



**CORPORATE GOVERNANCE  
REPORT  
2013**



**PORTUGAL TELECOM**







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# CORPORATE GOVERNANCE REPORT 2013

**PORTUGAL TELECOM, SGPS, SA**

Public Company

Share Capital: Euro 26,895,375

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

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1069-300 Lisboa

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

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

# CONTENTS

<b>00 INTRODUCTION</b>	<b>09</b>
PT STRUCTURE	10
<b>PART I</b>	
<b>INFORMATION ON SHAREHOLDER STRUCTURE, ORGANISATION AND CORPORATE GOVERNANCE</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>
<b>I. CAPITAL STRUCTURE</b>	<b>14</b>
1. CAPITAL STRUCTURE	14
2. ANY RESTRICTIONS TO SHARE TRANSFERABILITY, SUCH AS CONSENT CLAUSES FOR DISPOSAL, OR LIMITATIONS TO SHARE OWNERSHIP	14
3. NUMBER OF OWN SHARES, CORRESPONDING CAPITAL PERCENTAGE AND CORRESPONDING VOTING RIGHTS PERCENTAGE	14
4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES	14
5. RENOVATION / REVOCATION OF DEFENSIVE MEASURES, IN PARTICULAR THOSE PROVIDING FOR THE RESTRICTION OF THE NUMBER OF VOTES THAT MAY BE HELD OR EXERCISED BY A SINGLE SHAREHOLDER	15
6. SHAREHOLDERS' AGREEMENTS OF WHICH THE COMPANY IS AWARE AND MIGHT LEAD TO RESTRICTIONS IN THE TRANSFER OF SECURITIES OR VOTING RIGHTS	16
<b>II. PARTICIPATIONS AND BONDS</b>	<b>16</b>
7. OWNERS OF QUALIFIED HOLDINGS, PERCENTAGE OF CAPITAL AND VOTES ATTRIBUTABLE, SOURCE AND CAUSES FOR ATTRIBUTION	16
8. NUMBER OF SHARES AND BONDS HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES	17
9. SPECIAL POWERS OF THE MANAGEMENT BODY, NAMELY AS REGARDS CAPITAL INCREASE RESOLUTIONS	17
10. SIGNIFICANT COMMERCIAL RELATIONSHIPS BETWEEN OWNERS OF QUALIFIED HOLDINGS AND THE COMPANY	17
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>
<b>I. GENERAL MEETING OF SHAREHOLDERS</b>	<b>20</b>
11. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS, COMMENCEMENT AND EXPIRATION OF TERM OF OFFICE	20
12. POSSIBLE LIMITATIONS ON VOTING RIGHTS	21
13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT MAY BE EXERCISED BY A SINGLE SHAREHOLDER OR BY SHAREHOLDERS CONNECTED TO THE FORMER THROUGH ANY OF THE RELATIONSHIPS SET FORTH IN ARTICLE 20,1 OF THE PORTUGUESE SECURITIES CODE	23
14. SHAREHOLDER RESOLUTIONS WHICH, ACCORDING TO THE BYLAWS, CAN ONLY BE ADOPTED WITH QUALIFIED MAJORITY, APART FROM THOSE LEGALLY PROVIDED FOR	23
<b>II. MANAGEMENT AND SUPERVISION</b>	<b>23</b>
15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL	23
16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS	25
17. COMPOSITION OF THE BOARD OF DIRECTORS	26
18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA	28
19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS	29
20. FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS	29

21. DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY	30
MANAGEMENT BODY	30
Board of Directors	30
Executive Committee	30
Powers of the Chairman of the Board of Directors and of the Chief Executive Officer	31
Division of functions within the Executive Committee	32
Disclosure obligations of the Executive Committee	33
SUPERVISORY BODIES	34
Audit Committee	34
Chartered Accountant	35
COMMITTEES AND SUPPORTING STRUCTURES	35
Evaluation Committee	35
Corporate Governance Committee	37
Structures Supporting the Executive Committee	38
22. OPERATING RULES OF THE BOARD OF DIRECTORS	41
23. NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER	41
24. INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS	42
25. PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS	42
26. AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS	42
27. COMMITTEES CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF THEIR OPERATING RULES	43
Evaluation Committee	43
Corporate Governance Committee	44
Operation of the Evaluation Committee and Corporate Governance Committee	44
28. COMPOSITION OF THE EXECUTIVE COMMITTEE	45
29. DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES	45
<b>III. SUPERVISION</b>	<b>46</b>
30. IDENTIFICATION OF THE SUPERVISORY BODY	46
31. COMPOSITION OF THE AUDIT COMMITTEE	46
32. IDENTIFICATION OF THE MEMBERS OF THE AUDIT COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE	46
33. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE AUDIT COMMITTEE	49
34. OPERATING RULES OF THE AUDIT COMMITTEE	49
35. NUMBER OF MEETINGS OF THE AUDIT COMMITTEE AND DEGREE OF ATTENDANCE OF EACH MEMBER	49
36. AVAILABILITY OF EACH MEMBER OF THE AUDIT COMMITTEE AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE AUDIT COMMITTEE	49
37. PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR	50
38. OTHER DUTIES OF THE SUPERVISORY BODIES	50

<b>IV. CHARTERED ACCOUNTANT (REVISOR OFICIAL DE CONTAS - ROC)</b>	<b>50</b>
39. IDENTIFICATION OF THE CHARTERED ACCOUNTANT AND OF ITS REPRESENTING PARTNER	50
40. NUMBER OF YEARS DURING WHICH THE CHARTERED ACCOUNTANT PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP	50
41. OTHER SERVICES RENDERED TO THE COMPANY BY THE CHARTERED ACCOUNTANT	51
<b>V. EXTERNAL AUDITOR</b>	<b>51</b>
42. IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM	51
43. NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP	51
44. POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER	51
45. CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION	52
46. SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSE OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING	53
47. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE	53
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>
<b>I. BYLAWS</b>	<b>56</b>
48. RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY	56
Constitutive quorum for the General Meeting of Shareholders	56
Resolution quorum for the General Meeting of Shareholders	56
<b>II. WHISTLEBLOWING</b>	<b>56</b>
49. WHISTLEBLOWING	56
<b>III. INTERNAL CONTROL AND RISK MANAGEMENT</b>	<b>57</b>
INTERNAL CONTROL SYSTEM	58
INTERNAL CONTROL SYSTEM EVALUATION	60
MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS	62
RISK MANAGEMENT	67
RISK MANAGEMENT PROCEDURE	68
Risk Dictionary	69
Risk Management Methodology	70
Centralised Risk Record	72
<b>IV. INVESTOR SUPPORT</b>	<b>73</b>
56. INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS	73
57. REPRESENTATIVE FOR RELATIONS WITH THE MARKET	74
58. INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS	74
<b>V. WEBSITE</b>	<b>74</b>



<b>04 REMUNERATION</b>	<b>75</b>
<b>I. COMPETENCE FOR DETERMINATION</b>	<b>76</b>
66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE AND COMPANY'S OFFICERS	76
<b>II. COMPENSATION COMMITTEE</b>	<b>76</b>
67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS	76
68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY	77
<b>III. REMUNERATION STRUCTURE</b>	<b>78</b>
69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009	78
70. INFORMATION ON THE HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING	79
71. REFERENCE, IF APPLICABLE, TO THE EXISTENCE OF A VARIABLE COMPONENT OF THE REMUNERATION AND INFORMATION ON THE WAY AS SUCH COMPONENT DEPENDS ON PERFORMANCE EVALUATION	80
72. DEFERMENT OF PAYMENT OF THE VARIABLE COMPONENT OF THE REMUNERATION, MENTIONING THE DEFERMENT PERIOD	80
73. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN SHARES IS BASED; EXECUTIVE DIRECTORS KEEPING ANY SHARES GRANTED THEM IN THE COMPANY; ANY AGREEMENT EXECUTED AS TO SUCH SHARES, NOTABLY HEDGING OR RISK TRANSFER AGREEMENTS, THE LIMIT THEREOF, AND THEIR RELATIONSHIP TO THE AMOUNT OF THE OVERALL ANNUAL REMUNERATION	81
74. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN OPTIONS IS BASED, AND INDICATION OF DEFERMENT PERIOD AND EXERCISE PRICE	81
75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS	81
76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS	81
<b>IV. REMUNERATION DISCLOSURE</b>	<b>82</b>
77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY	82
78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL	83
79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED	83
80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF TERMINATION OF OFFICE DURING THE FINANCIAL YEAR	84
81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY	84
82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS	84
<b>V. AGREEMENTS WITH REMUNERATION IMPLICATIONS</b>	<b>84</b>
83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION	84
84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL	85

<b>VI. SHARE ALLOTMENT OR STOCK OPTION PLANS</b>	<b>85</b>
88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE	
CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES	<b>85</b>
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>
<b>I. CONTROL MECHANISMS AND PROCEDURES</b>	<b>88</b>
89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS	<b>88</b>
90. TRANSACTIONS SUBJECT TO CONTROL	<b>88</b>
91. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING	<b>88</b>
<b>II. TRANSACTION DETAILS</b>	<b>88</b>
92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE	<b>88</b>
<b>PART II</b>	
<b>CORPORATE GOVERNANCE EVALUATION</b>	
<b>1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED</b>	<b>89</b>
<b>2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED</b>	<b>89</b>
<b>06 APPENDIX</b>	<b>99</b>
<b>APPENDIX I</b>	<b>100</b>
Functions performed by members of the management body in other companies	<b>100</b>
Professional qualifications and professional activities performed during the last 5 years	<b>104</b>
<b>APPENDIX II</b>	<b>112</b>
United States rules applicable to PT, as a Foreign Private Issuer	<b>112</b>
<b>APPENDIX III</b>	<b>114</b>
Statement of the Compensation Committee on the remuneration policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2013 financial year	<b>114</b>
<b>APPENDIX IV</b>	<b>119</b>
Code of Ethics	<b>119</b>
Code of Ethics for Senior Financial Officers	<b>119</b>
Procedures implemented by PT for compliance with the rules applicable to Officer and Related Party Transactions	<b>120</b>
a) Group Officer Transactions	<b>120</b>
b) Related Party Transactions	<b>120</b>
Sustainable Development and Social Responsibility Policy	<b>121</b>

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## INTRODUCTION

<b>00 INTRODUCTION</b>	<b>I. PT STRUCTURE</b>	<b>10</b>
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>	
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>	
<b>04 REMUNERATION</b>	<b>75</b>	
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>	
<b>06 APPENDIX</b>	<b>99</b>	

## INTRODUCTION

### PT STRUCTURE

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

In the Portuguese market, PT is a customer-oriented company focused on innovation and execution, managing its business along customer segments with a cross functional collaboration to deliver the best customer experience. PT's strategic priorities consist on a sustained value creation in all customer segments through the optimisation of investment, leveraging its unique assets.

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

In 2013, PT and Oi, SA announced the combination of their businesses. The merger transaction, which will result in the incorporation of PT into the combined entity, is a natural consequence of the industrial alliance between Portugal Telecom and Oi, SA, established in 2010 and will result in the creation of a leading telecommunications operator, with operations covering a population of c. 260 million people and c. 100 million subscribers. The transaction will consolidate the position of both companies as the leading operator for Portuguese-speaking countries with leadership positions in all markets where it operates. The combined company will aim to achieve significant economies of scale, maximise operational synergies and add value for its shareholders, customers and employees. Upon completion of the transaction, the shares of the combined entity will be listed on the Novo Mercado segment of BM&FBOVESPA, as well as on the Euronext and the NYSE, and will benefit from higher liquidity and a diversified shareholder base. The listing requirements of these stock exchanges will also underpin the highest standard of corporate governance.

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



## INTRODUCTION



### TELECOMMUNICATIONS IN PORTUGAL

#### Customer segment

Personal	100%	PT Comunicações
Residential	100%	MEO (formerly designated TMN)
Enterprise		
Other		



### TELECOMMUNICATIONS IN BRAZIL

	25.6%	Oi
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### OTHER TELECOMMUNICATIONS BUSINESSES

	25%	Unitel <sup>(1)</sup>
	40%	CVT <sup>(1)</sup>
	34%	MTC <sup>(1)</sup>
	51%	CST <sup>(1)</sup>
	44.17%	Timor Telecom



### OTHER BUSINESSES

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

<sup>(1)</sup> Shares held by Africatel, which is 75% controlled by PT.



# 01

## SHAREHOLDER STRUCTURE



<b>00 INTRODUCTION</b>	<b>09</b>		
<b>01 SHAREHOLDER STRUCTURE</b>		<b>I. CAPITAL STRUCTURE</b>	<b>14</b>
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>	<b>II. PARTICIPATIONS AND BONDS</b>	<b>16</b>
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>		
<b>04 REMUNERATION</b>	<b>75</b>		
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>		
<b>06 APPENDIX</b>	<b>99</b>		

# 01

## SHAREHOLDER STRUCTURE

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

#### I. CAPITAL STRUCTURE

##### 1. Capital structure

PT's share capital amounts to, as from 10 December 2008, Euro 26,895,375, and it is fully paid up and represented by 896,512,500 shares with a par value of three Euro cents each.

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

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

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.

##### 2. Any restrictions to share transferability, such as consent clauses for disposal, or limitations to share ownership

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

##### 3. Number of own shares, corresponding capital percentage and corresponding voting rights percentage

Not applicable.

##### 4. Significant agreements including change of control clauses

In the normal course of business, PT has entered into agreements that might be amended or terminated in the event of a change of control in the Company. Due to their relevance, the following should be



highlighted: Private Instrument for a Call Option on Shares Issued by Telemar Participações SA, Pasa Participações SA, EDSP75 Participações SA and other Oi Companies, entered into on 25 January 2011.

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

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

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

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

PT describes the financial covenants that may affect the Company as regards change of control clauses under Note 38 to the consolidated financial statements included in the Report and Consolidated Accounts for 2013.

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

## **5. Renovation / revocation of defensive measures, in particular those providing for the restriction of the number of votes that may be held or exercised by a single shareholder**

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

# 01

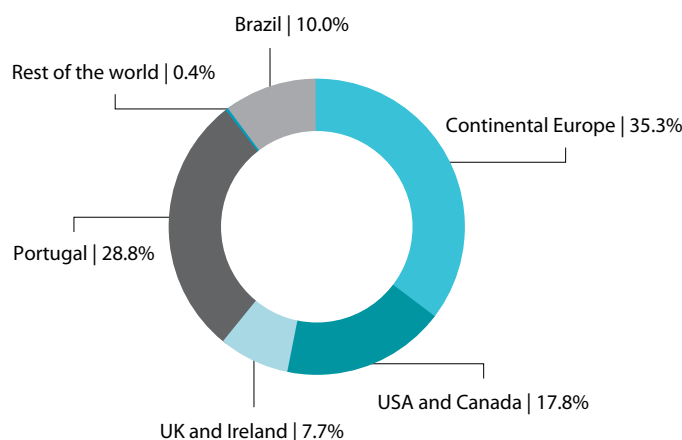
## SHAREHOLDER STRUCTURE

### 6. Shareholders' agreements of which the Company is aware and might lead to restrictions in the transfer of securities or voting rights

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

## II. PARTICIPATIONS AND BONDS

### 7. Owners of qualified holdings, percentage of capital and votes attributable, source and causes for attribution



#### Qualified holdings

Date of report	Institution	No. of shares	% of capital	% of voting rights
10 Jul 12	RS Holding, SGPS, SA	90,111,159	10.05%	10.05%
31 Dec 13	Espírito Santo Group	90,056,485	10.05%	10.05%
31 Mar 12	Telemar Norte Leste, SA	89,651,205	10.00%	10.00%
06 Feb 12	Norges Bank	44,442,888	4.96%	4.96%
12 Jan 12	UBS AG <sup>(1)</sup>	42,024,498	4.69%	4.69%
31 Dec 10	Visabeira Group	23,642,885	2.64%	2.64%
07 Dec 09	BlackRock Inc.	21,025,118	2.35%	2.35%
03 Feb 10	Controlinveste Comunicações	20,419,325	2.28%	2.28%
12 Jun 13	Pictet Asset Management	18,246,357	2.04%	2.04%
26 Oct 12	Ontario Teachers' Pension Plan Board	18,000,000	2.01%	2.01%
21 May 13	Bestinver	17,981,057	2.01%	2.01%

<sup>(1)</sup> On 10 February 2014, PT informed that on 30 January 2014 UBS AG's qualified holding corresponded to a total of 45,958,433 PT shares, representing 5.13% of PT's share capital and voting rights. On the same day, PT additionally informed that on 31 January 2014 UBS held a qualified holding corresponding to a total of 43,648,928 PT shares, representing 4.87% of PT's share capital and corresponding voting rights.

