201</b>			
<b>Other Non-Executive Board Members</b>				
José Maria Alvarez-Pallete	34,617			
Francisco Bandeira	-	(b)		
Santiago Fernandez Valbuena	34,617			
Joaquim Goes	67,034		Member	Member
Gerald S. McGowan	34,617			
Rafael Mora Funes	67,034			Member
Maria Helena Nazaré	-	(b)		
Amílcar de Moraes Pires	34,617			
António Palma Ramalho	63,849		Member	
Francisco Soares	103,851		Member	Member
Jorge Tomé	-	(b)	Member	Member
Paulo Varela	63,849		Member	
Milton Vargas	32,972			
Nuno de Almeida e Vasconcellos	103,851		Chairman	
	<b>640,907</b>			
	<b>4,307,261</b>			

(a) Remuneration paid by and expensed by a subsidiary of the Company.

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

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 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.

As described in the declaration on the remuneration policy for executive directors in force during the 2006-2008 term of office submitted to the 2009 annual General Meeting of Shareholders, and in accordance with the best practices and with the CMVM's and the European Commission's recommendations on this matter, in 2006, a three-year multi-annual variable remuneration component was inserted in the remuneration system for executive directors for the purpose of ensuring the Company's sustainability, as well as its ability to achieve certain strategic goals of the Group. Towards this end, the determined multi-annual variable remuneration, made on an annual basis and accruing all along such term of office, was to be paid at the end of said term of office if the weighed average of all indicators for the term of office were equal to or in excess of 85% of the established goals. In the event the result of the evaluation of the multi-annual indicators failed to be, at least, in excess of 85% of the planned targets, any amounts accrued during the preceding years would be forfeited, and no payment of a multi-annual variable would be made.

**In accordance with the said policy, the objective criteria for this annual accruing calculation, as approved by the Compensation Committee in December 2006, were as follows:**

- Evolution of the return on capital employed (ROCE) of the PT Group vs. the ROCE of group 2 of the DJ Stoxx Telecom for that same period;
- Net result growth and EPS for that same period;
- PT TSR (total shareholder return) ratio vs. the TSR ratio of the abovementioned comparison group for that same period;
- Evolution of the PT SGPS Sustainability Rate as a function of the DJSI method;
- Evolution of PT SGPS image, taking into consideration the growth of the customer and employee satisfaction rate;
- Compliance with strategic targets.

Following the 2009 annual General Meeting of Shareholders, which approved the financial statements for the year 2008, and within the framework of the evaluation of the performance of the members of the Executive Committee by the Evaluation Committee, it was established that all quantitative and qualitative goals as defined at the beginning of the 2006-2008 term of office had been achieved or exceeded as to the accrual during such period and individually in each year of such term of office.

In particular, it should be noted that PT TSR (an indicator measuring the total shareholder return taking into consideration the market price valuation, as well as dividends payment) for the period 2006-2008 was 608 basis points higher than the one of group 2 of the DJ Stoxx Telecom.

During the 2006-2008 period, PT implemented a shareholder remuneration package that included (1) the payment of a dividend per share of 0.475 Euros in 2006 and 2007 and 0.575 Euros in 2008, in a total amount of 1,576 million Euros; (2) the spin-off of PT Multimédia, through the allotment to PT shareholders of 180.6 million PT Multimédia shares at a price of 9.18 Euros, corresponding to 1,658 million Euros and (3) the buyback of 2.1 billion Euros in own shares, through the acquisition and subsequent cancellation of 232.3 million own shares. In 2009, PT paid a dividend of 0.575 Euros per share, in respect of 2008 financial year, corresponding to 504 million Euros.

In this way, taking into account the objective calculations associated to the remuneration system approved in 2006, the Compensation Committee fixed the multi-annual variable remuneration component for the 2006-2008 term of office, which was paid during the 2009 financial year, to the directors who commenced the term of office in the Executive Committee and concluded the same on 26 March 2009, as follows:

<b>EXECUTIVE COMMITTEE - MULTI-ANNUAL VARIABLE REMUNERATION</b>	
Henrique Granadeiro	1,019,271
Zeinal Bava	1,019,271
Luis Pacheco de Melo	586,853
António Caria	586,853
Rui Pedro Soares	586,853
	<b>3,799,101</b>

The amounts paid to directors in 2009 as multi-annual variable remuneration with respect to the 2006-2008 term of office, were recognized for accounting purposes in the financial years to which they concern, as follows:

<b>EXECUTIVE COMMITTEE - MULTI-ANNUAL VARIABLE REMUNERATION</b>	
2006	1,295,088
2007	1,142,950
2008	1,361,063
	<b>3,799,101</b>



During the 2009 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).

The Executive Directors fixed annual compensation for the term of office 2009 to 2010 was reduced by 10% when comparing to the previous term of office, as disclosed in Appendix V to this report.

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 2009.

### **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 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, as well as on the way 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 fixed and a variable constituent, where the latter (i) is due only if an average of goal achievement of 85% is reached; and (ii) as to the annual variable remuneration, it may amount to 90% of the fixed remuneration, and as to the multi-annual variable remuneration, it may amount to 70% of the fixed remuneration if the goals as pre-determined for each situation are achieved (goals for such annual remuneration are established at the beginning of each year, and those for the multi-annual remuneration are established at the beginning of the term of office), as results from the application of the criteria and parameters described under the remuneration policy attached hereto as Appendix V.

Following the determination of the annual variable remuneration according to this method, the Compensation Committee may increase or reduce the variable remuneration of the Chief Executive Officer and all the other members, 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 annual variable remuneration shall not exceed the fixed remuneration in more than 110%, and the multi-annual remuneration shall not exceed the fixed remuneration in more than 88%.

**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, the determination and payment of the annual variable remuneration for the 2009 financial year will be made by the Compensation Committee following approval of the year's accounts at the annual General Meeting of Shareholders to be held on 16 April 2010.

Similarly, and also as referred to under the remuneration policy, the multi-annual variable remuneration depends on the achievement of the goals defined for the term of office, and is determined and paid only upon approval of the results for the last financial year of the term of office.