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

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

## **8. Number of shares and bonds held by the members of the management and supervisory bodies**

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

## **9. Special powers of the management body, namely as regards capital increase resolutions**

The powers of PT's Board of Directors are described in point 21 of Part I below.

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

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

## **10. Significant commercial relationships between owners of qualified holdings and the Company**

Relevant transactions with owners of qualified holdings are described on Note 48 to the consolidated financial statements included in the Report and Consolidated Accounts 2013.





# 02



## CORPORATE BODIES AND COMMITTEES

<b>00 INTRODUCTION</b>	<b>09</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>		
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>	<b>I. GENERAL MEETING OF SHAREHOLDERS</b> 20
<b>04 REMUNERATION</b>	<b>75</b>	<b>II. MANAGEMENT AND SUPERVISION</b> 23
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>	<b>III. SUPERVISION</b> 46
<b>06 APPENDIX</b>	<b>99</b>	<b>IV. CHARTERED ACCOUNTANT (REVISOR OFICIAL DE CONTAS - ROC)</b> 50
		<b>V. EXTERNAL AUDITOR</b> 51

# 02 CORPORATE BODIES AND COMMITTEES

## I. GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

### **Chairman of the Board of the General Meeting of Shareholders**

Post Address	Avenida Fontes Pereira de Melo, n.º 40-10.º piso, 1069-300 Lisboa
Telephone	+351 800 207 369
Fax	+351 215 001 890
E-mail	<a href="mailto:assembleia-ptsgps@telecom.pt">assembleia-ptsgps@telecom.pt</a>

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

## Composition of the board of the General Meeting of shareholders

### 11. Identification of the members of the board of the General Meeting of shareholders, commencement and expiration of term of office

#### **Board of the General Meeting of Shareholders**

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

The members of the Board of the General Meeting of shareholders were elected on 27 April 2012 for the 2012-2014 three-year term of office.

## Exercise of voting rights

### 12. Possible limitations on voting rights

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

Within the framework of American 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.

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

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

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

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

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

In respect of voting by electronic means, and according to a practice implemented in the Company, shareholders may vote through the website [www.telecom.pt](http://www.telecom.pt) in compliance with the requirements

## 02 CORPORATE BODIES AND COMMITTEES

established thereon, provided that, by the time and date scheduled on the notice for the General Meeting of shareholders, they deliver to the Chairman of the Board of the General Meeting a communication, prepared in accordance with the form made available on that same website, with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and setting out the post address to where the password to be made available by the Company should be sent.

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

According to PT'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 identity card), and set out the address to where voting papers and other documentation should be sent. In reply, the voting papers and other relevant documentation will be sent to such shareholders, who shall send to the Chairman of the Board of the General Meeting, in such a way as to be received by the time and date scheduled on the notice for the General Meeting a closed envelope containing another closed envelope with the duly filled in voting papers;
- Notwithstanding the possibility of downloading the voting papers from the Internet according to the next paragraph, there are voting papers available to shareholders at the offices of the Company, and the same may also be provided by hand delivery, by post or by electronic mail;
- As an alternative, shareholders may also download the voting papers from the website [www.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 identity card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.

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

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

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



### **13. Maximum percentage of voting rights that may be exercised by a single shareholder or by shareholders connected to the former through any of the relationships set forth in article 20,1 of the Portuguese Securities Code**

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

### **14. Shareholder resolutions which, according to the Bylaws, can only be adopted with qualified majority, apart from those legally provided for**

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

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

## **II. MANAGEMENT AND SUPERVISION**

### **Composition**

#### **15. Identification of the corporate governance model**

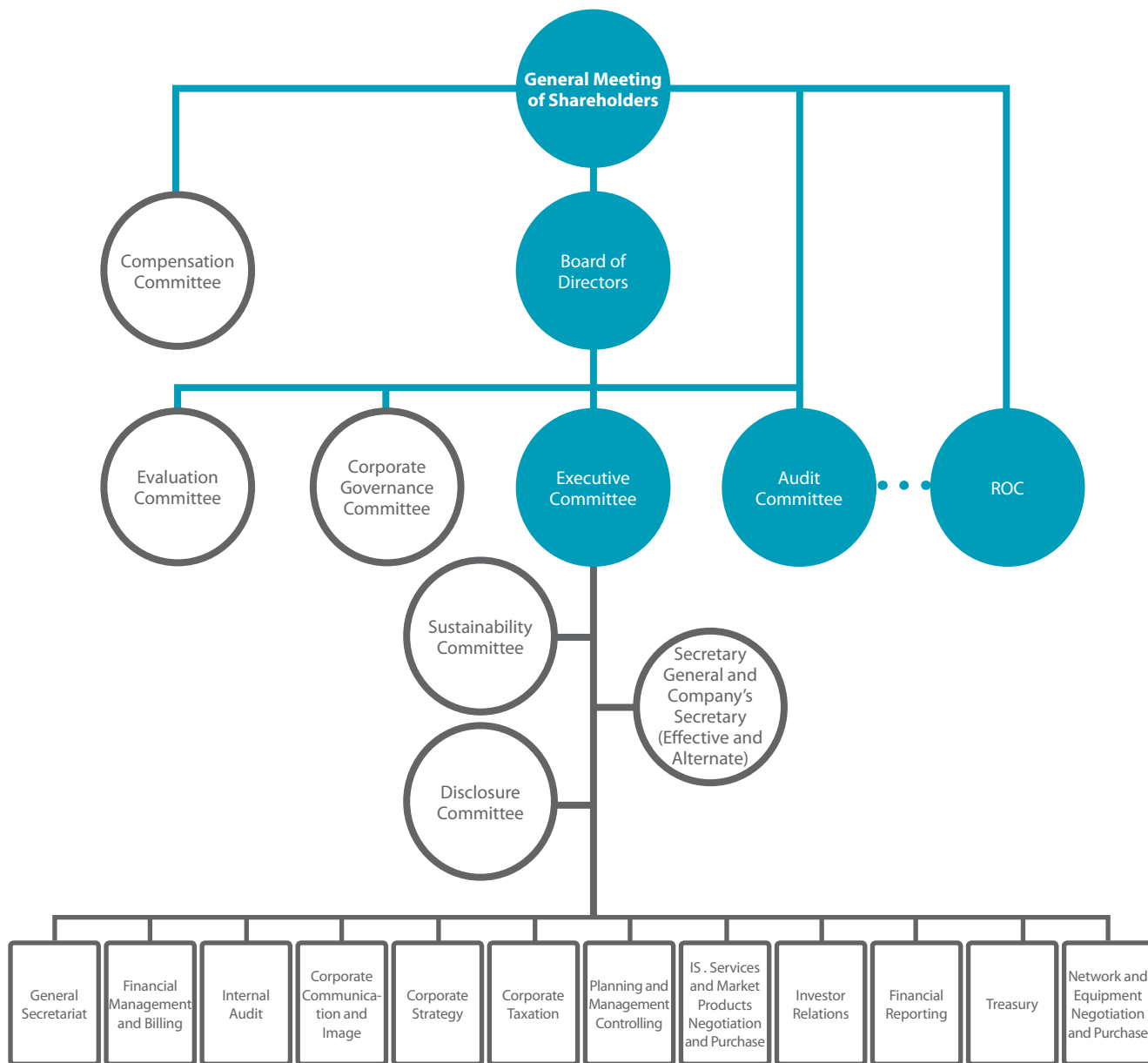
PT follows an Anglo-Saxon-type governance model, which is based on the existence of a Board of Directors, an Audit Committee composed of non-executive directors specifically appointed by the General Meeting of shareholders and a Chartered Accountant (ROC) elected by the General Meeting of shareholders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

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

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

# 02 CORPORATE BODIES AND COMMITTEES

PT's governance model may be schematised 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 of an Evaluation Committee, each such internal committee acting within the scope of its specific powers delegated by the management body.

This supervision task is further reinforced by the action of the non-executive independent members of the Board of Directors. In the current situation where the duties of Chairman of the Executive Committee and Chairman of the Board of Directors are performed by the same person, after the termination of office of the previous Chairman of the Executive Committee, Zeinal Bava, on 4 June 2013, the Company has reinforced a set of control mechanisms aimed at promoting the efficient and independent performance of duties and the adoption of informed decisions by the non-executive and independent members of the Board of Directors.

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

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

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

In this way, considering the full implementation and consolidation of the governance model adopted by the General Meeting of shareholders of 22 June 2007, and based on the reflection of the Corporate Governance Committee, this governance model is deemed to ensure an effective performance of the duties of PT's corporate bodies and their articulation, and has proven appropriate to the specificities of the Company. There have been no constraints to its operation and no circumstance that might impair the regular functioning of the adopted checks and balances system has occurred as to justify any change to PT's organisation structure or governance practices.

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

## **16. Bylaw rules on the procedural and material requirements for the appointment and replacement of the members of the Board of Directors**

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

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

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

# 02 CORPORATE BODIES AND COMMITTEES

be declared by the Board of Directors, and the director in question shall be replaced as provided for by law and the Bylaws.

## 17. Composition of the board of directors

The members of the Board of Directors were elected on 27 April 2012 for the 2012-2014 three-year term of office. As of 31 December 2013, the composition of the Company's Board of Directors was as follows:

Members (date of first appointment)	Board of Directors	Executive Committee	Audit Committee	Corporate Governance Committee	Evaluation Committee	Independence <sup>(3)</sup>	No. of shares	No. of bonds
Henrique Granadeiro (2003)	Chairman	Chairman		Chairman <sup>(1)</sup>	Member <sup>(2)</sup>		150	
Luís Pacheco de Melo (2006)	Member	Member					45	79 <sup>(6)</sup>
Alfredo Baptista (2011)	Member	Member					8,193	
Carlos Alves Duarte (2009)	Member	Member					40	
Manuel Rosa da Silva (2009)	Member	Member					90	
Pedro Durão Leitão (2011)	Member	Member					758	
Shakhaf Wine (2009)	Member	Member						
Amílcar de Morais Pires (2006)	Member						3,242	
Fernando Portella (2012)	Member							
Francisco Soares (2006)	Member			Member	Member	Yes		
Gerald S. McGowan (2003)	Member			Member		Yes	60,000	
João de Mello Franco (1998)	Member		Chairman	Member	Chairman	Yes	13,308 <sup>(4)</sup>	100 <sup>(7)</sup>
Joaquim Goes (2000)	Member			Member	Member		2,437	
José Xavier de Basto (2007)	Member		Member			Yes		
Maria Helena Nazaré (2009)	Member					Yes		
Mário João de Matos Gomes (2009)	Member		Member			Yes		
Milton Silva Vargas (2009)	Member				Member	Yes		
Nuno de Almeida e Vasconcellos (2006)	Member						11,190	
Otávio Marques de Azevedo (2011)	Member				Member			
Paulo Varela (2009)	Member			Member			7,134	
Rafael Mora Funes (2007)	Member			Member	Member		501 <sup>(5)</sup>	100 <sup>(8)</sup>

<sup>(1)</sup> In the events where, by nature, a conflict of interests of the Chairman of the Board of Directors / Chairman of the Executive Committee (Henrique Granadeiro) triggering a vote impediment may exist, the role of Chairman of the Corporate Governance Committee is undertaken by its non-executive member and Chairman of the Audit Committee João de Mello Franco, who was appointed by the Board of Directors for such purpose. | <sup>(2)</sup> Inherently in his office as CEO. | <sup>(3)</sup> Evaluation of independence made in accordance with Service Orders no. 2.14 and 4.08 of PT's Board of Directors and Audit Committee, article 414.5 of the Portuguese Companies Code and point 18 of the form attached to CMVM Regulation no. 4/2013, as the case may be, which may differ as to the Chairman of the Audit Committee from the evaluation made according to CMVM's understanding expressed on the reports on listed company governance for 2010 and 2011, which was taken into account by PT in its declaration of non-compliance with CMVM Recommendations no. II.2.1. For further information on this matter, please see points 18 and 32 of Part I below. <sup>(4)</sup> 322 of which are held by his spouse. | <sup>(5)</sup> 100% held by his spouse. | <sup>(6)</sup> 75 of which are PT fixed-rate 2012-2016 bonds and 4 of which are PT Finance BV 2016 – 5.625% notes. | <sup>(7)</sup> PT fixed-rate 2012-2016 bonds. | <sup>(8)</sup> PT fixed-rate 2012-2016 bonds, 100% held by his spouse.

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

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

On 4 June 2013, Zeinal Abedin Mahomed Bava resigned from his duties as executive director and Chairman of the Executive Committee. On 24 October 2013, João Nuno de Oliveira Jorge Palma and José Pedro Cabral dos Santos likewise resigned from their duties as non-executive directors.

The current combining of duties of Chairman of the Board of Directors and Chairman of the Executive Committee for the Director Henrique Granadeiro has shown itself on the one hand to be appropriate for the moment of the Company and, on the other hand, in no way affects the clear, informed decision-making by all members of the Board of Directors and its internal committees.

Thus, the organisational model of the Board fully complies with the CMVM Recommendation no. II.1.10 and the Corporate Governance Portuguese Institute (IPCG) Recommendation no. IV.1, as well as with best practices in this situation (specifically, the ISS 2013 European Proxy Voting Summary Guidelines of 19 December 2012), for the following reasons:

1) The Board considers that the concentration of the duties of Chairman of the Board of Directors and Chairman of the Executive Committee into a single person is fully in line with the strict efficient performance of duties by the members of the management body in the period in progress for the negotiation and implementation of a process leading to the planned merger between Portugal Telecom and Oi, SA;

2) The current governance model maintains the separation of powers between the Board of Directors and the Executive Committee, as a result of a set of control mechanisms, of which the following stand out:

i) Under articles four and six of the Board of Directors' Internal Regulation, this body decided, on 25 July 2013, to appoint the non-executive director João de Mello Franco as Senior Independent Director, who came to perform the following duties for the purposes of said provisions: (a) following up and consulting the Executive Committee as to the performance of the competences delegated to it; (b) contributing to the effective performance of the respective duties and competences by the non-executive directors and specialised committees of the Board of Directors and ensuring the mechanisms necessary for the latter to receive on time any information they might deem suitable for taking decisions properly and independently; (c) presiding over the Evaluation Committee; and (d) coordinating the holding of ad hoc meetings between the non-executive members of the Board.

ii) At the same meeting, and having heard the Members of the Evaluation Committee, the Board of Directors appointed the non-executive director João de Mello Franco as Chairman of such Committee, as Senior Independent Director and bearing in mind his special preparation and aptitude to such purpose, having been a part of such committee since its inauguration.

iii) On 6 September, in execution of what had been resolved on 25 July 2013, the Board also resolved to change the Corporate Governance Committee's Internal Regulation in order to establish that, in the event of combining the duties of Chairman of the Executive Committee and Chairman of the Board of Directors, the latter would keep the duties of Chairman of the Corporate Governance Committee, being however prevented from voting in the discussions of this Committee relating to matters verifying conflicts of interests due to such combination. Within the scope of these resolutions, the duties of Chairman of this Committee would be undertaken by one of its non-executive members proposed by the Board. To such purpose, on 25 July 2013, the Board proposed non-executive director João de Mello Franco, as Senior Independent Director. Thus, this Committee, in its various forms of activity, still includes the contribution of the Chairman of the Company, the latter only being hindered when a conflict of interests arises from the combination of duties.

iv) Finally, these control mechanisms also result from the role and suitable number of non-executive members and independent members comprising the Board of Directors of the Company, in particular bearing in mind the obligations, rights and duties conferred on them by the law and by the Board of Director's Internal Regulation in the supervision of executive management, including: (1) holding ad hoc meetings without the presence of executive members with the Chairman of the Evaluation Committee (in particular, for the purposes of the self-evaluation of their performance); (2) right to information, in a timely manner, necessary for the performance of their duties, properly and in the interest of the Company, its shareholders and other stakeholders.

# 02 CORPORATE BODIES AND COMMITTEES

On 3 October 2008, the Board of Directors approved its Internal Regulation, whereby non-executive members of this corporate body must correspond to, at least, the majority of the directors in office. Amongst the 21 directors of the Company in office on 31 December 2013, 7 were executive directors and 14 were non-executive directors. This proportion largely exceeds the abovementioned one, includes 3 members of the supervisory body and, furthermore, is in full compliance with CMVM Recommendation no. II.1.6 and IPCG Recommendation no. IV.2.

In accordance with the above mentioned regulation and in line with IPCG Recommendations no. I.4.1 and I.4.2, each Director shall timely inform the Chairman of the Board of Directors and the Corporate Governance Committee of any conflict of interest, being in such case restrained from discussing and voting the matters in question.

## 18. Executive and non-executive Board members and independence criteria

In point 17 of Part I above, directors are broken down into executive and non-executive directors, and among the latter those that are considered independent.

Bearing in mind the criteria established in CMVM Recommendation no. II.1.7 and in IPCG Recommendation no. IV.3, the Board of Directors of Portugal Telecom includes a suitable number of independent directors, with reference to the number of non-executive directors and to the total number of Board members. Therefore, the number of independent directors, from among the Board's non-executive members, corresponds to half of this total – 7 independent members from among 14 non-executive members. In turn, bearing in mind the total number of members of the Board, the independent members correspond to one third of the total – 7 independent members from among 21 Directors.

To this purpose, PT considered the criteria recommended by the CMVM relating to: (i) the governance model, i.e., with the company having adopted an Anglo-Saxon model, all members of its supervisory body are independent directors; (ii) the scale of the Company, from the perspective of business and market diversity, which also justifies the proportion attributed to independent members; (iii) the shareholder structure and free float of Portugal Telecom, bearing in mind that, since the Company does not have a concentrated capital structure, the same includes 3 reference shareholders exceeding 10% of the voting rights and 8 institutional shareholders with qualified holdings of between 2% and 5% of the voting rights.

This observation is still in line with the criteria proposed by IPCG Recommendation no. IV.3 which also takes into account the scale of the Company and the respective percentage of shareholder dispersion.

Thus, in accordance with the criteria established in CMVM Recommendation no. II.1.7 and IPCG Recommendation no. IV.3, the management body of Portugal Telecom includes a suitable number of independent members considering the particularities of the Company explained above.

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

The evaluation of independence of directors not incorporating the Audit Committee was carried out by the Board of Directors, upon proposal by the Corporate Governance Committee, in accordance with criteria



as defined in Internal Regulation no. 2,14 approved by the Board of Directors on 29 January 2014, which provides for criteria in line with point 18 of the form attached to CMVM Regulation no. 4/2013 and CMVM Recommendation no. II.1.7, as well as IPCG Recommendation no. IV.3.

All directors deemed independent by PT, as of 31 December 2013, as set out in point 17 of Part I above, meet the conditions required for the performance of their duties and compliance with their obligations to act diligently and in the interest of the Company in an independent manner. Thus, the Board of Directors considers that the Company's management body includes a number of independent members that is appropriate to its size and shareholder structure, capable of playing the supervisory and accountability role that is specially entrusted to them.

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

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

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

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

## **19. Professional qualifications and other relevant curriculum elements of the members of the Board of Directors**

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

## **20. Family, professional or commercial relationships, frequent and significant, of the members of the Board of Directors with owners of qualified holdings above 2% of the voting rights**

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

- Nuno de Almeida e Vasconcellos: he is a direct relative of the beneficial owner of a qualified holding above 2% of PT's share capital and voting rights through the company RS Holding SGPS SA, and he maintains a professional relationship with the beneficial owner of a qualified holding above 2% of PT's share capital and voting rights through the company RS Holding SGPS SA;

# 02

## CORPORATE BODIES AND COMMITTEES

- Paulo Varela: he is the Vice-Chairman of the Visabeira SGPS SA Group, which is the owner of a qualified holding above 2% of PT's share capital and voting rights;
- Rafael Mora Funes: he maintains a professional relationship with an entity dependent on the beneficial owner of a qualified holding above 2% of PT's share capital and voting rights through the company RS Holding SGPS SA.

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

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

In order to guarantee the existence of a structure as appropriate for PT's management needs, the Board of Directors has delegated day-to-day management powers to the Executive Committee and granted specific powers to the Corporate Governance Committee in the follow up of the corporate governance system and to the Evaluation Committee in the matter of remunerations, evaluation of director performance, and within the scope of selection procedures, as described herein.

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

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

However, the Board of Directors is authorised to increase the share capital, following an opinion in favour issued by the Audit Committee and a resolution approved by the General Meeting of shareholders, as described in point 9 of Part I 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, being therefore CMVM Recommendation no. II.1.1 fully complied with. For such purpose, the Board of Directors assigned to the Executive Committee all necessary powers, although it may revoke at any time the powers delegated, other than those in respect of the matters listed hereinafter:

- Co-opting directors;
- Request for the call of General Meetings of shareholders;
- Annual reports and accounts to be submitted to the approval of the Annual General Meeting of shareholders;
- Posting bonds and personal guarantees or guarantees in rem by the Company, the authority for which is reserved to the Board of Directors, without prejudice to the provisions of article 15(h) of the Bylaws;
- Change of the Company's registered office;

- Projects for spin-off, merger and conversion of the Company, to be proposed to the General Meeting of shareholders, as well as acquisitions, disposals, mergers, spin-offs and strategic partnership agreements involving companies of PT Group, where, in such situations, these transactions do not constitute simple internal reorganisations of 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 PT Group to be submitted for approval at the General Meeting of shareholders, notably the definition of the sectors of investment and disinvestment, the policy for geographical expansion of its businesses and the strategic options pertaining, inter alia, to the technology to be adopted, network development and service rendering;
- Important extensions or reductions in the Company's business and important modifications to the Company's organisation;
- Business plans, budgets and annual investment plans;
- Definition of the amount to be annually proposed to the General Meeting of shareholders for issuance of bonds or other securities that may be subsequently resolved by the Executive Committee.

In this way, CMVM Recommendation no. II.1.2 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 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.

In addition to this strategic definition role, and according to the respective internal regulation, PT's Board of Directors is responsible for ensuring the Company has effective internal control, risk management and internal audit systems, without prejudice to the other structures responsible for the implementation of these systems, described in C.III of Part I hereto. CMVM Recommendation no. II.1.5 and IPCG Recommendation no. VI.1 are therefore complied with.

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

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

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

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

#### **Chief Executive Officer**

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

# 02 CORPORATE BODIES AND COMMITTEES

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

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

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

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

Currently, following the termination of duties of the former Chairman of the Executive Committee, Zeinal Bava, on 4 June 2013, the duties of Chairman of the Executive Committee and Chairman of the Board of Directors are combined, as described above.

Therefore, the Board of Directors resolved, on 25 July 2013, to appoint the non-executive director and Chairman of the Audit Committee João de Mello Franco (as Senior Independent Director) for the performance of the duties mentioned above.

## **Division of functions within the Executive Committee**

Within the framework of the corporate decision-making procedure concerning PT Group's business lines and Corporate Governance, the members of the Executive Committee were responsible for the following areas as of 31 December 2013:

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

It is the opinion of the Corporate Governance Committee, on its Report on the governance practices and performance of the management body, that the Executive Committee and its CEO acted, all along 2013, within the framework of their respective power delegation and effectively reported their activity to the Board of Directors as provided for under the delegation of powers to and operation of the Executive Committee approved on 27 April 2012.

### Disclosure obligations of the Executive Committee

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

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

Finally, when so requested, the Executive Committee provides the information as required by the other corporate bodies in a timely and appropriate manner, thus acting in full compliance with CMVM Recommendation no. II.1.8. Also in accordance with the internal regulation of the Board of Directors, the members of the management and supervisory bodies may obtain the information they deem necessary or convenient for the performance of the respective functions, powers and duties.

# 02 CORPORATE BODIES AND COMMITTEES

Considering particularly the above, PT believes to comply with IPCG Recommendations no. I.3.1 and I.3.2.

## Supervisory bodies

### Audit Committee

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

- To approve and disclose the annual report of its supervisory activity, expressly mentioning any constraints faced;
- To approve an annual action plan contemplating, inter alia, the measures required for compliance with its powers and duties in the following year;
- To inform and discuss with the Board of Directors and the Executive Committee, as the case may be, any situations identified in the exercise of their powers and duties;
- To discuss and issue its prior opinion to the Executive Committee and External Auditors on any reports, documentation or information to be disclosed to the competent authorities;
- To adopt procedures to ensure compliance by PT with the legal and regulatory provisions applicable to the Company;
- To check the accuracy of financial statements and generally supervise the quality and integrity of the financial information contained in the Company's financial statements;
- To control the preparation and disclosure of financial information, and to give its prior opinion, within the framework of its powers and duties as established by law and the Bylaws, and whenever it so deems necessary or fit, on any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities;
- To analyse and issue its opinion on relevant matters connected to accounting and auditing aspects and impact on financial statements of changes to the accounting rules applicable to the Company and to its accounting policies;
- To control the auditing to the Company's financial statements performed by the Chartered Accountant and the auditors, as well as to supervise and assess internal procedures on accounting and auditing matters;
- To propose the appointment of the Chartered Accountant to the General Meeting of shareholders;
- To control the independence of the Chartered Accountant, notably as regards the rendering of additional services;
- Direct and exclusive responsibility as to the appointment, hiring, confirmation or termination of duties and determination of remuneration of the Company's external auditors, as well as to the control over their qualifications and independence, and approval of audit and/or other services to be rendered by such external auditors or by any entities associated to the same; the external auditors of the Company must report and be subject to the direct and exclusive supervision of the Audit Committee, which, each year, shall obtain from and review with the external auditors an External Audit Report;
- To settle any differences between the Executive Committee and the external auditors in respect of the financial information to be included in the financial statements to be reported to the competent authorities, as well as in respect of the procedure of preparation of the audit reports to be issued by the said external auditors;
- To control the quality, integrity and efficiency of 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 thereof;
- To receive reports of irregularities, claims and/or complaints submitted by shareholders, Company employees or others, and to implement procedures aimed at receiving, recording and processing the same when related to accounting and auditing aspects or to internal control procedures on such matters;
- To issue its prior opinion in favour of proposals for relevant transactions of the Company or its subsidiaries with related parties as described in point 89 of Part I hereof.



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

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

The Company therefore complies with CMVM Recommendations no. II.2.2 to II.2.5, as well as IPCG Recommendations no. VII.1.1, VII.2.1 to VII.2.4.

### **Chartered Accountant**

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

Following entry into force of Decree-Law no. 185/2009 of 12 August 2009, similarly to the Audit Committee, it also became the duty of the Chartered Accountant to verify whether the Company's governance report disclosed each year includes all legally required data as regards, inter alia, qualified shareholdings in the Company capital, identification of shareholders of special rights and description of such rights, any restrictions in respect of voting rights, rules applicable to appointment and replacement of directors, Bylaw amendment and powers and resolutions of the management body, and the main constituents of the internal control and risk management systems implemented in the Company in connection with the financial information disclosure procedure.

## **Committees and supporting structures**

### **Evaluation Committee**

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

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

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

In particular, and in line with CMVM Recommendation no. II.1.4 and IPCG Recommendations no. IV.4, V.1.1 and V.4.1, the Evaluation Committee is entrusted with:

- Submitting to the Board of Directors and Compensation Committee, as applicable, a communication

# 02 CORPORATE BODIES AND COMMITTEES

on the level of compliance by the Company with the legal and regulatory provisions, recommendations and guidelines issued by the competent authorities in the specific areas of evaluation, remuneration and selection, and studying and recommending the adoption of measures that prove to be required or appropriate in order to ensure compliance with such rules;

- Assisting the Board of Directors within the framework of the annual evaluation of the performance of such body, submitting for such purpose a written annual performance evaluation report, and evaluating the performance of the members of the Executive Committee each year, in accordance with the objective criteria approved by the Compensation Committee for purposes and within the framework of the procedure of determining the variable component of the remuneration of executive directors, after the Chief Executive Officer has been heard;
- In view of the determination of the relevant remuneration criteria by the Compensation Committee, defining, for each term of office and each year, the goals of the Executive Committee, taking into account the plans approved by the Board of Directors;
- Proposing and discussing with the Compensation Committee the remuneration policy for members of the management and supervisory bodies of the Company, and issuing an opinion on the annual remuneration policy declaration to be submitted by the Compensation Committee to the annual General Meeting of shareholders;
- Discussing the standard draft management contracts and the contracts with other members of the corporate bodies, and negotiating their respective individual conditions;
- Preparing and periodically revising the selection criteria and qualification, knowledge and professional experience summary deemed as the appropriate profile for the performance of functions as a member of the management body of PT's most relevant subsidiaries;
- Assisting the Board of Directors in the performance of its duties and powers in respect of co-optation of the Company's directors, selection of directors (even if upon the initiative of shareholders having the capacity to submit lists to voting) and appointment and substitution of directors that compose specialised committees of the Company's Board of Directors, as well as the directors composing the Executive Committee, in this latter case upon proposal of the Chief Executive Officer;
- Advising the Executive Committee in the matter of selection and relevant criteria for determination of the remuneration of the members of management bodies of PT's most relevant subsidiaries.

During the 2013 financial year, within the powers delegated by the Board of Directors and as a technical support structure to the Compensation Committee, the Evaluation Committee developed the following main activities:

- Preparation and approval of a communication to be addressed to the Board of Directors and Compensation Committee on the level of compliance by the Company in 2012 of the rules, recommendations and guidelines applicable in specific evaluation, remuneration and selection areas;
- Preparation of the 2012 self-evaluation report, including the evaluation of the operation regulation of the Evaluation Committee;
- Approval of a recommendation to the Compensation Committee on the declaration on remuneration policy for the management and supervisory bodies, for purposes of submission to the Annual General Meeting of shareholders and in connection with the 2012-2014 term of office;
- Approval of a recommendation to the Compensation Committee on the calculation methodology of the variable remuneration for the current term of office and development of a study on the matter by a workgroup within this committee;
- Appraisal of the Chairman of the Executive Committee's proposal for the appointment of officers of relevant subsidiaries;
- Evaluation of the performance of the members of Portugal Telecom's Executive Committee, according to the objective criteria approved by the Compensation Committee for purposes of fixing the variable component of their remuneration for 2012;

- Follow-up of the regulatory development in the remuneration area, particularly:
  - National and international benchmarking as to deferment of the variable component portion and assessment of the positive performance;
  - Securities and Exchange Commission and New York Stock Exchange rules for implementation of the relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) having an impact on foreign private issuers.