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

As best described under the remuneration policy attached hereto as Appendix V, the determination of the annual variable remuneration is made on the basis of a percentage of the annual fixed remuneration calculated by using the weighed average of the level of achievement of certain indicators. This will be due if such average achieves 85% of the goals established and if the company keeps its "investment grade" qualification at the end of each year (unless the loss of such qualification results from a strategic decision of the Board of Directors).

Additionally, the determination of the multi-annual variable remuneration is calculated, on an annual and accrued basis, all along the term of office, and paid at the end of the same to the members of the Executive Committee who remain in PT SGPS at the end of the term of office, if the weighed average of all indicators for such term of office achieves 85% of the goals established. If, during any financial year, the amount equals zero, any amounts obtained during previous financial years will not be forfeited, provided, at the end of the term of office, the result of the evaluation of multi-annual indicators exceeds the planned targets in 85% at least; otherwise the accrued amounts will be forfeited.

**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.

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

During the 2009 financial year, no compensation was paid or became due to former executive directors upon in connection with termination of their office during the financial year.

Nevertheless, on 31 December 2009, it was due the payment in respect of the termination of office of João Pedro Baptista in the 2008 financial year, corresponding to an amount of 560,000 Euros.

**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.

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

During the 2009 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 director is covered by any complementary pension or early retirement system for directors.

However, one of the directors who has performed duties up to the election of new corporate bodies on 27 March 2009 was covered by the Retirement Benefit Plan sponsored by PT Comunicações, which includes hired by PT until 1994, or as to the former Marconi company, until 1998. See note 9 of the Appendix to the consolidated financial statements set out in the report and accounts.

**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 2009 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.**

No mechanisms are provided for in PT preventing executive directors from executing agreements that might put into question the reason for a variable remuneration. However, taking into account the nature of the criteria defined by the Compensation Committee for determining the variable remuneration, the possibility of coverage of the remuneration variation risk is limited.

## **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 tolerated any kind of retaliation against those that make the said communications.

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. SPECIAL COMMITTEES

PT has three special 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 e 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 2009 financial year, the Evaluation Committee held nine meetings, the Corporate Governance Committee held six meetings, the Disclosure Committee held five meetings, the Consultive Council held three meetings and the Sustainability Committee held one meeting.

### 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.

### 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 Board 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 2009 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 resorted to the services of companies hired by PT for the provisions of other services, and so such companies are current consultants to the Company.

Taking into account that a new CMVM Recommendation, published in January 2010, was adopted on this matter – to be considered in the governance report for 2010 – its pertinence and fitness for PT's governance structure in this field may eventually be examined during the 2010 financial year.

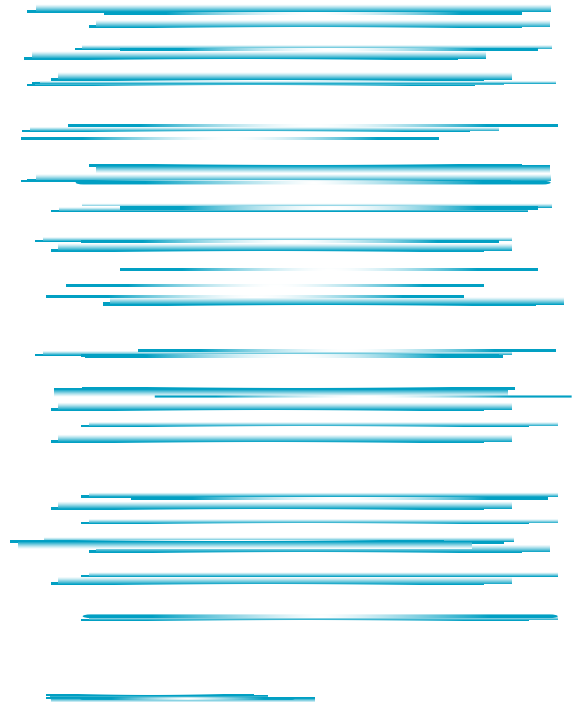
Furthermore, it should be stressed that the Evaluation Committee may hire, as provided for under its regulation, independent consultants, auditors, legal assistants or other experts to provide services and assistance as required for the fulfilment of its powers and duties.





# 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:

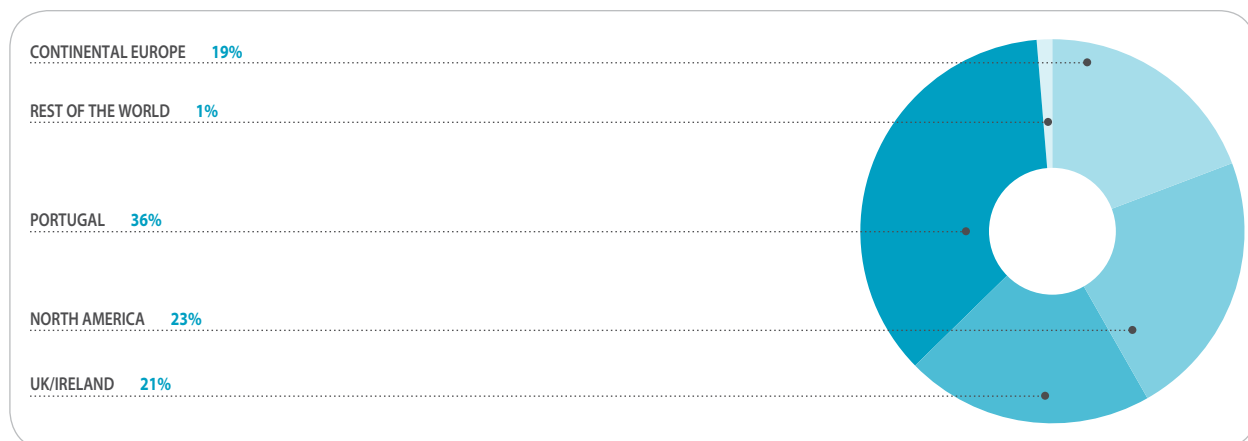
- Authorization for the acquisition of ordinary shares representing more than 10% of the share capital by shareholders that directly or indirectly carry out a business competing with that of the companies in a control relationship with PT;
- Amendments to the bylaws and share capital increases, as well 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 of such securities 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
17/Dec/08	Telefónica	89,651,250	10.00%	10.00%
31/Dec/08	Brandes Investments Partners	84,975,020	9.48%	7.52%
31/Dec/09	Espirito Santo Group	71,660,806	7.99%	7.99%
31/Dec/09	Caixa Geral de Depósitos Group	65,410,185	7.30%	7.30%
31/Dec/09	Ongoing Strategy Investments	60,404,969	6.74%	6.74%
15/Dec/08	Barclays Group (1)	23,924,243	2.54%	2.54%
05/Jun/07	Visabeira Group	22,667,473	2.01%	2.01%
07/Dec/09	BlackRock Inc.	21,025,118	2.35%	2.35%
04/Apr/08	Controlinveste Comunicações (2)	20,421,247	2.17%	2.17%
09/Jun/09	Norges Bank	17,991,955	2.01%	2.01%

(1) PT further disclosed, on 19 January 2010, that the Barclays Plc held less than 2% of the voting rights corresponding to the share capital of PT. (2) PT further disclosed, on 3 February 2010, that (i) on 27 January 2010, Controlinvest e Comunicações, SGPS, SA, within a share capital increase through contributions in kind, transferred the ownership of 20,419,325 PT shares corresponding to 2.28% of PT's share capital to Controlinvest e International S.A.R.L.; and (ii) on 28 January 2010, Controlinveste International S.A.R.L., sold, through a transaction executed over the counter, to Controlinvest e Finance International SA, 20,419,325 PT shares representing 2.28% of PT's share capital.

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 inherent 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 TRASFER 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.

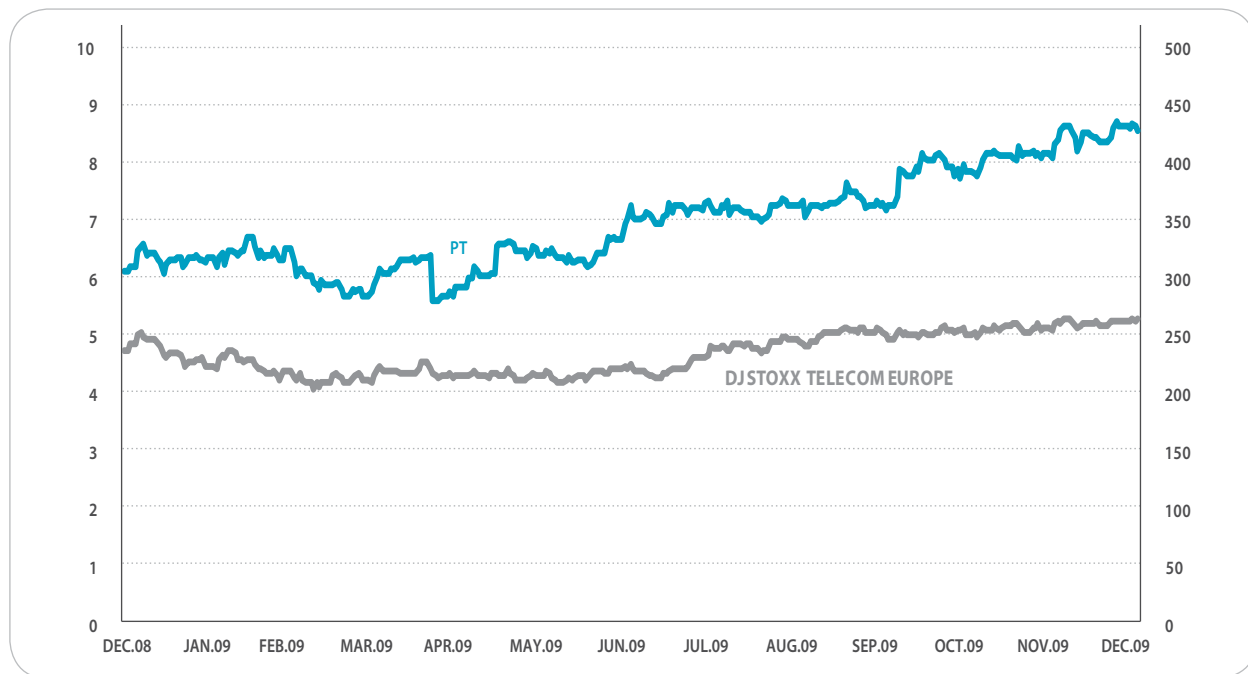
In any case, no resolutions on an amendment to the Bylaws may be approved against the votes of the majority of class A shares, as referred to in Chapter III.1. hereof.

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 RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES**

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

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



#### MOST RELEVANT FACTS ANNOUNCED DURING THE 2009 FINANCIAL YEAR

Agenda of the Annual General Meeting of Shareholders – 18 February	Dividend proposal for 2009-2011 – 14 May
Annual results for 2008 – 18 February	PT proposes to cover one million homes with fibre by the end of 2009 – 14 May
Notice – Annual General Meeting of Shareholders of 27 March 2009 – 20 February	Results for 1 <sup>st</sup> quarter 2009 – 14 May
Proposal for an amendment to the bylaws – 20 February	Approval of Vivo corporate reorganization – 29 May
Proposal as to the election of corporate bodies for the 2009/2011 term of office – 25 February	Portugal Telecom informs on recent news - 23 June
Proposal for a corporate reorganization in Vivo – 23 March	Portugal Telecom informs of news on Oi - 24 June
Annual General Meeting of Shareholders in Portugal Telecom – 27 March	Results for 1 <sup>st</sup> half-year 2009 – 06 August
Appointment of the Executive Committee and CEO – 27 March	Sale of holding in Méditel – 01 September
Payment of dividend for the 2008 financial year - 06 April	Notice of decision by Anti-Trust Authority - 02 September
Filing of the Annual Report – Form 20-F – 08 April	Meo exceeds 500 thousand customers – 21 October
S&P risk rating - 21 April	Eurobond issue – 26 October
Eurobond issue – 23 April	Results for the first nine months 2009 – 17 November

### 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 of the Group, 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, having PT acquired and cancelled a total of 232,344,000 own shares within the framework of such programme (the last shares acquired have been 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 the 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 ending 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.