### Corporate Governance Committee

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

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

In particular, and also in line with CMVM Recommendation no. II.1.4 and IPCG Recommendations no. IV.4 and V.1.2, the Corporate Governance Committee has the following assignments:

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

During the 2013 financial year, the Corporate Governance Committee carried out the following main activities:

- Bearing in mind the current combination of duties of the Chairman of the Board of Directors and of the Chairman of the Executive Committee, within the context of the changes occurred in 2013 on the composition of the Board and the projected combination of businesses between PT and Oi, SA, the Corporate Governance Committee proposed to the Board of Directors the adoption of a set of changes to the Company's governance practices and model, in line with CMVM and IPCG Recommendations, as well as the best practices in this area (in particular the ISS 2013 European Proxy Voting Summary Guidelines of 19 December), embodied in the following:
  - Appointment of a Senior Independent Director, in fulfilment of the Board Internal Regulation and basically with a view to supervising and consulting the Executive Committee regarding the performance of the competences conferred on it and to contributing to the effective performance of duties and

# 02

## CORPORATE BODIES AND COMMITTEES

- competences by the non-executive directors and specialised committees of PT;
- Amendment of the Internal Regulation of the Corporate Governance Committee in the sense of establishing rules on conflicts of interest;
- Appointment of a non-executive director and Chairman of the Audit Committee as Chairman of the Evaluation Committee, which already had in place suitable rules on conflicts of interest.
- In the interconnecting of the Company's internal competent structures, the Corporate Governance Committee also participated in and contributed to the revision of the Group's Code of Ethics and the creation of an Ethics Committee.
- Drafting of a report on the Company's governance practices and a statement on the degree of compliance by the Company with prevailing regulations on matters of corporate governance, and an opinion on the governance report for 2012.
- Drafting of the 2012 self-evaluation report, including an evaluation of the respective operating regulations, and presentation to the Board of Directors.
- Benchmarking analysis, reflection and internal discussions with other listed companies and/or in other fora on best corporate governance practices, emphasising the supervision of any documents produced and the various initiatives carried out in 2013 by the CMVM, the IPCG and the Association of Companies Issuing Market-Listed Securities (Associação de Empresas Emitentes de Valores Cotados em Mercado) (AEM), including, inter alia:
  - Active participation in public consultations and various initiatives related to the approval of Regulation no. 4/2013 and the Governance Code published in July 2013 by the CMVM, and the Governance Code issued by the IPCG in 2014;
  - The contributions provided to other players on the market and to civil society in general (in particular to the AEM) in the process of the reflection and discussion on the CMVM and IPCG recommendations.
- Analysis of the degree of compliance by the Company with the recommendations appearing in the CMVM and IPCG Governance Codes published in 2013.
- Presenting and reporting to the Board of Directors on the benchmarking analysis, reflections and discussions, as well as the analysis of the degree of compliance, mentioned in the previous points.
- Updated analysis of the implementation rules of the Dodd-Frank Act and its impact on PT's corporate governance, as foreign private issuer.

### **Structures supporting the Executive Committee**

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

#### **Disclosure Committee**

It is incumbent on the Disclosure Committee to define, document and disclose procedures as appropriate for the proper collection, processing and reporting of information, as well as to review all information disclosed by PT, notably: press release, reports and accounts (annual, interim and quarterly), 20-F Forms, notices to CMVM and SEC (Securities and Exchange Commission) and questionnaires sent to the media. This structure, as well as the Investor Relations Office and the Company's compliance area provide a relevant contribution for PT's compliance with IPCG Recommendation no. I.1.2.

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;
- 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.

The composition of the Disclosure Committee is as follows:

#### Composition

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

#### Sustainability Committee

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

The Committee has the following main global goals:

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

The Sustainability Committee has the following duties:

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

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

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

Management Committee:

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



# 02 CORPORATE BODIES AND COMMITTEES

## Power and Environment Subcommittee:

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

## Labour Relations, Human Rights and SST Subcommittee:

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

## Stakeholder Relationship Subcommittee:

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

## Corporate Communication, Brand and Product and Service Marketing Subcommittee:

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

## Service and Solution Innovation and Development Subcommittee:

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

Supplier Relationship Subcommittee:

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

Sustainability practice sharing with international subsidiaries and affiliates Subcommittee:

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

## Operation

### 22. Operating rules of the Board of Directors

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

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

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

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

Under the internal regulation of the Board of Directors, non-executive directors are entitled to conduct ad hoc meetings amongst themselves and shall at least meet annually with the Chairman of the Evaluation Committee.

Non-executive directors have prepared a report on their 2013 activities, approved in a meeting held amongst them on 19 February 2014 and disclosed in the annual management report.

### 23. Number of meetings of the Board of Directors and degree of attendance of each member

During the 2013 financial year, 15 meetings of the Board of Directors took place. The degree of attendance of each member to these meetings was 100%.

# 02 CORPORATE BODIES AND COMMITTEES

The Chief Executive Officer (who is currently also the Chairman of the Board of Directors) sends all notices and minutes of the Executive Committee meetings to the Chairman of the Audit Committee in order to allow for the proper information of such officer, thus being the Company in compliance with CMVM Recommendation no. II.1.9 and IPCG Recommendation no. III.3.

## **24. Indication of the corporate bodies empowered to carry out the performance evaluation of executive directors**

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

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

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

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

## **25. Pre-determined criteria for the performance evaluation of executive directors**

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

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

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

## **26. Availability of each member of the Board of Directors and indication of functions exercised simultaneously in other companies, inside and outside the Group, and other relevant activities exercised by the members of the Board of Directors**

The functions exercised by the PT's directors in other companies as well as their other relevant activities are shown in Appendix I. The duties performed and the attendance and active participation of the directors in

the meetings of the Executive Committee (in respect of executive directors) and of the Board of Directors (in respect of all its members) – see points 22 and 23 of Part I above – evidence the availability of each member of the Board of Directors to perform duties as director of the Company. In addition, and in respect of executive directors, their availability to perform duties as executive director of the Company is ensured by the fact that they perform duties primarily in Group companies or as PT's representatives.

## Committees within the management or supervision bodies and delegated directors

### 27. Committees created within the board of directors and local for the consultation of their operating rules

#### Evaluation Committee

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

It should be stressed, in fact, that since the 2009 Annual General Meeting of shareholders PT has been adopting a practice that is innovative among Portuguese companies admitted to trade, i.e. submitting to the shareholders at elective General Meetings a report prepared by the Evaluation Committee on the selection procedure for directors whose election is proposed at such General Meetings, and so we might say that PT is at the forefront of good practices on this matter as well.

As provided for under the corresponding delegation of powers, the Evaluation Committee is composed of the Chairman of the Board of Directors, the Chief Executive Officer, the Chairman of the Audit Committee and four non-executive directors, including at least one independent director, and their term of office shall be the same as the term of office of the Board of Directors.

The Chairman of the Board of Directors of the Company shall be the Chairman of the Evaluation Committee, unless he is also the Chief Executive Officer, in which case one of the non-executive members designated for such purpose by the Board of Directors shall be the Chairman of this Committee, as it is currently the case.

It should further be stressed that the attendance of the Chief Executive Officer at this Committee is not to the prejudice of compliance with CMVM Recommendation no. II.1.4, since the CEO is, under the relevant Regulation, prevented from voting on resolutions related, on the one hand, to the annual performance appraisal of the members of the Executive Committee, and on the other hand to the selection procedure for PT's non-executive directors.

# 02 CORPORATE BODIES AND COMMITTEES

As of 31 December 2013, the composition of the Evaluation Committee was as follows

## Composition

João de Mello Franco	Chairman
Henrique Granadeiro <sup>(1)</sup>	Member
Francisco Soares	Member
Joaquim Goes	Member
Milton Silva Vargas	Member
Otávio Marques de Azevedo	Member
Rafael Mora Funes	Member

<sup>(1)</sup> Inherently in his office as CEO.

## 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 2013 and the date hereof, in addition to the Executive Committee and the Evaluation Committee, the Board of Directors comprises a committee responsible for assessing and developing the corporate governance model: the Corporate Governance Committee.

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

The Corporate Governance Committee is presided over by the Chairman of the Board of Directors. When the Chairman of the Board of Directors is the Chairman of the Executive Committee, the latter shall keep his duties as Chairman of the Corporate Governance Committee, being however restrained from voting in this Committee's resolutions regarding matters where a conflict of interest may arise as a result of this combination of duties. Within these resolutions, the duties as Chairman of this Committee shall be performed by one of its non-executive members, appointed for this purpose by the Board of Directors. Therefore, the presence of the Chairman of the Executive Committee in this Committee does not affect the compliance with CMVM Recommendation no. II.1.4.

As of 31 December 2013, the composition of the Corporate Governance Committee was as follows:

## Composition

Henrique Granadeiro <sup>(1)</sup>	Chairman
Francisco Soares	Member
Gerald S. McGowan	Member
João de Mello Franco	Member
Joaquim Goes	Member
Paulo Varela	Member
Rafael Mora Funes	Member

<sup>(1)</sup> In the events where, by nature, a conflict of interests of the Chairman of the Board of Directors | Chairman of the Executive Committee triggering a vote impediment may exist, the role of Chairman of the Corporate Governance Committee is undertaken by its non-executive member João de Mello Franco (Senior Independent Director), who was appointed by the Board of Directors for such purpose.

## Operation of the Evaluation Committee and Corporate Governance Committee

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



The Chief Executive Officer is prevented from voting, within the Evaluation Committee, on any resolutions regarding, on the one hand, the annual evaluation of the performance of the members of the Executive Committee and, on the other hand, the non-executive director selection procedure. The Chairman of the Executive Committee is also restrained from voting in the Corporate Governance Committee's resolutions regarding matters where a conflict of interest may arise as a result of combination of duties described above.

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

The operation regulations of the Evaluation Committee and Corporate Governance Committee are available for consultation on the PT website at the following links respectively: [http://www.telecom.pt/NR/rdonlyres/95ADFA0A-716A-43D7-95E8-E13B8AB1AB7C/1455000/Evaluation\\_Committee\\_Mar2011.pdf](http://www.telecom.pt/NR/rdonlyres/95ADFA0A-716A-43D7-95E8-E13B8AB1AB7C/1455000/Evaluation_Committee_Mar2011.pdf) and <http://www.telecom.pt/NR/rdonlyres/95ADFA0A-716A-43D7-95E8-E13B8AB1AB7C/1467606/RegulamentoComissaoGovernoSet2013.pdf> (the latter in Portuguese only).

## 28. Composition of the Executive Committee

The Board of Directors appoints the Chief Executive Officer (CEO) and all other members of the Executive Committee. These members are appointed upon proposal by the CEO. As of 31 December 2013, the composition of the Company's Executive Committee was as follows:

### Composition

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

Pursuant to the Bylaws and to its power delegation, the Executive Committee schedules the dates and periodicity of its own ordinary meetings, and shall meet extraordinarily whenever called upon by its Chief Executive Officer, by two of its members or by the Audit Committee.

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

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

## 29. Duties of each committee created within the Board of Directors and summary of the activities developed in the exercise of such duties

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

# 02 CORPORATE BODIES AND COMMITTEES

## III. SUPERVISION

### Composition

#### 30. Identification of the supervisory body

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

#### 31. Composition of the Audit Committee

In observance of the requirements of article 423B of the Portuguese Companies Code and PT's Bylaws, the Audit Committee is exclusively composed of non-executive directors meeting the requirements of independence defined under article 414,5 of the same Code, as further explained in point 32 of Part I below, and having higher education as appropriate to carry out their duties, with at least one member having knowledge of audit and accounting matters.

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

The members of the Audit Committee were elected on 27 April 2012 for the 2012-2014 three-year term of office. As of 31 December 2013, the composition of the Company's Audit Committee was as follows:

##### Composition (date of first appointment)

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

#### 32. Identification of the members of the Audit Committee considered independent under article 414,5 of the Portuguese Companies Code

Taking into consideration the internal rules on independence issues and the communications made by this corporate body's members, as at 31 December 2013, the Audit Committee complies with the provisions of article 423B,4 & 5 of the Portuguese Companies Code, since all its members are independent pursuant to article 414,5 of the same Code and point 18 of the form attached to CMVM Regulation no. 4/2013, and have appropriate training and expertise.

It should be noted, however, that, on annual reports on listed company governance for 2010 and 2011, both disclosed in 2012, CMVM presented a position that was different from PT's understanding, considering that the Company fails to comply with current's CMVM Recommendation no. II.2.1.

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

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

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

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

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

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

In fact, for all the above reasons, notwithstanding the different understanding expressed by CMVM and taken into account by the Company on its declaration of non-compliance with CMVM Recommendation no. II.2.1, PT considers that the Chairman of its Audit Committee is independent and has the proper training and knowledge.

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

## 02 CORPORATE BODIES AND COMMITTEES

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

Furthermore, it should be stressed that *(i)* independence of the members of the Company's Audit Committee is also assessed in accordance with SEC and NYSE rules applicable to PT's Audit Committee, which rules are described in next Chapter, and *(ii)* all the members of the Audit Committee are independent according to such rules, including the member of the Audit Committee Mário João de Matos Gomes, who is the audit committee financial expert according to the provisions of Item 16A of Form 20-F submitted to SEC each year.

For purposes of assessment of independence, non-existence of incompatibility situations and specialisation of the members of the Audit Committee as such, the Audit Committee and the Board of Directors of PT adopted, on 31 January 2008, Internal Regulation no. 4,08, which was prepared on the basis of the independence concept set out under article 414,5, the list of incompatibilities provided for under article 414A, and the specialisation concept set out under article 414,4, all of the Portuguese Companies Code and applicable by virtue of article 423B of that same Code. All other applicable market rules, including the rules in force in the US market, notably the Securities Exchange Act of 1934, the Sarbanes-Oxley Act, Rule 10A-3 on Listing Standards Relating to Audit Committee of SEC and the Final Rules approved under Section 303A on Corporate Governance Standards of NYSE, were also taken into account.

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

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

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

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

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

### **33. Professional qualifications and other relevant curriculum elements of the members of the Audit Committee**

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

## **Operation**

### **34. Operating rules of the Audit Committee**

The Audit Committee has adopted its Internal Regulation, which may be consulted on the following electronic address: [http://ir.telecom.pt/NR/rdonlyres/DD8D7660-6BA8-4B2E-A28D-F011B4BFCE87/1454226/Regulamento\\_Comissao\\_de\\_Auditoria\\_Ingles.pdf](http://ir.telecom.pt/NR/rdonlyres/DD8D7660-6BA8-4B2E-A28D-F011B4BFCE87/1454226/Regulamento_Comissao_de_Auditoria_Ingles.pdf).

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

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

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

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

### **35. Number of meetings of the Audit Committee and degree of attendance of each member**

During the 2013 financial year, 12 meetings of the Audit Committee took place. The degree of attendance of each member to these meetings was 100%.

### **36. Availability of each member of the Audit Committee and indication of functions exercised simultaneously in other companies, inside and outside the Group, and other relevant activities exercised by the members of the Audit Committee**

The functions exercised by the members of PT's Audit Committee in other companies as well as their other relevant activities are shown in Appendix I. The duties performed and the attendance and active participation of the members of the Audit Committee in the meetings of the Board of Directors and of the Audit Committee and, in respect of the Chairman of the Audit Committee, also the participation in the several internal committees – see point 35 of Part I above as well as the Report of the Audit Committee's activities which is made available at the Company's website – evidence the availability of each member of the Audit Committee to perform such duties.

# 02 CORPORATE BODIES AND COMMITTEES

## Competences and duties

### 37. Procedures and criteria applicable to the intervention of the supervisory body when hiring additional services from the External Auditor

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

Furthermore, although hiring services other than auditing services to the External Auditor is admissible, it is envisaged as an exception. In this way, in 2013, such services reached only around 10% of the total amount of services provided by the External Auditor to the Company and to the entities pertaining to PT Group.

Therefore, PT believes to comply with CMVM Recommendation no. IV.2 and IPCG Recommendation no. VII.2.4.

### 38. Other duties of the supervisory bodies

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

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

### 39. Identification of the Chartered Accountant and of its representing partner

The 2012-2014 three-year term of office of the Chartered Accountant commenced on 27 April 2012, its effective member being the firm P. Matos Silva, Garcia Jr., P. Caiado & Associados, Sociedade de Revisores Oficiais de Contas, Lda., registered in the Chartered Accountant's Professional Association (OROC) under no. 44 and in the CMVM under no. 1054, represented by its partner and manager Pedro João Reis de Matos Silva, registered in the OROC as Chartered Accountant under no. 491.

### 40. Number of years during which the Chartered Accountant performs duties consecutively in the Company and/or Group

The Chartered Accountant performs duties in the Company consecutively since 2007, i.e., for seven years.

Pursuant to its duties, PT's Audit Committee confirmed the independence of the Chartered Accountant, and appraised its work during the 2013 financial year as positive.

The remuneration of the Chartered Accountant for 2013 was Euro 240,750, including the services rendered to the following companies pertaining to PT Group: PT SGPS, PT Investimentos Internacionais, PT Ventures, PT Participações, TPT – Telecomunicações Públicas de Timor, PT Imobiliária.