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.

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

- **2008** – 0.575 Euros
- **2007** – 0.575 Euros
- **2006** – 0.475 Euros
- **2005** – 0.475 Euros
- **2004** – 0.350 Euros
- **2003** – 0.220 Euros

The Board of Directors will submit to the annual General Meeting of Shareholders a proposal for allocation of dividend to the shareholders in the amount of 0.575 Euros per share for the 2009 financial year <sup>(7)</sup>.

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

During the 2009 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 2009.

<sup>(7)</sup>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 2009.

### **III.13. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING**

In December 2009, the Regulation on related party transactions was subject to some changes essentially aimed at adjusting it to the modifications made to IAS 24 and adopting the market best practices in this matter, in anticipation of the recommendation eventually issued by the CMVM on 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 value per entity of which is in excess of Euro 100,000 (one hundred thousand euros), 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 amount per party of which exceeds Euro 1,000,000 (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**

Taking into account the abovementioned Regulation was only approved by the Board of Directors in December 2009, no transactions with related parties were submitted to the prior opinion of the Audit Committee during the 2009 financial year.

### **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 2009, 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.

Overall, PT held, in 2009, over 235 meetings with analysts and investors. Additionally, PT held, on a regular basis, meetings and conference calls with investors and analysts at the company's registered office.

The two road shows that took place in Europe and the United States should be highlighted. The first one was held in June in Europe, and the other one, in November in Europe and the US, after disclosure of the results for the first nine months of the year.

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:

INVESTOR RELATIONS OFFICE	
<b>Nuno Vieira</b>	
Telephone:	+351.21.500.1701
Fax:	+351.21.500.0800
E-mail:	nuno.t.vieira@telecom.pt
Address:	Av. Fontes Pereira de Melo, 40-9º, 1069-300 Lisboa – Portugal
Company Switchboard:	+351.21.500.2000
Websites:	<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 on PT's website, in a clearly identifiable and updated manner, 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 the CMVM and the market;
- Duties of and access means to the Investor Relations Office as described above;
- For a period of five years, the annual, interim and quarterly financial statements;
- A six-month 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;
- Proposals to be submitted to discussion and voting at the General Meeting of Shareholders, at least 15 days in advance of the meeting date;
- Notices of the General Meetings of Shareholders, at least 30 days in advance of the meeting date.

**III.17. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE**

During the 2009 financial year, the annual remuneration paid to the Company's External Auditors, Deloitte & Associados, SROC, S.A. ("External Auditors") and other companies in the same international network as Deloitte was 2,417,050 Euros. Such payment was distributed among the following services:

## REMUNERATION PAID TO THE EXTERNAL AUDITORS

	2008		2009	
	Amount	%	Amount	%
Auditing services	1,262,490	69%	1,667,480	69%
Other reliability guarantee services	213,820	12%	227,532	9%
Tax consultancy services	37,950	2%	181,417	8%
Services other than auditing services	305,450	17%	340,621	14%
<b>Total</b>	<b>1,819,710</b>	<b>100%</b>	<b>2,417,050</b>	<b>100%</b>

In order to safeguard the independence of the External Auditors, the following powers of the Audit Committee were exercised during the 2009 financial year and should be highlighted:

- Appointment and hiring of External Auditors and responsibility for establishing their remuneration, as well as preapproval 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, which amends the articles of association of the Chartered Accountants Professional Association;
- Review of the transparency report, signed by the Auditor and disclosed at its website. This report treats the matters as provided for under article 62A of Decree-Law no. 224/2008, including those in respect of 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;
- Definition of the annual fee limits to be paid regarding the services to be rendered by External Auditors and quarterly review of the contracting levels of such services.

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 the services other than "audit and audit related".

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 2007 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 2009 financial year as positive.

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

Deloitte & Associados, SROC, S.A. provides external auditing services to PT under service agreements with a 3-year duration, since 2002. In 2009, i.e. seven years as from commencement of the above service provision, a new partner was appointed as the person responsible for directing or directly conducting the said services.





# 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>(8)</sup>, as well as the rules approved by the U.S. Securities and Exchange Commission (“SEC”) implementing such provisions <sup>(9)</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 non-audit services 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 e 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>(10)</sup>, which are fully complied with by PT:

<sup>(8)</sup> Available at [http://www.pcaobus.org/About\\_the\\_PCAOB/Sarbanes\\_Oxley\\_Act\\_of\\_2002.pdf](http://www.pcaobus.org/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf).

<sup>(9)</sup> Available at [www.sec.com](http://www.sec.com).

<sup>(10)</sup> 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>(11)</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: <ol style="list-style-type: none"> <li>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</li> <li>Be an affiliated person, as defined in this Rule, of the issuer or any subsidiary thereof.</li> </ol>
Paragraphs (b)(2) and(3)	The audit committee is directly responsible for: <ol style="list-style-type: none"> <li>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;</li> <li>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.</li> </ol>
Paragraphs (b)(4) and (5)	Autonomy in the engagement of advisors and the provision of funding to the audit committee.

<sup>(11)</sup> Available at:

<http://ecfr.gpoaccess.gov/cgi/t/text/textidx?c=ecfr&sid=7adb3549cb4278e99c7427fb32dd5b51&rgn=div8&view=text&node=17:3.0.1.1.1.1.58.84&idno=17>

## 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 accountability 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.

## **Proceedings implemented by PT for compliance with the rules applicable to Officer and Related Party Transactions**

In order to fulfil the legal and regulatory requirements applicable to the Company concerning Officer 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, S.A. (currently, ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A.).

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, the Regulation on transactions with related parties was subject to modifications essentially aimed at adjusting it to the amendment made to IAS 24 and at adopting the best market practices on this matter, in anticipation of the recommendations eventually issued by the CMVM on this matter <sup>(12)</sup>.