#### **41. Other services rendered to the Company by the Chartered Accountant**

The Chartered Accountant did not render to PT any services other than auditing services, which in 2013 were rendered to the following companies pertaining to PT Group: PT SGPS, PT Investimentos Internacionais, PT Ventures, PT Participações, TPT – Telecomunicações Públicas de Timor, PT Imobiliária.

### **V. EXTERNAL AUDITOR**

#### **42. Identification of the External Auditor and of its representing partner, as well as their respective registry number before the CMVM**

PT's External Auditor, appointed for the purposes of article 8 of the Portuguese Securities Code, is Deloitte & Associados, SROC SA, registered in the OROC under no. 43 and in the CMVM under no. 231, being represented since 2009 by its partner and director João Luís Falua Costa da Silva, registered in the OROC as Chartered Accountant under no. 883.

#### **43. Number of years during which the External Auditor and its representing partner perform duties consecutively in the Company and/or Group**

The current External Auditor to PT (Deloitte & Associados, SROC SA, a company formerly designated António Dias & Associados, SROC, SA) started its duties in mid-2004. Therefore, it performs duties in the Company for nine consecutive years.

The Chartered Accountant that, for 5 consecutive years (2009-2013), represents the External Auditor in the performance of its duties is its partner and director João Luís Falua Costa da Silva, registered in the OROC as Chartered Accountant under no. 883.

#### **44. Policy and period for the rotation of the External Auditor and of its representing partner**

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

After auditing the 2011 annual accounts, PT SGPS' External Auditor completed its third term of office as a corporate body. However, considering that, according to CMVM Recommendation no. III.1.3 included in 2010 CMVM Corporate Governance Code, then in force, the decision to keep the External Auditor for more than

# 02

## CORPORATE BODIES AND COMMITTEES

three terms of office of the corporate bodies should be justified on a specific opinion by the supervisory body, the Audit Committee, at a meeting held for such purpose on 30 April 2012, reviewed the contractual background, qualification, expertise, independence conditions, professional relationship and benefits and costs of substitution of the External Auditor and unanimously decided there were sufficient valid grounds to keep the External Auditor in charge of PT Group's consolidation external auditing for the term of office commencing in the 2012, and therefore renewed the External Auditor's term of office for the 2012-2014 three-year period. By way of such grounds, CMVM Recommendation no. III.1.3 and IPCG Recommendation no. VII.2.3 are observed.

### **45. Corporate body responsible for the evaluation of the External Auditor and frequency for such evaluation**

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

In 2013, the External Auditor's independence was safeguarded, in particular, by the implementation of the Company's policy on pre-approval of the services to be hired to External Auditors (or any entity in a holding relationship with or incorporating the same network as the External Auditors), which results from the application of the rules issued by SEC on this matter. According to such policy, the Audit Committee makes an overall pre-approval of the services proposal made by the External Auditors and a specific pre-approval of other services that will eventually be provided by the External Auditors, particularly tax consultancy services and services other than "audit and audit related" services.

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

The Audit Committee annually evaluates the External Auditor's performance and independence, as described in the annual Report of the Audit Committee's activities which is made available at the Company's website. Pursuant to its duties and in line with CMVM Recommendation no. II.2.3, the Company's Audit Committee assessed and confirmed the independence of the External Auditors, and appraised their work during the 2013 financial year as positive.

Up until the date hereof, PT's Audit Committee never found reasons to consider taking measures for the removal with fair grounds of an entity performing the duties of external auditor of the Company. As such, the abovementioned CMVM Recommendation no. II.2.3 has never been applied in this part and therefore is deemed totally complied with.

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

#### 46. Services, other than auditing services, provided by the External Auditor to the Company and/or entities in a control relationship, as well as indication of internal procedures for the purpose of approving the hiring of those services and reasons for such hiring

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

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

Furthermore, although hiring services other than auditing services to the External Auditor is admissible, it is envisaged as an exception. In this way, in 2013, such services reached only around 10% of the total amount of services provided by the External Auditor to the Company and to the entities pertaining to the PT Group.

#### 47. Indication of the amount of annual remuneration paid to the Auditor and other individuals or corporations in the same network supported by the Company and or by corporations in a control or group relationship, as well as specification of the percentage of each type of service

During 2013, the annual remuneration paid to PT's External Auditors, Deloitte & Associados, SROC SA, and to companies pertaining to Deloitte's international network was 1,821,580 Euros. This amount was paid for the provision of the following services (including the auditing of consolidated and individual accounts):

	2013		2012	
	Amount (€)	%	Amount (€)	%
<b>By PT SGPS</b>				
Auditing services	261,000	55	261,000	55
Other reliability guarantee services	163,100	35	182,705	38
Tax consultancy services	650	0	19,920	4
Services other than auditing services	46,431	10	13,000	3
<b>Total</b>	<b>471,181</b>	<b>100</b>	<b>476,625</b>	<b>100</b>
<b>By PT SGPS and other Group companies</b>				
Auditing services	1,401,320	77	1,386,274	77
Other reliability guarantee services	240,662	13	254,934	14
Tax consultancy services	65,459	4	89,868	5
Services other than auditing services	114,139	6	70,846	4
<b>Total</b>	<b>1,821,580</b>	<b>100</b>	<b>1,801,922</b>	<b>100</b>



# 03



## INTERNAL ORGANIZATION

<b>00 INTRODUCTION</b>	<b>09</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>	
<b>03 INTERNAL ORGANISATION</b>		
<b>04 REMUNERATION</b>	<b>75</b>	
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>	
<b>06 APPENDIX</b>	<b>99</b>	
		<b>I. BYLAWS</b> 56
		<b>II. WHISTLEBLOWING</b> 56
		<b>III. INTERNAL CONTROL AND RISK MANAGEMENT</b> 57
		<b>IV. INVESTOR SUPPORT</b> 73
		<b>V. WEBSITE</b> 74

# 03 INTERNAL ORGANIZATION

## I. BYLAWS

### 48. Rules applicable to amendment to the Bylaws of the Company

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

Where an amendment to the Bylaws is at issue, the General Meeting of shareholders may only resolve, on a first call, if shareholders owning 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.

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

## II. WHISTLEBLOWING

### 49. Whistleblowing

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

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



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

- Violation of any law, rule or regulation;
- Fraud;
- Bad management;
- Abuse of authority;
- Fund squandering;
- Banking and financial crime.

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

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

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

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

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

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

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

### III. INTERNAL CONTROL AND RISK MANAGEMENT

The information below includes points 50 to 55 of Part I of the form attached to CMVM Regulation no. 4/2013.

PT is an issuer of securities admitted to trading on NYSE, qualifying as a foreign private issuer, and as such PT is subject to the mandatory rules set forth, notably, in Rule 10A-3 on Listing Standards Relating to Audit Committees issued by the SEC for regulation purposes under Section 10A(m) of the Securities

# 03 INTERNAL ORGANIZATION

Exchange Act, as amended by the Sarbanes-Oxley Act, and to the Final Rules approved by NYSE on corporate governance (Section 303A Corporate Governance Standards), all as described in Appendix II hereto.

PT has defined as a priority commitment the implementation of the internal control and risk management systems described below, corresponding to the demands to which PT is subject as a foreign private issuer, and simultaneously complying with CMVM and IPCG Recommendations in this matter, notably IPCG Recommendation no. IV.5, which recommends the Company to structure said systems in an adequate way considering its size and the risks inherent to its activity and strategic plan.

## Internal control system

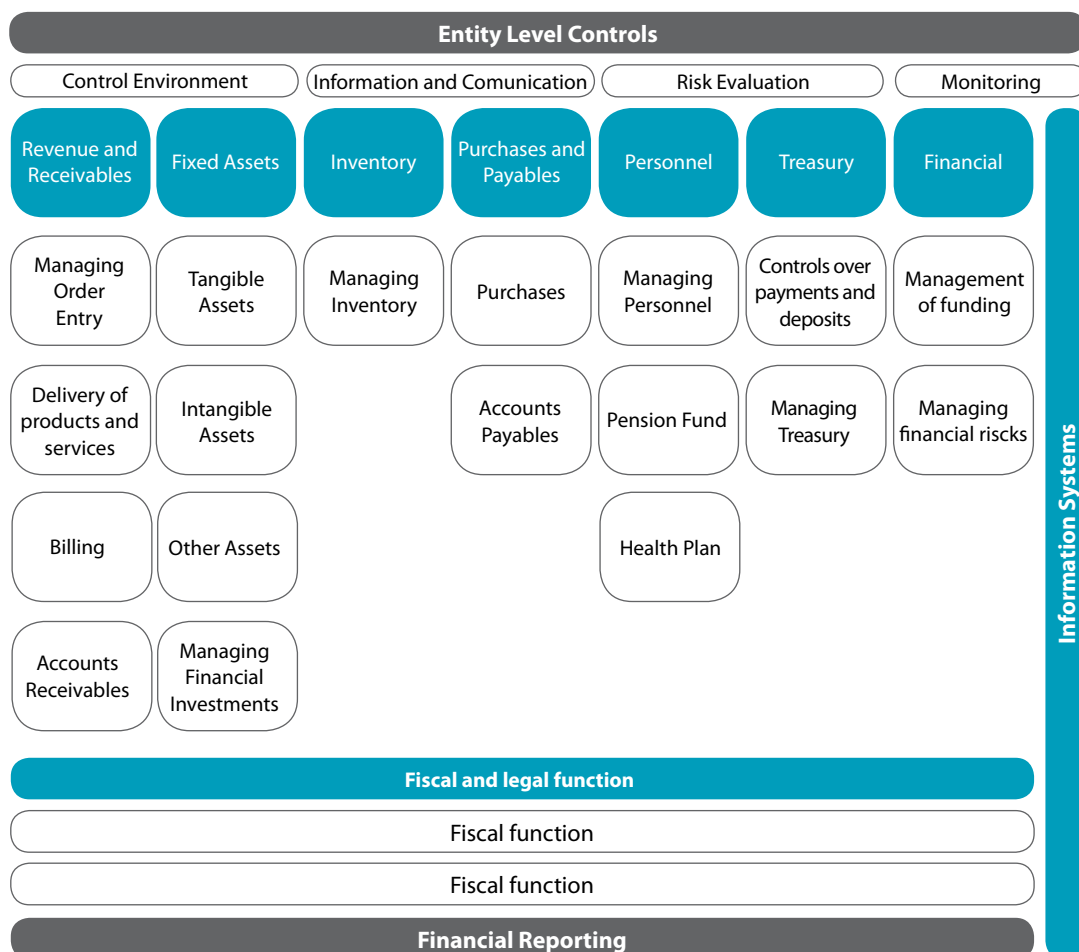
The Internal Control System implemented at PT was based on an internationally acknowledged model - COSO (Committee of Sponsoring Organisations of the Treadway Commission) - making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii)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

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

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

Internal control manuals are designed and controls are implemented for the most representative business units within PT Group, and as to smaller size units and within the framework of improvement of internal control and risk management environment beyond mandatory rules PT has defined a set of minimum internal control requirements, particularly applicable to international transactions, which served as additional guidelines for PT Group to define corporate policies. In some international business units, the Internal Control Unit implements and monitors the internal control system whenever the relevance of such units so determines.

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



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

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

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

- 58 Entity Level controls, the purpose of which is to ensure a general supervision and guarantee that internal control environment exists, and which are carried out essentially by the Board of Directors, Executive Committee, Audit Committee and high management;
- 1,120 Process Level controls executed according to the business cycles and classes of transactions identified

# 03

## INTERNAL ORGANIZATION

on the table above. Processes are designed end-to-end, taking into account the intervention of the various Group companies where the same are executed;

- 1,094 IT Level controls, the manual reference of which is the CobiT (Control Objectives for Information and Related Technology) Governance framework, also based on COSO, and which include controls for applications that are identified as critical. Reduction in controls as compared to the previous year results mostly due to the restructuring that occurred at information system directorates.

Currently, PT Group has already identified around 176 processes and 2,272 critical controls for financial reporting. As to information systems, PT Group has identified 31 critical systems, among which the billing systems, the SAP and the consolidation system.

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

Additionally, the Company has designed a specific manual to address one of the identified operational risks: fraud risk. The purpose of this manual is documenting usual frauds in the business sector where PT is inserted, in order to permit a better management of this specific risk. Such manual, other than describing fraud procedures, contains an identification of controls and persons responsible for their implementation at PT Group level. The manual is revised when deemed necessary, taking into account inputs from the works carried out by the Internal Auditing pursuant to its activity, as well as from whistleblowing, if any, and benchmarking with other companies of the same sector.

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

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

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

### Internal control system evaluation

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

In the performance of its duties, this Department hierarchically reports to the Chairman of the Executive Committee and to the CFO and functionally reports to the Audit Committee.

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

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

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

- Operational Audits – assessment of operational risk management procedures and of mechanisms that guarantee operational efficiency and that have a relevant impact on the pursuance of the Company's strategy and on key value drives, in the different geographies where the Company operates;
- Compliance Audits – ensures that the Company's activities comply with relevant laws and regulations;
- Financial Audits – ensuring the effectiveness of control mechanisms associated with the collection, processing and disclosure of financial and accounting information. Within this framework, audits are carried out to ensure compliance with the Sarbanes Oxley Act, which requires the assessment of control procedures associated to the preparation of the Financial Statements. These evaluations are subject to certification by the External Auditor;
- Information Systems Audits – verification of the effectiveness of the controls addressing the risks associated to Information Systems, and which allow for ensuring security, integrity and availability of information that is critical for the business and recovering the systems in the event of interruption of operations.

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

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

Internal control reviews are based on the COSO Framework (Committee of Sponsorship Organisations of the Treadway Commission), COBIT Framework (Control Objectives for Information and Related Technology), requirements of SEC and PCAOB, since Portugal Telecom is listed in NYSE and must comply with Section 404 of the Sarbanes Oxley Act.

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

As referred to above, the Company is therefore in compliance with CMVM Recommendations no. II.2.4 and II.2.5.

## Main economic, financial and legal risks

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

### Relevant Risks

<b>Strategic Risks</b>	<b>Regulation</b>	<p>PT is subject to the risk of regulatory changes or actions of national, European Union or international regulatory entities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner.</p> <p>The Regulation Department is in charge of the management of regulation risk and must be up to date on new regulations applicable to the sector with an impact on PT. The risk management strategy and response is coordinated between the Regulation Department and the different operational areas.</p> <p>Within the monitoring of the various risks and opportunities related to regulation, we highlight the following matters: (i) next generation networks; (ii) network security and data privacy; (iii) retail offers and pricing; (iv) wholesale reference offers; (v) universal service; (vi) radio-electric spectrum; (vii) relevant broadband markets; (viii) roaming regulation; (ix) digital dividend; (x) cloud computing; and (xi) cinema law.</p> <p>Additional detail regarding regulation that might impact the Company is included in the Regulatory Background chapter of the Annual Report.</p>
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<b>Competition</b>	<p>There is a possibility of a decline in PT's revenues due to an increase in competition by other operators or new players in the market, notably through (i) development of new products and services; (ii) aggressive marketing and sales policies; (iii) improvements in product or service quality; (iv) increase in productivity and cost reduction; (v) operator mergers and consolidations; and (v) re-configuration of the value chain from the customer's viewpoint.</p>
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#### Domestic Operations

On the Portuguese market, PT will continue to be a customer-oriented company focused on innovation and execution, managing its business along customer segments aiming at:

1) **Residential:** PT has been leveraging on the increased capacity of its new generation access networks to provide a differentiated and sophisticated TV experience anchored on premium content and a multi-screen strategy with seamless access to content on PCs, TVs and smartphones. MEO, PT's triple-play service, offers a differentiated customer experience through (i) a non-linear experience with video-on-demand, pause and restart-TV, (ii) a complete ecosystem for TV apps (Facebook, games, music, Kids and Sapo); (iii) interactive features providing additional depth over key channels and contents; and (iv) user-generated content with MEO Kanal, a channel creating service that generated the first network effect on TV. The differentiation of MEO is not limited to fibre customers, as PT has also invested in a premium satellite service, with the current DTH service offering eight HD channels, digital recording, video-on-demand and interactive apps. Residential segment performance has been anchored on the success of our triple-play offering that has achieved market share leadership on the back of its differentiated value proposition.

On January 2013, in line with its strategy for the Residential and Personal segment which focuses on the fixed-mobile and services convergence, PT presented the new MEO, with a rebranding and the launch of PT's first quadruple-play offer: M<sub>4</sub>O, which is a truly fixed-mobile convergent service. The M<sub>4</sub>O offer was extended to satellite costumers in July 2013, making the service available nationwide.



**Relevant Risks****Strategic Risks****Competition**

MEO's M<sub>4</sub>O enables a unique customer experience reflected in the: (i) billing, through a single invoice and value for the entire family, allowing total cost control; (ii) self care, with an integrated online portal for all products and services; (iii) CRM, allowing for an integrated customer view, and (iv) sales, giving PT's customers an integrated experience online and at the stores.

2) **Personal** : PT's strategy for the Personal customer segment is anchored on: (a) M<sub>4</sub>O, which is underpinning the transformation of the Portuguese mobile market by introducing convergence, which allows additional differentiation of commercial offers, while at the same time is shifting the focus from pre-paid to post-paid; (b) mobile data offers based on high quality network offering, best in class coverage and high capacity to meet customers demand for increasingly higher bandwidth and provide the best quality of service in the market. PT has the best 4G-LTE network coverage reaching 92% of the population and allowing speeds of up to 150 Mbps. PT is testing LTE-Advanced and has already achieved speeds of 300Mbps, preparing the evolution of its 4G-LTE offer.

Commercial offers include: (i) voice and data tariff plans designed to integrate seamlessly unlimited voice and data plans, targeted at the high value post-paid segments and, in the pre-paid segment, to prevent migration to the low value tariff plans by offering additional voice and data services; (ii) distinctive smartphone offering leveraging on a comprehensive portfolio of circa 30 smartphones, including exclusive handsets, and on innovative value added and convergent services to use on-the-go (mobile TV – MEO GO!; music on demand – Music Box; navigation app – MEO Drive, and Cloud PT, which offers 16Gb of cloud storage space for free); and (iii) mobile broadband competitive offers of up to 150Mbps speed, on 4G-LTE, and offering free access to PT's leading national WiFi network.

On January 2014, Portugal Telecom has changed the organisational model that supports its domestic business and operations, which resulted in the merger of the residential and personal segment into a single one – Consumer Segment. This organisational restructuring will reinforce the efficiency and effectiveness of its business processes.

3) **Enterprises**: In this customer segment, PT aims at growing its revenue base beyond connectivity and legacy services by seizing the ICT opportunity, including cloud, outsourcing and BPO, on the back of cutting-edge solutions for companies and future-proof data centre investments to meet demand for high bandwidth services and virtualisation.

PT has repositioned the M<sub>4</sub>O offer, available to the small and medium enterprises, in terms of pricing and adding more TV channels available. This includes the repositioning of IT portfolio, extending the existing tariff plans and creating new ones, in order to have a more comprehensive offer.

In 3Q13, PT launched the M<sub>3</sub>O Fibre, ADSL and Satellite offer, available to the small and medium size businesses, with pay-TV, fixed voice and mobile for the customers that do not want fixed broadband.

In what concerns the corporate segment, PT has simplified its commercial offer of Managed Services, discontinuing certain services and standardising its offer across all areas, WAN, LAN/WAN and voice.

**International Operations**

At the international level PT will remain focused on the operational performance of its assets and on the sharing of best practices across the various businesses. By reinforcing operational and commercial excellence in all operations and promoting the sharing of best-practices amongst all businesses, PT will be able to fully tap the potential of each operation, taking into account the market development status in all segments as well as its competitive positioning.

# 03 INTERNAL ORGANIZATION

## Relevant Risks

<p><b>Strategic Risks</b></p>	<p><b>Technological Innovation</b></p>	<p>With a background of quick technological changes of the business sector in which PT operates, the Company is subject to the risk of failing to leverage technological advances and developments in its business model, in order to obtain or maintain competitive advantages.</p> <p>Innovation continued to be a top priority for PT, given its key role in ensuring sustained growth, particularly in a difficult economic context which forces higher competitiveness in product offering and simultaneously demands a higher efficiency in its development and go-to-market processes.</p> <p>Therefore, a clear focus on innovation has been at the heart of PT's investments and projects in recent years, aiming to anticipate future consumer and technology trends, thus enhancing the company's ability to deliver disruptive solutions to the marketplace. PT developed a structured approach to promote the culture of innovation across the whole company and aiming to establish a balanced portfolio of projects. We are constantly reviewing allocation of capital, people and mindshare of the organisation across 3 time horizons and risk levels: (1) incremental innovation (business as usual, low-risk and short term optimisations); (2) planned innovation (business development, medium-term and medium-risk developments); and (3) exploratory innovation (structural projects, which are long-term and high-risk by nature). To develop a winning go-to-market strategy and reduce investment risks we work with a broad network of partners in leading edge companies, abroad and in Portugal.</p> <p>Additional detail regarding Technological Innovation that might impact the Company is included in the Research and Development chapter of the Annual Report.</p>
	<p><b>Economic environment</b></p>	<p>The international financial crisis may extend the recession at Portuguese and world economy level and delay economic recovery, which might have an impact on the level of product and service demand, and as a result on the level of the operational and financial performance of PT. In this sense, management continuously monitors impacts on the operational and financial performance of PT.</p> <p>The management team acts proactively in identifying threats and opportunities at the level of the industry, sector and geographies where it is present, in order to diversify the asset portfolio and ensure the growth and profitability of the business.</p>
<p><b>Financial Risks</b></p>	<p><b>Exchange rates</b></p>	<p>Foreign currency exchange rate risks relate mainly to Portugal Telecom's investments in Oi and Contax in Brazil, Unitel and other foreign operations, and to debt denominated in currencies different from the functional currency of the country where the borrowing company operates. Exchange rate fluctuations of those currencies against the Euro affect the translation of the results attributable to PT, and therefore impact PT's results and asset position. Additionally PT is also exposed to exchange rate risks as regards debt in a currency other than Euro.</p> <p>The risks related to debt denominated in currencies different from the Group companies' functional currencies were basically related to foreign currency debt contracted by Oi and its subsidiaries.</p> <p>The Company does not have a hedging policy regarding the value of these Investments; however the Executive Committee analyses the execution of cash flow hedging of the dividends and other capital income.</p> <p>Additional detail regarding exchange rate risks and its exposure that might impact the company is included in the Notes of the Financial Statements of the Annual Report.</p>

**Relevant Risks****Financial Risks****Interest rates**

Interest rate risk basically impact the Group's financial expenses and income on the floating interest rate debt and cash applications. Portugal Telecom is exposed to this risk primarily in the Euro zone and in Brazil.

The Group's proforma consolidated debt is subject to floating interest rates based on the following rates: (1) Euribor, applicable for certain loans obtained in the Euro zone; (2) TJLP, a long-term interest rate set by the National Monetary Council in Brazil; (3) IPCA, a Consumer Price Index published by the Brazilian Institute for Geography and Statistics; (4) CDI, an interbank rate for Brazilian Real-denominated debt; and (5) Libor, an interbank rate for US Dollar-denominated debt. With the purpose of reducing the impact of these risks, the Group entered into interest rate swaps, swapping floating rate into fixed rate debt.

The Oi debt is consolidated under the equity method in the Portugal Telecom financial statements.

Interest rate risks also result from the exposure to changes in the fair value of Portugal Telecom's long term fixed-rate debt due to changes in market interest rates.

Additional detail regarding interest rate risks that might impact the Company is included in the Notes of the Financial Statements of the Annual Report.

The purpose of the financial instruments entered into by Portugal Telecom is to reduce the risk of exposure to changes in interest and exchange rates.

The contracting of these derivatives is made after careful analysis of associated risks and rewards, taking into consideration information obtained from different institutions. These transactions are subject to authorisation from Portugal Telecom's Executive Committee. The fair value of these derivatives is determined on a regular basis, based on market information, in order to assess the economic and financial implications of different scenarios. The Executive Committee monitors regularly these financial risks.

Regarding Oi's financial instruments, which represent the major part of the Group's total financial instruments, Oi's Executive Committee annually agrees with the Board of Directors to follow a specific risk guideline, which is equivalent to the worst expected impact on financial income (expenses) of the net income of the Oi Group, with a 95% level of confidence. To ensure a proper risk management in accordance with the risk guideline, Oi may enter into hedging instruments, including derivative transactions such as swaps, currency forwards and options. Oi and its subsidiaries do not use derivative instruments for other purposes.

The exchange and interest rate financial instruments contracted by Oi are consolidated under the equity method in the Portugal Telecom financial statements.

Additional detail regarding financial instruments is included in the Notes of the Financial Statements of the Annual Report.

**Credit**

Credit risks relate mainly to the risk that a third party fails on its contractual obligations, resulting in a financial loss for PT Group. Portugal Telecom is mainly subject to credit risks in its operating and treasury activities.

Credit risks in operations relate to outstanding receivables from services rendered to our customers. These risks are monitored on a business-to-business basis, and PT's management of these risks aims to: (i) limit the credit granted to customers, considering the profile and the aging of receivables from each customer; (ii) monitor the evolution of the level of credit granted; (iii) perform an impairment analysis of its receivables on a regular basis; and (iv) assess the market risk where the customer is located.

Risks related to treasury activities result mainly from the cash deposits on investments made by PT Group. In order to dilute these risks, Portugal Telecom's policy is to invest its cash for short time periods, entering in agreements with reputable financial institutions and diversifying counterparties.

# 03 INTERNAL ORGANIZATION

## Relevant Risks

<b>Credit</b>	<p>As of 31 December 2013, Portugal Telecom had an account receivable from Unitel related with dividends from fiscal years 2012 and 2011, in the amount of 206 million Euro, having received the last payment of dividends in November 2012. For certain dividend payments Unitel is awaiting the authorisation from the Central Bank of Angola and for other amounts due the authorisation was received but Portugal Telecom has not yet received them.</p> <p>Additional detail regarding credit risks that might impact the Company is included in the Notes of the Financial Statements of the Annual Report.</p>
<b>Liquidity</b>	<p>These risks may occur if funding sources, such as available funds, operational cash-flows and funds obtained through disinvestment, credit lines and cash-flows, fail to meet existing needs, such as disbursements for operational activities and funding for investment, shareholder remuneration and debt reimbursement.</p> <p>In order to mitigate these risks, Portugal Telecom seeks to keep a liquidity position and an average debt maturity permitting it to repay its short-term debt, and settle its contractual obligations at the same time. Additionally, Portugal Telecom's capital structure is managed in such a way as to ensure its capacity to pursue its various businesses and maximise shareholder return. PT reviews its capital structure from time to time, taking into consideration the risks associated to each capital class.</p> <p>Additional detail regarding liquidity risks that might impact the Company is included in the Notes of the Financial Statements of the Annual Report.</p>
<b>Operational Risks</b>	<p><b>Infrastructure capacity</b></p> <p>The capacity and availability of network infrastructures are essential features for PT to ensure continued critical operations within high quality parameters aimed not only at customer satisfaction, but also in compliance with regulatory requirements. In this way, PT has strongly emphasised the management process of this risk, not only at infrastructure availability and resilience level, but also in the increase of infrastructure capacity, in such a way as to support new product and service offers to its customers. Additionally, PT's ownership of a network infrastructure located in the public domain increases PT's exposure to the occurrence of breakdowns and incidents.</p> <p>Within this scope, follow-up and risk mitigation actions are carried out as follows:</p> <ul style="list-style-type: none"> <li>• Securing the telecommunications core network;</li> <li>• Preparation of risk maps for the various technological platforms, identifying dependencies and single failure points;</li> <li>• Definition and implementation of disaster recovery plans;</li> <li>• Implementation of systems and procedures aimed at ensuring determined QoS (Quality of Service) and QoE (Quality of End user Experience) levels;</li> <li>• Investment in new generation networks and preventive maintenance actions;</li> <li>• Investment in information systems to support the activity of technical teams;</li> <li>• Investment in a new state of the art Data centre, in order to ensure the resilience and capacity of the infrastructure.</li> </ul> <p>Increased resilience of the core services of PT through the work of the Business Continuity should also be highlighted, in particular the company's ability to respond to incidents and disaster in the following areas:</p> <ul style="list-style-type: none"> <li>• <b>Prevention:</b> Planning and preparation in order to reduce the impact of incidents on critical processes supporting the business;</li> <li>• <b>Emergency response and recovery:</b> Business continuity and disaster recovery plans that reduce the time of recovery of critical processes in case of catastrophic events.</li> </ul>

**Relevant Risks**

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

In the context of the PT/Oi merger, during 2014, the risk factors will be reviewed and reassessed after the conclusion of the transaction and in line with its outcome.

**Risk Management**

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

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

# 03 INTERNAL ORGANIZATION

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

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

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

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

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

Further to the above, PT believes to fully comply with IPCG Recommendation no. VI.3.

## Risk Management Procedure

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



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

- **Risk Dictionary** to ensure the description, in a clear objective manner, of a common risk language to be used both internally and in the various disclosures made to the market on this matter;
- **Risk Management Methodology**, which formalises the relevant risk identification, analysis, mitigation and report processes and procedures;
- **Centralised Risk Record** of all information associated to each relevant risk, which simplifies the correlation analysis between the various risk factors recorded, as well as the ranking of the priority for each risk response and the identification of synergies between the various risk mitigation actions.

It should be stressed that the instituted model also addresses the corporate sustainability goals classified as strategic for PT Group, and it is subject to analysis and benchmarking to the industry best practices by the Dow Jones Sustainability Index. It should also be stressed that, in 2009, 2010, 2011 and 2012, PT was recognised in this matter with a 97% classification within the evaluation procedure for incorporation in such index.

### Risk Dictionary

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

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

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

# 03 INTERNAL ORGANIZATION

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

<b>Strategic Risks</b>	Competition Economic Environment Innovation Shareholder Expectations Legal Tax Regulation Customer Needs	Politics   Sovereignty Business Sector Governance Reputation & Image Licence   Concession Management Business   Investment Portfolio Social Environment & Stakeholder Relationship
<b>Operational Risks</b>	Environmental Sales channel & customer support Network   Platform Infrastructure IS   IT Infrastructure Development of Products & Services Brand Erosion Service Failure   Product Deficiency Logistics Hygiene & Safety Inefficiency Business Interruption Talent procurement   Development & Retention	Service Quality Purchases Partner Management   Outsourcing Revenue Assurance   Billing Authority   Limits Communication Leadership Performance Incentives Information Security, Data Privacy & Asset Protection Fraud Organisation Structure Performance Evaluation Pricing Contractual commitments   Contractual management
<b>Financial Risks</b>	Credit Equity Exchange Interest rates Cash-flow   Liquidity	Financial Instruments Access to Funding Financial Reporting Stock Value Guarantees

## Risk Management Methodology

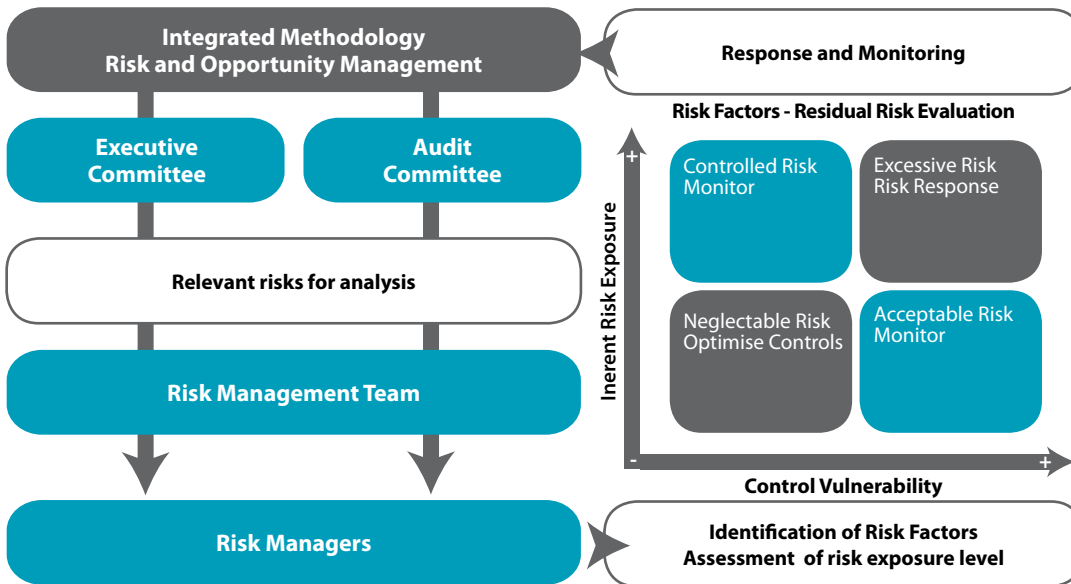
The risk management methodology formalises procedures and responsibilities that are properly aligned with the strategy and exposure level/risk tolerance determined for PT Group. This tool identifies:

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

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

**Risk Management Methodology**

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



During the 2013 financial year, a re-evaluation was carried out on the risk areas that might affect, in a more significant manner, PT Group's capacity to achieve its strategic goals, namely: (i) scale growth; (ii) increase in international contribution; (iii) leadership of consumer market in convergence and of corporate market in ICT; (iv) top tier in the sector in technology, customer experience and operational efficiency; (v) be a reference of corporate sustainability in countries where PT Group operates.