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, the execution by the PT Group of any transaction with related parties the value of which is in excess of 100,000 Euros is now subject to prior favourable opinion by the Audit Committee. Furthermore, transactions with shareholders owners of a qualified holding or with special voting rights, with their relatives or with companies in a control or group relationship with the said shareholders or relatives, the amount of which exceeds 1,000,000 Euros are subject to approval by the 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 the agreed terms and conditions.

Transactions with directors either of PT or of its subsidiaries, irrespectively of the amounts involved, are as well subject to the previous approval by the relevant Board of Directors, upon favourable opinion by the respective supervisory corporate 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 are integrated in a consistent and transverse way within the Group and are 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.

<sup>(12)</sup> Please see CMVM Recommendation 2010 IV.1.2

## APPENDIX III

### FUNCTIONS PERFORMED BY MEMBERS OF THE MANAGEMENT BODY IN OTHER COMPANIES

The functions performed by each of the directors in other companies are as follows:

#### **Henrique Granadeiro (Chairman of the Board of Directors)**

**Functions in other PT Group companies:** Chairman of the General Board 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 General Board of COTEC Portugal – Associação Empresarial para a Inovação | Non-Executive Director of Fundação Eugénio de Almeida | Member of the Council of Founders of Fundação Casa da Música | Member of the Board of Directors of Fundação Portugal África | Vice-Chairman of the Board of ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação

#### **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 PT Ventures, SGPS, 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

#### **Luís Pacheco de Melo (Executive Director)**

**Functions in other PT Group companies:** Chairman of the Board of Directors of Portugal Telecom Imobiliária, SA | Director of PT Prestações – Mandatária de Aquisições de Gestão de Bens, SA | Director of Previsão – Sociedade Gestora de Fundos de Pensões, SA | Chairman of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, SA | Director of PT Móveis – Serviços de Telecomunicações, SGPS SA | Director of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, SA | Director of PT Participações, SA | Director of PT Ventures, SGPS SA | Member of the Board of Directors of Vivo Participações, SA | Member of the Board of Directors of Brasilcel | Member of the Board of Directors of Telemig Celular, 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, Lda

**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 Directors of PT Prime Tradecom – Soluções Empresariais de Comércio Electrónico, SA

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



**Rui Pedro Soares (Executive Director)**

**Functions in other PT Group companies:** Chairman of the Board of Directors of PT Centro Corporativo, SA | Director and Chief Executive Officer of Portugal Telecom Imobiliária, SA | Director of Africatel Holdings, BV | Chairman of the Board of Directors of Timor Telecom, SA | Chairman of the Board of Directors of TPT Telecomunicações Públicas de Timor, SA

On 17 February 2010, Executive Director Rui Pedro Soares resigned from office in all the abovementioned companies.

**Functions in other entities:** Director of Tagusparque – Sociedade de Promoção e Desenvolvimento do Parque de Ciência e Tecnologia da Área de Lisboa, SA | Vice-Chairman of AIP – Associação Industrial Portuguesa | Chairman of APAN – Associação Portuguesa de Anunciantes | Member of the Board of Associação Comercial do Porto

**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 Administrador da PT Portugal, SGPS SA | Administrador Executivo da PT Comunicações, SA | Executive Director of TMN – Telecomunicações Móveis Nacionais, SA | Executive Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA | Executive 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

**Fernando Soares Carneiro (Executive Director)**

**Functions in other PT Group companies:** Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA | Chairman of the Board of Directors of PT Prestações – Mandatária de Aquisições e Gestão de Bens, SA

On 22 February 2010, Executive Director Fernando Soares Carneiro resigned from office in all the abovementioned companies.

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

**Shakhaf Wine (Executive Director)**

**Functions in other PT Group companies:** Executive Chairman and Chairman of the Board of Directors of Portugal Telecom Brasil, SA Vice-Chairman of the Board of Directors of Brasicel N.V. | Chairman of the Control Committee of Brasicel N.V. | Vice-Chairman of the Board of Directors of Vivo Participações SA | Chairman of the Board of Directors of Mobitel SA | Chairman of the Board of Directors of PT Multimédia.com Brasil Ltda. | Member of the Board of Directors of Universo Online SA

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

**José María Álvarez-Pallete López (Non-Executive Director)**

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

**Functions in other entities:** Director of Telefónica, SA | Director of Telefónica Datacorp, SAU. | Executive Chairman of the Board of Directors of Telefónica Internacional SAU. | Vice-Chairman of the Board of Directors of Telefónica Móviles México SA de C.V. | Vice-Chairman of the Board of Directors of Telecomunicações do São Paulo SA (Telesp) | Alternate Director of Telefónica Chile, SA (CTC) | Director of Telefónica del Perú SAA. | Director of Colombia Telecomunicaciones SA ESP | Chairman of the Supervisory Board of Brasicel N.V. | Alternate Director of Telefónica Móviles Colombia SA | Director of Telefónica Larga Distancia de Puerto Rico, INC | Alternate Director of Telefónica Móviles Chile, SA | Alternate Director of Telefónica Argentina, SA

**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 | Non-Executive Chairman of Banco Caixa Geral Totta Angola, SA | Chairman of Parbanca, SGPS, SA | Director of Partang, SGPS, SA | Director 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 Millennium BCP, SA, since April 2009 | Member of the Centre of Studies of the Câmara dos Técnicos Oficiais de Contas (CTOC)

**Santiago Fernández Valbuena (Non-Executive Director)**

Functions in other PT Group companies: Not applicable.

Functions in other entities: General Manager for the Financial Matters and Corporate Development of Telefónica, SA | Chairman of the Board of Directors of Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, SA (E.G.F.P.) | Member of the Board of Directors of Grupo Ferrovial, SA | Sole Director of Telefónica Capital, SA | Chairman of the Board of Directors of Seguros de Vida y Pensiones Antares, SA | Chairman of the Board of Directors of Telefónica Finanzas, SAU.

**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 Económico, 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: Principal of University of Aveiro | Vice-President of the European University Association (EUA) 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 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 Morais 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 AVISA, SGPS SA | Director of BES África, SGPS SA

**António Manuel Palma Ramalho (Non-Executive Director)**

Functions in other PT Group companies: Not applicable.

Functions in other entities: Chairman of the Executive Board of Directors of UNICRE – Instituição Financeira de Crédito SA | Vice-Chairman of AIP-CE Associação Industrial Portuguesa – Confederação Empresarial | Independent Non-Executive Director of Soares da Costa, SGPS SA | Director of Visa Europe Ltd

**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 Párpública, 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 | Director 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 | 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, 66 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 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 | Non-Executive Member of the Board of Directors of OPCA – Obras Públicas e Cimento Armado, SA from 2005 to 2007 | Member of the Board of Directors of Espírito Santo Resources from 2005 to 2007 | Chairman of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS SA from 2006 to 2007 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS SA from 2002 to 2006 | Non-Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, in 2001 | Chief Executive Officer of Lusomundo Media, SGPS SA from 2002 to 2004 | Chief Executive Officer of Diário de Notícias from 2002 to 2004 | Chief Executive Officer of Jornal do Fundão from 2002 to 2004 | Chief Executive Officer of Jornal de Notícias from 2002 to 2004 | Chief Executive Officer of TSF from 2002 to 2004 | Chief Executive Officer of Açoreano Oriental from 2002 to 2004 | Chief Executive Officer of DN da Madeira from 2002 to 2004 | Chairman of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2000 to 2004 | Member of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2004 to 2007 | Member of the Board of Directors of Parfil SGPS SA from 2001 to 2004 | Chairman of the Board of Directors of Margrimar - Mármore e Granitos SA from 1999 to 2005 | Chairman of the Board of Directors of Marmetal – Mármore e Materiais de Construção, SA from 1999 to 2005 | Member of the Board of Directors of Controljournal, SGPS SA from 1990 to 2001 | Member of the Board of Directors of Sojornal – Sociedade Jornalística e Editorial SA from 1990 to 2001 | Director of Marcepor – Mármore e Cerâmicas de Portugal, SA in 1990 | Chairman of Fundação Eugénio de Almeida from 1989 to 1992 | Chairman of IFADAP – Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pesca from 1987 to 1990 | Managing Director of Fundação Eugénio de Almeida from 1981 to 1987 | Member of the Board of Directors of M.N. Tiago, Construções SA during 1981 | Member of the Board of Directors of Standard Eléctrica during 1981 | Portuguese Ambassador to the OECD from 1979 to 1981 | Head of the Civil House of the President of the Republic of Portugal from 1976 to 1979 | Graduate in Corporate Organization and Business Administration by the Instituto Universitário de Évora (Sociology Department).

### **Zeinal Bava (Chief Executive Officer)**

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. Appointed Chief Executive Officer of Portugal Telecom, SGPS SA since March 2008 | 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 | Member of the Board of Directors of PT Rede Fixa, SGPS SA from March 2006 to June 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 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, 43 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 | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA from October 2007 to March 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 November 2009 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, 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 Espanha, 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, 49 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 in IBM, Global Services 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).

**Rui Pedro Soares (Executive Director)**

Portuguese, 37 years old.

Elected for the first time in 2006. Former term of office ended on 31 December 2008 and was re-elected in 2009 | Chairman of the Board of Directors of PT Imobiliária, SA, from 2006 to 2007 | Executive Director of PT Compras – Serviços de Consultoria e Negociação, SA from 2005 to 2006 | Consultant to the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, in the Business Intelligence, Evaluation of Service Quality, Safety and Management of Real Estate, from 2001 to 2004 | Executive in Business Intelligence and Competitive Analysis at Banco Cetelem, Grupo Banque National de Paris/Paribas, from 2000 to 2001 | Assistant of the Socialist Group at the European Parliament from 1998 to 2000 | Graduate in Marketing Management by the IPAM - Instituto Português de Administração de Marketing.

**Manuel Rosa da Silva (Executive Director)**

Portuguese, 42 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 Londres | Associate in Investment Banking 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.

**Fernando Soares Carneiro (Executive Director)**

Portuguese, 60 years old.

Elected for the first time in 2006. Former term of office ended on 31 December 2008 and was re-elected in 2009 | Executive Director of Portugal Telecom, SGPS SA since March 2009 | Member of the Board of Directors and of the Executive Committee of REN, SGPS SA until March 30, 2009 | Between 2003 and 2006, economy adviser at the Portuguese Embassy in London and representative of Portugal at the International Organizations of Base Products | Between 2002 and 2003, consultant | Chairman of the Board of Directors of Somincor, Sociedade Mineira de Neves-Corvo, SA from 1998 to 2002 | Chairman of the Board of Directors of EDM – Empresa de Desenvolvimento Mineiro, SA from 1998 to 2002 | Director of the International Copper Association from 1998 to 2002 | Director of the European Bank for Reconstruction and Development from 1993 to 1998 | Director of the World Bank Group from 1989 to 1993 | Graduate in Mining Engineering by the Instituto Superior Técnico, Universidade Técnica de Lisboa.

**Shakhaf Wine (Executive Director)**

Brazilian, 40 years old.

Elected in 2009 | 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 | Director 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 departments of Latin America and Telecommunications Groups of Deutsche Morgan Grenfell between 1993 and 1998 | Interbank exchange trader and dealer of the Brazilian Central Bank at Banco Icatu between 1991 and 1993 | Graduate in Economics by PUC, Pontifícia Universidade Católica, of Rio de Janeiro.

**José María Álvarez-Pallete López (Non-Executive Director)**

Spanish, 46 years old.

Elected for the first time in 2008. Former term of office ended on 31 December 2008 and was re-elected in 2009 | He started his career at Arthur Young Auditors in 1987 and at Benito&Monjardin/Kidder, Peabody & Co. in 1988. In 1995 he joined the Compañía Valenciana de Cementos Portland (Cemex) as head of the Investor Relations department. In 1996 he was promoted to CFO of the company and in 1998 to General Director of Administration and Finance of Cemex Group in Indonesia, Jakarta | In February 1999 he joined Grupo Telefónica as General Director of Finance of Telefónica Internacional, SA General Director of Corporate Finance of Telefónica, SA in September 1999. Director of Cemex Singapura, Telefónica Publicidad e Información, SA, Telefónica de España SA, Telefónica Móviles España, SA, Telefónica O2 Europe, Plc., China Netcom Group Corporation Limited and member of the Supervisory Board of Telefónica O2 Czech Republic a.s. | Graduate in Economics by Complutense University, Madrid. He attended the economics courses at Université Libre, Belgium. Post-Graduate in International Management Program, by the Instituto Panamericano of High-Management of Companies (IPADE). "Advanced Research Certificate from the Accounting, Financial Administration and Economy Department" from Complutense University Madrid.