# 03 INTERNAL ORGANIZATION

Following this analysis, relevant risks were ranked for analysis and detailed assessment, which involved 44 departments/operational areas charged with the management of such risks, in order to identify events and factors that might affect PT Group's operations and activities, as well as the control procedures and mechanisms associated thereto.

The impact and probability of occurrence was measured for each of the 323 identified risk factors, and, according to the level of exposure or residual risk, a risk response strategy was defined, namely: *(i)* to reduce the risk through implementation of controls reducing the probability of risk occurrence or its impact in case the risk materialises; *(ii)* to accept the risk in situations where the residual risk is deemed acceptable and the cost of implementation of additional controls exceeds the expected benefits; *(iii)* to share the risk, by reducing the exposure of PT Group through the total or partial transfer to other entities, resorting to insurance, derivatives or joint-ventures; or *(iv)* to avoid the risk, by abandoning the business or procedures generating such risk (e.g.: abandoning a geographical area or a business). It should be stressed that an analysis was made to the implementation status of the mitigation measures planned for 2012, and it was observed that all actions classified with high priority in terms of risk mitigation were timely implemented.

## Centralised Risk Record

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

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

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

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

## IV. INVESTOR SUPPORT

### 56. Investor Support Office, composition, duties, information provided by the same and contact details

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 Support 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 PT Group as a whole. It also provides all sorts of clarifications to the financial community in general – shareholders, investors and analysts.

During 2013, PT pursued its investor relation activities, and held several events, notably road shows, presentations to investors and analysts, meetings and conference calls, and it has taken part in conferences in Europe and the United States.

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

<b>Nuno Vieira</b>	<b>Investor Relations Office</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
Website	<a href="http://www.telecom.pt">http://www.telecom.pt</a> ; <a href="http://ir.telecom.pt">http://ir.telecom.pt</a>

In addition to other information, the Investor Relations Office keeps the following information updated on PT's website, in Portuguese and in English, therefore PT is fully compliant with CMVM Recommendation no. VI.1 and IPCG Recommendation no. II.1.2:

- Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- The Bylaws;
- Operating rules of the corporate bodies and of the committees created within the Board of Directors;
- The identity of the members of the corporate bodies and of the representative for relations with the market;
- Duties of and access means to the Investor Relations Office as described above;
- For a period of five years, the annual, interim and quarterly financial statements;
- A schedule of corporate events, which includes, among other information, scheduled General Meetings of shareholders and disclosure of annual, interim and quarterly accounts;

# 03

## INTERNAL ORGANIZATION

- Notices of the General Meetings of shareholders, as well as proposals to be submitted to discussion and voting by the shareholders, at least 21 days in advance of the meeting date;
- Historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results, regarding the previous three years;
- In general, information allowing an updated knowledge about the Company's evolution and reality in economic, financial and corporate governance terms.

### **57. Representative for relations with the market**

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

### **58. Information on response proportion and period to information requests made during the year or pending from previous years**

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

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

Therefore, PT believes that its Investor Relations Office ensures a permanent contact with investors, analysts and the market in general as well as a treatment and record of investors' requests in compliance with CMVM Recommendation no. VI.2 and IPCG Recommendation no. I.1.1.

## V. WEBSITE

Regarding the information included in points 59 to 65 of Part I of the form attached to CMVM Regulation no. 4/2013, please refer to point 56 of Part I above.



# 04



## REMUNERATION

<b>00 INTRODUCTION</b>	<b>09</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>	
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>	
<b>04 REMUNERATION</b>		
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>87</b>	
<b>06 APPENDIX</b>	<b>99</b>	
		<b>I. COMPETENCE FOR DETERMINATION</b> 76
		<b>II. COMPENSATION COMMITTEE</b> 76
		<b>III. REMUNERATION STRUCTURE</b> 78
		<b>IV. REMUNERATION DISCLOSURE</b> 82
		<b>V. AGREEMENTS WITH REMUNERATION IMPLICATIONS</b> 84
		<b>VI. SHARE ALLOTMENT OR STOCK OPTION PLANS</b> 85

# 04 REMUNERATION

## I. COMPETENCE FOR DETERMINATION

### 66. Competence for the determination of the remuneration of corporate bodies, members of the Executive Committee and Company's officers

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

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

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

## II. COMPENSATION COMMITTEE

### 67. Composition of the Compensation Committee, including the identification of the persons or corporations hired to support it and independence statement regarding each of its members and consultants

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

#### Composition

Álvaro Pinto Correia	Chairman
Francisco Esteves de Carvalho	Member
Francisco Barros Lacerda <sup>(1)</sup>	Member
António Sarmento Gomes Mota <sup>(2)</sup>	Member

<sup>(1)</sup> Office suspended since 24 August 2012. | <sup>(2)</sup> Elected on 19 April 2013 to complete the current term of office.

Notwithstanding the necessary articulation of this Committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body. No member of the Compensation Committee is a member of any corporate body or committee within the Company, and no member of the Compensation Committee has any family connection to any member of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree. PT therefore complies with CMVM Recommendation no. II.3.1 and IPCG Recommendation no. V.2.1.

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

the Compensation Committee as provided for under the Internal Regulation of the Evaluation Committee.

As an example, the Evaluation Committee shall:

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

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

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

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

As such, during the 2013 financial year, for the purpose of performance of its duties the Compensation Committee did not resort to the services of any physical person or legal entity, notably companies hired by PT or of the current consultants to the Company for the provision of other services. Therefore, PT complies with CMVM Recommendation no. II.3.2 and IPCG Recommendation no. V.2.5.

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

## **68. Knowledge and experience of the members of the Compensation Committee in the matter of remuneration policy**

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy. Some of them belong or have belonged to compensation committees of other listed companies.

# 04 REMUNERATION

## III. REMUNERATION STRUCTURE

### **69. Description of the remuneration policy for the members of the management and supervisory bodies as referred to under article 2 of law no. 28/2009 of 19 June 2009**

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the supervisory body) in force during the 2013 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2013 annual General Meeting of shareholders, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009, and IPCG Recommendation no. V.2.2. Such declaration is reproduced in Appendix III hereto.

The relative significance of the variable and fixed components of director remuneration, as well as an indication of the maximum limits for each component, that were in force during the 2013 financial year are described on the declaration on remuneration policy set out in Appendix III.

In line with IPCG Recommendation no. V.2.4, the Chairman of the Compensation Committee was present in the Company's 2013 Annual General Meeting, therefore being able to provide the clarification deemed necessary regarding the remuneration policy submitted.

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

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

The remuneration policy applicable to the non-executive members of the Board of Directors (including the members of the Audit Committee) does not include any variable component, i.e., whose amount depends on the Company's performance or value. PT therefore complies with CMVM Recommendation no. III.2 and IPCG Recommendation no. V.2.2.

The possibility of granting a bonus to the Chairman of the Board of Directors in function of the evaluation of the performance of his duties, as described in the statement contained in Appendix III, not only is not dependent on the Company's performance, but also has ceased to be applicable as a result of the combination of executive duties occurred in the meantime. The Chairman of the Board of Directors and of the Executive Committee, as well as the other executive directors, benefits from the variable component set forth in the remuneration policy in force.

The variable remuneration of executive directors is dependent on the achievement of pre-determined goals, and it may amount to 160% of the fixed remuneration (50% being deferred for a three-year period, as described below) in the event of a 100% pre-determined goal achievement, in line with the values fixed for the remuneration policy during the previous term of office.

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

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

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

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

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

At the Annual General Meeting of shareholders to be held in 2014, the declaration of the Compensation Committee on the remuneration policy for the members of PT's management and supervisory bodies for 2014 will similarly be submitted to the shareholders under an autonomous item on the agenda. Such declaration will essentially maintain the policy defined in 2012 and approved by the General Meeting of shareholders held on 27 April 2012.

## **70. Information on the how the remuneration is structured in order to permit the alignment of the directors' interests with long term interests of the Company, as well as how the remuneration is based on performance and disincentives excessive risk taking**

As results from the remuneration policy in force in 2013, described in point 69 of Part I above and Appendix III hereto, the remuneration consists of a fixed component and a variable component (with the attribution of the latter depending on the level of attaining pre-determined criteria and the payment of 50% of the same deferred for three years and conditioned to the maintenance of a positive performance during such period) and is structured in such a way as to permit the alignment of the interests of the management body's members with long-term interests of the Company, and it is based on performance evaluation and is a disincentive to excessive risk taking.



# 04 REMUNERATION

Considering the above, PT fully complies with CMVM Recommendation no. III.1, as well as IPCG Recommendations no. V.3.1 and V.3.2.

## **71. Reference, if applicable, to the existence of a variable component of the remuneration and information on the way as such component depends on performance evaluation**

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

## **72. Deferment of payment of the variable component of the remuneration, mentioning the deferment period**

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

For further information on the conditions of payment of deferred amounts, please see the remuneration policy for PT's corporate bodies as effective in 2013 attached hereto as Appendix III.

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

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

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

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

Thus, as results from the 2013 remuneration table, 50% of the total amount of variable remuneration attributed to the executive directors in such financial year was subject to deferral, in the terms of the executive director remuneration policy in force, for a period of 3 years and subject to the conditions defined, with payment of the amounts thus deferred having to be made before the elapsing of said period in the terms established in the remuneration policy (see the statement on the remuneration policy attached hereto as Appendix III).

Additionally, as described under the remuneration policy in force during the 2013 financial year and attached hereto as Appendix III, unless otherwise agreed or resolved by the Compensation Committee, PT and its directors shall act in compliance with the general principle according to which directors shall not execute any agreements, whether with the Company or with a third party, that might result in mitigating the risk inherent to the variability of the remuneration as determined for them by the Company.

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

### **73. Criteria on which the allocation of a variable remuneration in shares is based; executive directors keeping any shares granted them in the Company; any agreement executed as to such shares, notably hedging or risk transfer agreements, the limit thereof, and their relationship to the amount of the overall annual remuneration**

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

### **74. Criteria on which the allocation of a variable remuneration in options is based, and indication of deferment period and exercise price**

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

### **75. Main parameters of and grounds for any annual bonus system and any other non-pecuniary benefits**

In 2013, there were no significant bonus, annual bonus or non-pecuniary benefit systems of any nature whatsoever in force in PT.

### **76. Main characteristics of complementary pension or early retirement systems for directors, specifying whether the same were subject to appraisal, in individual terms, by the General Meeting of shareholders**

One director is covered by the pension benefit plan sponsored by PT (TLP), which plan benefits over 11,000 employees and former employees. There is no pension or early retirement plans in force for PT's directors. See information included on Note 14 to the financial statements for the 2013 financial year.



# 04 REMUNERATION

## IV. REMUNERATION DISCLOSURE

### 77. Remuneration individually and globally earned by the members of the Company's management body

Pursuant to Law no. 28/2009 of 19 June 2009, individual and global remunerations paid to the members of the management body and Audit Committee of the Company in 2013 are shown hereinafter:

	Remuneration Paid in 2013 (Euros)			Committees as of 31 December 2013		
	Fixed 2013	Variable 2012 (a)	Total	Audit	Corporate Governance	Evaluation
<b>Executive Committee</b>						
Henrique Manuel Fusco Granadeiro (b)	347,519	-	347,519		Chairman	Member
Zeinal Abedin Mahomed Bava (c)	425,113	588,315	1,013,428			
Luís Miguel da Fonseca Pacheco de Melo	486,526	267,416	753,942			
Manuel Francisco Rosa da Silva	486,526	267,416	753,942			
Carlos António Alves Duarte	486,388	267,416	753,804			
Shakhaf Wine (d)	486,526	267,416	753,942			
Alfredo José Silva de Oliveira Baptista	486,526	267,416	753,942			
Pedro Humberto Monteiro Durão Leitão	486,388	267,416	753,804			
	<b>3,691,511</b>	<b>2,192,811</b>	<b>5,884,322</b>			
<b>Audit Committee</b>						
João Manuel de Mello Franco	271,404	-	271,404	Chairman	Member	Chairman
José Guilherme Xavier de Basto	126,574	-	126,574	Member		
Mário João de Matos Gomes (e)	183,736	-	183,736	Member		
	<b>581,714</b>	<b>-</b>	<b>581,714</b>			
<b>Board of Directors</b>						
Henrique Manuel Fusco Granadeiro	319,938	-	319,938			
Joaquim Aníbal Brito Freixial de Goes	132,174	-	132,174		Member	Member
Gerald Stephen McGowan	88,116	-	88,116		Member	
Amílcar Carlos Ferreira de Morais Pires	44,058	-	44,058			
Francisco Teixeira Pereira Soares	132,174	-	132,174		Member	Member
Nuno Rocha dos Santos de Almeida e Vasconcellos	44,058	-	44,058			
Rafael Luís Mora Funes	132,174	-	132,174		Member	Member
Paulo José Lopes Varela	88,116	-	88,116		Member	
Maria Helena Vaz de Carvalho Nazaré	44,058	-	44,058			
Otávio Marques de Azevedo	88,116	-	88,116			Member
Fernando Magalhães Portella	44,058	-	44,058			
Milton Almicar Silva Vargas	88,116	-	88,116			Member
João Nuno de Oliveira Jorge Palma (f)	-	-	-			
José Pedro Cabral Santos (f)	-	-	-			
	<b>1,245,156</b>	<b>-</b>	<b>1,245,156</b>			
	<b>5,518,381</b>	<b>2,192,811</b>	<b>7,711,192</b>			

(a) According to the remuneration policy in force, the amount in this column corresponds to 50% of the variable remuneration regarding the 2012 financial year and paid in 2013. The payment of an equal amount was deferred until 2016. | (b) As from 4 June 2013, director Henrique Granadeiro accumulated the duties of CEO and Chairman of the Board of Directors (the latter he already was). | (c) Director Zeinal Bava was CEO until 4 June 2013, when he terminated his office as director of PT SGPS. | (d) The remuneration of the executive director Shakhaf Wine is paid through PT Brasil, PT's subsidiary in Brazil, in local currency, with the corresponding amount in Euro being presented in the table above. | (e) In addition to the amount specified on the table above paid by PT, non-executive director Mário de Matos Gomes was also paid a remuneration in the amount of Euro 7,838 by Previsão – Sociedade Gestora de Fundos de Pensões, SA for the office of Chairman of the Supervisory Board he performs therein. | (f) Non-executive directors João Nuno de Oliveira Jorge Palma and José Pedro Cabral dos Santos waived their remuneration due to incompatibility with other professional duties. They resigned to their office on 24 October 2013.

The variable remuneration paid to the members of the Executive Committee in the 2013 financial year set out above refers to the performance of the executive directors during the financial year ended on 31 December 2012.

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

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

During the 2013 financial year, the Company neither adopted nor kept in force any share allotment or share call option plans to the benefit of members of the management or supervisory bodies (or any other officers in the meaning of article 248B of the Portuguese Securities Code).