**Francisco Bandeira (Non-Executive Director)**

Portuguese, 52 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 de 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, 71 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 degree by the University of Coimbra (1960). Complementary Course in Political Economic Sciences (1961).

**Santiago Fernández-Valbuena (Non-Executive Director)**

Spanish, 51 years old.

Elected for the first time in 2008 | Former term of office ended on 31 December 2008 and was re-elected in 2009 | Chief Executive Officer of Fonditel (Pension Fund Management Company), Madrid from 1997 to 2002 | General Manager of Societé Générale Equities Spain, Madrid from 1994 to 1996 | Head of Equity Sales and Research, Beta Capital, Madrid from 1992 to 1994 | Chief Economist and Head of Research, Beta Capital, Madrid from 1989 to 1992 | He has a degree in Economic and Business Administration Sciences by the Complutense University, Madrid, 1980 | PhD in Economics, by Northeastern University Boston, 1984 | Master (MS) in Economic Policy and Planning, by Northeastern University Boston, 1983.

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

Portuguese, 63 years old.

Elected for the first time in 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 Imópolis (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 Office and Vice-Chairman of the Board of Directors of LISAE 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, 43 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 ESAA, Espírito Santo Data, SGPS SA from 1999 to 2009 | 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 of 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 INSA, Fontainebleau.

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

Portuguese, 62 years old.

Elected for the first time in 2009 | Since 1971 and during approximately twelve years following his graduation, he worked in one of the biggest international auditing and management consulting firms (ARTHUR ANDERSEN & CO.), where he coordinated the audit and tax consulting departments | 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 institution, as well as in the telecommunications, insurance, banking and capital markets 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 Programs in respect to the work of auditors and chartered accountants | In the OROC he participated for several years in the Internship and Professional Training Committees, and he 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 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 invitation 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 of OROC | He took part in several trainings either in Portugal or abroad, as a student or as a teacher, in particular during the period he worked for ARTHUR ANDERSEN & CO. | Graduate in Finance by the ISEG (1971).

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

American, 63 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 Georgetown University Law Center (J.D. 1974) and Georgetown University (B.S.B.A. 1968).

### **Rafael Luis Mora Funes (Non-Executive Director)**

Spanish, 44 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 Millennium BCP Group until 2007 | Graduate in Economics and Management by Málaga University.



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

Portuguese, 60 years old.

Elected in 2009 | 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 (from 1999 to 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” (from 1996 to 1999) | Vice-Principal of the UA (from 1991 to 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 the 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 Moraes Pires (Non-Executive Director)**

Portuguese, 48 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 the Universidade Católica Portuguesa.

**António Manuel Palma Ramalho (Non-Executive Director)**

Portuguese, 49 years old.

Elected in 2009 | Chief Executive Officer of CP – Companhia de Caminhos de Ferro Portugueses, E.P. from 2004 to 2006 | In Santander Group: Executive Director of the Group and of Crédito Predial Português from 2000 to 2003 | In Champalimaud Group: Director of Banco Totta & Açores from 1997 to 2000, Crédito Predial Português from 1997 to 2000, Banco Chemical Finance from 1998 to 2000, and Banco Pinto & Sotto Mayor from 1993 to 2000 | Director of Bolsa de Valores de Lisboa (Lisbon stock exchange) and of SIBS – Sociedade Interbancária de Serviços, SA | Member of the Superior Board of Universidade Católica from 1987 to 1989 | Member of the Advisory Committee of Estudos Superiores Financeiros e Fiscais | Graduate in Law by the Universidade Católica Portuguesa | Attended the courses of the master in International Legal Sciences by the Universidade Católica Portuguesa | Post graduate in International Capital Markets by the International Finance Institute, ST. Catherine’s College, Oxford.

**Francisco T. Pereira Soares (Non-Executive Director)**

Portuguese, 60 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, EUA (1979) | Master in Public Administration by Harvard University, John F. Kennedy School of Government, Cambridge Massachusetts, USA (1981).

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

Portuguese, 55 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, 41 years old.

Elected in 2009 | He has always been related to Grupo Visabeira, which he joined in 1992. He lived for some years in Mozambique and Angola, where, 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 November 2009 he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, SA | Graduate in Law by the Faculdade de Direito da Universidade de Coimbra.

**Milton Almicar Silva Vargas (Non-Executive Director)**

Brazilian, 53 years old.

Elected in 2009 | Department Director from December 1997 to March 2000, Executive Director from March 2000 to March 2002 and Executive Vice-Chairman of the Board of Directors of Banco Bradesco, SA from March 2002 to June 2009 | He was also member of the management bodies of the other companies of Grupo Bradesco | Effective member of the Board of Directors of CPM Braxis SA from June 2000 to April 2005 | 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 the Fundo Garantidor de Créditos – FGC, Member of the Board of Directors of the Brazilian Association of Public Companies (ABRASA, 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 the UNIFIEO – Centro Universitário FIEO, Osasco.

**Nuno de Almeida e Vasconcellos (Non-Executive Director)**

Portuguese, 45 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, which is actually fixed each year by PT's Executive Committee, taking into account the evaluation of individual performance for the immediately preceding period and considering 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.

## APPENDIX V

### STATEMENT OF THE COMPENSATION COMMITTEE ON THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF PORTUGAL TELECOM, SGPS, S.A.

Whereas:

1. Following the entry into force of the Law no. 28/2009, of June 19th ("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 the 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 perceived by such members, on an individual and aggregate basis;
3. On its turn, Recommendation II.1.5.2 of the Corporate Governance Code, approved by the Portuguese Securities Exchange Commission (*Comissão do Mercado de Valores Mobiliários* or *CMVM*) in September 2007, to be taken into account for the purposes of preparing the annual corporate governance report related to 2009, recommends the submission of a statement on the remuneration policy of the managing and supervisory bodies to the annual General Shareholders Meeting for its consideration;
4. In light of this context and with 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 a statement on the remuneration policy of the managing and supervisory bodies, including, but not limited to, the contents established in the Law on Remunerations and in Recommendation II.1.5.2 of CMVM, to the approval of the Annual General Shareholders Meeting to be held on April 16th, 2010;
5. As a structure aiming to provide technical support to the Compensation Committee, the Evaluation Committee of the Board of Directors of PT SGPS is responsible for providing and presenting its opinion to the Compensation Committee on the annual statement on the remuneration policy of the managing and supervisory bodies to be submitted by the Compensation Committee to the General Shareholders Meeting;
6. The policy approved by the Compensation Committee in office, on its meeting held on 29 May 2009, 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 which has elected them (i.e., as of March 27th, 2009).

Pursuant to the Law on Remunerations and to Recommendation II.1.5.2 of CMVM, the Compensation Committee of PT SGPS hereby submits to the approval of the annual General Shareholders Meeting the following statement on the remuneration policy of the managing and supervisory bodies made by reference to the financial year ended on December 31st, 2009 and effective as of 27 March, 2009, which includes the following models drawn up and implemented in line with the best national and international practices:

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

The compensation of the 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 being deemed as independent Directors under the terms and for the purposes of article 414(5) of the Portuguese Companies Code. In particular, the Chairman of any internal committee of the Board (who does not also discharge the functions of Chairman of the Board of Directors, of Executive Committee or of Audit Committee), as well as the independent members, who are part of more than one internal committee, receive a supplement corresponding to twice the remuneration of a non-executive member.

Accordingly, this fixed remuneration considers the performance of functions as a member of the supervisory body, in particular, as Chairman or as financial expert member of the Audit Committee, taking into consideration that the discharge of functions in this corporate body implies the compliance with both the Portuguese rules and the mandatory rules applicable to the Company as foreign private issuer with securities admitted to trading in the New York Stock Exchange (“NYSE”), namely 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 the capacity recognized to the Evaluation Committee of the Board of Directors to propose to the Compensation Committee the attribution of a premium to the Chairman of the Board of Directors at the end of the term of office, by virtue of the performance of the Group.

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

## II. Remuneration policy of the 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 the executive Directors is composed of a fixed portion and a variable portion, where this latter: (i) shall only be due if an average of 85% of the goals is achieved; and (ii) in what concerns to the annual variable remuneration, it may go up to 90% of the fixed remuneration and in what respects to pluri-annual variable remuneration, it may go up to 70% of the fixed remuneration, if the pre-established goals for each one of these situations are met (being the goals related to that annual remuneration established in the beginning of each year and those related to the mentioned pluri-annual remuneration established in the beginning of the term of office) in accordance with the parameters and criteria hereby identified, in particular, in section b. below.

### a. Fixed remuneration:

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

In addition, the determination of the fixed component of the remuneration of the executive Directors has taken into account the acceptance of the Chief Executive Officer’s initiative to reduce his own fixed remuneration in 10% to mobilize all Group sectors for the accrued effort that the global crisis context means to the pursuance of PT SGPS’ Strategic Plan, being such reduction applied to all the members of the Executive Committee.

### b. Variable remuneration:

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

- Pursuing and achievement of goals through the quality, work capacity, dedication and business know-how;
- PT SGPS’ incentive and compensation policy shall 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 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 component does neither include share allotment nor stock option plans.

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

Taking in 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 objectives at a Group level.

The determination of the annual variable remuneration to be granted as a result of the performance in 2009 will be 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, being due if such average reaches 85% of the established goals 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 compared with the sector of the DJ Stoxx Telecom Europe, 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;
- Revenues growth delta *vis-à-vis* a group of comparable companies;
- EBITDA growth delta *vis-à-vis* the same group of comparable companies;
- EBITDA growth delta minus CAPEX.

After determining the annual variable remuneration 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 abovementioned annual variable remuneration will not exceed the fixed remuneration in more than 110%.

### **(ii) Pluri-annual variable remuneration**

The determination of the pluri-annual variable remuneration is calculated each year and cumulatively over the term of office and paid at the end of the same to the members of the Executive Committee remaining in PT SGPS at the end of the term of office (this requirement is not mandatory if the member of the Executive Committee is not in PT SGPS by the end of the term of office by any reason not imputable to him) if the weighed average of all indicators in respect to the term of office reaches 85% of the established goals.

This yearly and cumulative calculation is based on 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 of the DJ Stoxx Telecom Europe;
- Dividend per share delta to be adjusted if the Board of Directors amends the dividends policy;
- Earning per share ("EPS") growth delta;
- EBITDA growth delta *vis-à-vis* by reference to the values prescribed in the Strategic Plan;
- Evolution of PT SGPS' sustainability Index according to the DJSI methodology;
- Fulfilment of national and international strategic goals.

The annual calculation methodology of pluri-annual goals was chosen instead of the calculation of the value of the indicators exclusively at end of the term of office in order to make the oversight of the success on the implementation of the company's strategy along the triennium more efficient.

If during any financial year, the amount is equal to zero, the amounts obtained in the previous financial years will not be lost if, at the end of the term of office, the result of the evaluation of pluri-annual indicators is, at least, higher than 85% of the foreseen goals. Otherwise, the accumulated amounts will be lost.

After the determination of the pluri-annual variable remuneration 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 abovementioned annual variable remuneration will not exceed the fixed remuneration in more than 88%.

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

As described above, the annual and pluri-annual variable remuneration of PT SGPS' executive Directors in office in 2009 is subject to their performance, as well as to its sustainability and ability to achieve certain strategic goals of the Group. Thus being envisaged contributing to optimize the long term performance and pursuing Group's strategic goals as well as further aligning management interests with the Company's and its Shareholders' interests.

**III. Remuneration policy of the Chartered Accountant**

During the 2009 financial year, the Company's Chartered Accountant was 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