Remunerations earned by the members of the management and supervisory bodies are listed in aggregate on Note 48 to the consolidated financial statements for the year of 2013.

## **78. Amounts paid, for any reason whatsoever, by other companies in a control or group relationship or subject to common control**

During the 2013 financial year, no amounts other than those referred to in point 77 of Part I above were paid to PT executive directors (or non-executive directors) by companies in a control or group relationship.

Additionally, it should be mentioned that, during the 2013 financial year, Brazilian companies integrated in Oi Group and Contax Group (both jointly controlled by PT) paid to 6 directors of PT, for the performance of executive duties in those companies, an overall amount in local currency, net of any deductions due under Brazilian law, corresponding to Euro 355,783. This amount has been determined by those companies' competent corporate bodies under Brazilian law.

## **79. Remuneration paid in the form of profit sharing and/or bonus payment, and the reasons why such bonuses and/or profit sharing were granted**

The remuneration policy of the members of the Board of Directors does not provide for the allocation, in general terms, of this type of remuneration, without prejudice to the possibility of allocation of a bonus to the Chairman of the Board of Directors (please refer to the remuneration policy that was in force in the 2013 financial year and is attached hereto as Appendix III).

However, bearing in mind the combination of executive duties in the Chairman of the Board of Directors, this possibility was no longer applicable, with the Chairman of the Board of Directors and Chairman of the Executive Committee as well as the other executive directors coming to benefit from the estimated allocation of variable remuneration in the terms of the remuneration policy in force.

# 04 REMUNERATION

## **80. Compensations paid or due to former executive directors in respect of termination of office during the financial year**

Pursuant to the management agreements executed with executive directors at the beginning of their respective terms of office, there are responsibilities for the termination of office. In 2013, no compensations were paid to former directors.

## **81. Remuneration individually and globally earned by the members of the Company's supervisory body**

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

## **82. Indication of the remuneration of the Chairman of the Board of the General Meeting of shareholders**

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

## **V. AGREEMENTS WITH REMUNERATION IMPLICATIONS**

### **83. Contractual limitation as established for any compensation to be paid upon removal without just cause of a director, and its relationship with the variable component of the remuneration**

Without prejudice to the next paragraph, in 2013, no limits were contractually established for any compensation to be paid upon removal without just cause of a director, other than as provided for by law.

Nevertheless, as described under the remuneration policy attached hereto as Appendix III, which was in force during the 2013 financial year, unless otherwise agreed or resolved by the Compensation Committee, PT and its directors shall act in compliance with the general principle whereby, in the event of removal or termination by mutual agreement of the management relationship, no indemnification or compensation will be paid, apart from those set forth by law, where such removal or termination is provenly due to inappropriate performance.

Since such principle is included in its remuneration policy – which is submitted to the General Meeting of shareholders each year – it is PT's understanding that such instrument is appropriate and sufficient to discipline this matter, and so there is no need to establish any other contractual special instruments forbidding the payment of indemnification or compensation, apart from those set forth by law, in case of inappropriate performance by the director. In this way, PT complies with CMVM Recommendation no. III.8.

**84. Agreements with members of the board and officers providing for compensation in the event of termination of office following a change of control**

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

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

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

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

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



# 05



## RELATED PARTY TRANSACTIONS

<b>00 INTRODUCTION</b>	<b>09</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	<b>13</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>	<b>19</b>	
<b>03 INTERNAL ORGANISATION</b>	<b>55</b>	
<b>04 REMUNERATION</b>	<b>75</b>	
<b>05 RELATED PARTY TRANSACTIONS</b>	<b>99</b>	
<b>06 APPENDIX</b>	<b>99</b>	
		<b>I. CONTROL MECHANISMS AND PROCEDURES</b>
		<b>88</b>
		<b>II. TRANSACTION DETAILS</b>
		<b>88</b>
		<b>CORPORATE GOVERNANCE EVALUATION</b>
		<b>89</b>

# 05 RELATED PARTY TRANSACTIONS

## I. CONTROL MECHANISMS AND PROCEDURES

### 89. Mechanisms implemented by the Company to control related party transactions

In December 2009 and December 2010, the Regulation on related party transactions was subject to some changes essentially aimed at adjusting it to the modifications made to IAS 24 and to the Corporate Governance Code issued by CMVM, as well as adopting the market best practices in this matter.

According to the current version of this Regulation, notwithstanding its exclusion of certain transactions (notably if carried out under normal market conditions), in case of transactions between PT, or any of its subsidiaries, and related parties, including owners of qualified holdings or entities in a relationship with the same pursuant to article 20 of the Portuguese Securities Code, or any renewals thereof, the aggregate amount per party of which is in excess of Euro 100,000 (one hundred thousand Euros) per quarter, the execution of the same may be approved only upon a prior favourable opinion by the Audit Committee confirming that, in view of the justification submitted, the proposed transaction complies with the rules on conflicts of interest and observes the principle of equal treatment of suppliers or service providers of PT Group, notably as to the agreed terms and conditions.

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

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

Finally, and as mentioned in Note 48 to the consolidated financial statements for the year of 2013, the transactions executed in 2013 between the Company and the owners of qualified holdings (and related entities under article 20 of the Portuguese Securities Code) were executed in normal market conditions. Therefore, PT believes to comply with CMVM Recommendations no. V.I and V.2.

### 90. Transactions subject to control

During the 2013 financial year, 2 transactions with related parties, in an average amount of Euro 8,100,000 and a maximum amount of Euro 16,000,000, were submitted to the prior opinion of the Audit Committee.

### 91. Intervention of the supervisory body in the prior evaluation of transactions with owners of a qualified holding

Regarding this matter, please see point 89 of Part I above.

## II. TRANSACTION DETAILS

### 92. Location, in the annual financial statements, where information on related party transactions, in accordance with IAS 24, is available

PT's related party transactions are described on Note 48 to the consolidated financial statements for the year of 2013.



## PART II – CORPORATE GOVERNANCE EVALUATION

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

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

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

The integrity, transparency and strictness of PT's governance model 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, the Dodd-Frank Act's implementation rules and Section 303A Corporate Governance Standards approved by NYSE, all as described in Appendix II hereto.

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

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

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

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

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

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<sup>1</sup> Available at [www.cmvm.pt](http://www.cmvm.pt)  
(<http://www.cmvm.pt/EN/Recomendacao/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.pdf>).

# 05

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

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

2013 constituted a period of reflection and discussion in respect of said regulatory and recommended framework that only in 2014 achieved the necessary stability. All along 2013, Portugal Telecom has continued its consolidation task as to the Company's governance principles and practices, in line with the regulatory framework in force until 1 January 2014, and participated in the mentioned period of reflection and discussion.

On the other hand, pursuant to the business combination between PT and Oi, SA, which was announced in 2013, the Company has entered in a transition stage culminating, upon completion of this transaction, in the admission to trading of the shares of the combined entity – which will incorporate PT – on the Novo Mercado segment of BM&FBOVESPA, as well as on the Euronext and the NYSE. The listing requirements of these stock exchanges will also underpin the highest standard of corporate governance.

Considering this transition stage of the regulatory and recommended framework and of the Company's situation, PT feels it is appropriate to maintain a certain stability regarding recommendations which serve as a reference for the declaration of compliance to be included in this report referring to 2013, thus following to this end the CMVM Code.

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

- Observe all legal rules of a binding content applicable to the Anglo-Saxon-type corporate governance model as provided for under article 278,1(b) of the Portuguese Companies Code;
- Comply with all rules of a binding content on the creation of an Audit Committee pursuant to the Sarbanes-Oxley Act, Rule 10A-3 of SEC and Section 303A on Corporate Governance Standards of NYSE and fall under an exemption for foreign private issuers approved by the SEC and the NYSE regarding the creation of a Compensation Committee exclusively composed of independent directors (a model proposed by the Dodd-Frank Act and different from the Portuguese tradition set forth in the Portuguese Companies Code and CMVM and IPCG Recommendations); and
- Have progressively been taking in the recommendations and best practices in this field that may contribute to reinforce its governance model and practices, consistently presenting a high level of compliance.

The Company adopts the CMVM Recommendations, except for Recommendations no. I.3, no. I.4, no. II.2.1 and no. II.3.3 b), which are not complied with for the reasons identified hereunder.

The high level of compliance with the best governance practices by Portugal Telecom has been recognised by CMVM (i) which considered, in its Annual Report on the Governance of Listed Companies in Portugal for 2011, that overall the Company complied with 98% of CMVM Recommendations then in force and (ii) which, so far, did not notify the Company of any disagreements regarding its 2012 annual governance report.

Even though it has not been possible to reflect more deeply and weigh up the implementation of the recommendations appearing in the IPCG Governance Code recently published in February 2014 (IPCG Recommendations), at the time of this report, the Company believes it is now fulfilling a significant number

of such recommendations, emphasising the following:

- The IPCG Recommendations included in parts I.1, I.3 and I.5 on “Relation of the company with investors and information”, “Relationship between corporate bodies” and “Governance Report” (see, in this report, points 56 and 57 of Part I; points 17 and 21 to 23 of Part I; and Part II);
- Certain IPCG Recommendations deemed most relevant by the Company in parts I.2, I.4 and III on the operations of the corporate bodies and executive management, especially through internal regulations applicable to the management and supervisory bodies (e.g. rule on conflicts of interests on a Board level, delegation of competences and information flows between such bodies and the Executive Committee) and the mechanisms for dealing with irregularities (see, in this report, points 17, 21 to 23, 27, 34, 35 and 49 of Part I);
- The IPCG Recommendations included in parts II and IV to VI relating to “Shareholders and General Meeting”, “Supervision and Monitoring”, “Performance Evaluation and Remuneration”, “Risk Management” and “Financial Information” (see, in this report, points 56 and 82 of Part I; and points 17, 18, 20, 21, 27, 44 to 46, 50 to 55 and 66 to 88 of Part I as well as Appendix I).

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

#### CMVM Recommendation

	Compliance	Report
<b>I. Voting and corporate control</b>		
I.1 Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Yes	Point 12
I.2 Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than the one provided for by law.	Yes	Point 14
I.3 Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	No (a)	—
I.4 The company's articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or jointly with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals), on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution all votes issued are to be counted without applying said restriction.	No (b)	—
I.5 Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Yes	Point 4
<b>II. Supervision, Management and Oversight</b>		
<b>II.1 Supervision and Management</b>		
II.1.1 Within the limits established by law, and except for small-sized companies, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	Yes	Point 21
II.1.2 The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: (i) define the strategy and general policies of the company, (ii) define business structure of the group, (iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Point 21

## CMVM Recommendation

	Compliance	Report
II.1.3 The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	Not Applicable	—
II.1.4 Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: (a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees; and (b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Yes	Points 21 and 27
II.1.5 The Board of Directors or the General and Supervisory Board, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Yes	Points 50 to 55
II.1.6 The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Yes	Point 17
II.1.7 Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to: <ul style="list-style-type: none"> <li>a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years;</li> <li>b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person;</li> <li>c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member;</li> <li>d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings;</li> <li>e. Being a qualifying shareholder or representative of a qualifying shareholder.</li> </ul>	Yes	Point 18
II.1.8 When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Yes	Point 21
II.1.9 The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	Yes	Point 23
II.1.10 If the chairman of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so these can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.	Yes	Point 17

**CMVM Recommendation**

	Compliance	Report
<b>II.2 Supervision</b>		
II.2.1 Depending on the applicable model, the Chairman of the Supervisory Board, the Audit Committee or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	No (c)	Point 32
II.2.2 The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Point 21
II.2.3 The supervisory board shall assess the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of its services when there is a valid basis for said dismissal.	Yes	Point 45
II.2.4 The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	Yes	Point 21
II.2.5 The Audit Committee, the General and Supervisory Board and the Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties are concerned.	Yes	Point 21
<b>II.3 Remuneration Setting</b>		
II.3.1 All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	Point 67
II.3.2 Any natural or legal person that provides or has provided services in the past three years to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Point 67
II.3.3 A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law no. 28/2009, of 19 June, shall also contain the following:	Partial compliance	
a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies;	Yes	Points 69 to 71
b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable;	No (d)	—
d) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.	Yes	Point 80
II.3.4 Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	Not Applicable	Points 73 and 74
II.3.5 Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said scheme.	Not Applicable	—
<b>III. Remuneration</b>		
III.1 The remuneration of the executive members of the board shall be based on actual performance and shall discourage excessive risk-taking.	Yes	Point 70
III.2 The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value.	Yes	Point 77

**CMVM Recommendation**

	<b>Compliance</b>	<b>Report</b>
III.3 The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	Yes	Point 69
III.4 A significant part of the variable remuneration should be deferred for a period not less than three years, and the right to receive it shall depend on the continued positive performance of the company during that period.	Yes	Point 72
III.5 Members of the Board of Directors shall not enter into contracts with the company or with third parties with the purpose of mitigating the risk inherent to remuneration variability set by the company.	Yes	Point 72
III.6 Executive board members shall maintain the company's shares that were allotted to them by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their term of office.	Not Applicable	—
III.7 When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Not Applicable	—
III.8 When the removal of a board member is not due to serious breach of his duties nor to his unfitness for the normal exercise of his functions but is yet due to inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Yes	Point 83
<b>IV. Auditing</b>		
IV.1 The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.	Yes	Point 45
IV.2 The company or any entity with which it maintains a control relationship shall not engage the external auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the supervisory board and explained in its Annual Report on Corporate Governance - these should not exceed more than 30% of the total value of services rendered to the company.	Yes	Point 46
IV.3 Companies shall support auditor rotation after two or three terms of office, depending on the term of office being of four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of the auditor's independence and the benefits and costs of its replacement.	Yes	Point 44
<b>V. Conflicts of Interest and Related Party Transactions</b>		
V.1 The company's business with holders of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code shall be conducted in normal market conditions.	Yes	Point 89
V.2 The supervisory or oversight board shall establish the necessary procedures and criteria to define the relevant level of significance of business with owners of qualified holdings or entities with which they are in any of the relationships described in article 20,1 of the Portuguese Securities Code. Execution of significant relevant business shall be dependent on prior opinion of said body.	Yes	Point 89
<b>VI. Information</b>		
VI.1 Companies shall provide, via their websites in both Portuguese and English language, access to information on their progress as regards the economic, financial and governance state of play.	Yes	Point 56
VI.2 Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion, and a record of the submitted requests and their processing shall be kept.	Yes	Points 56 and 58

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

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

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

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

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

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

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

It should be stressed, in fact, that the issue concerning proportionality between ownership and control of the shares held in listed companies has been widely discussed in the European Union, and several studies were produced and concluded that it is impossible to establish a clear causal connection between deviations from proportionality and the financial performance or corporate governance of a listed company.

### **b) CMVM Recommendation no. I.4 on Bylaws limitations to voting right exercise**

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

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



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

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

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

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

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

### **c) CMVM Recommendation no. II.2.1 on the independence of the Chairman of the Audit Committee**

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

For reasons as best explained in point 32 of Part I hereof, the Company disagrees with CMVM's position, as it is the Company's understanding that the Chairman of the Audit Committee is independent and has all appropriate training and knowledge.

Considering, based on legal opinions and as detailed in point 32 of Part I above, that the abovementioned provision does not determine an automatic loss of independence in the case under appraisal, Portugal Telecom has carried out a material overall assessment of the independence of the Chairman of the Audit Committee and concluded that he is independent, since he is in no way associated to any specific interest group within the Company or under any circumstance capable of affecting his impartial analysis or decision.

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

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

As such, the profile of the Company's Audit Committee's Chairman is fully in line with the objectives sought by CMVM Recommendation no. II.2.1, in the sense of this role being assumed by an impartial director who has suitable competences for contributing to the effective performance of duties by the supervisory body.

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

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

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

Bearing in mind the date of approval (19 March 2013) of the statement on the remuneration policy referring to the 2012-2014 term of office submitted to the last annual General Meeting of Portugal Telecom and the deadline for calling annual general meetings which expired on 31 May 2013, when such statement was approved by the Compensation Committee of Portugal Telecom, or of any other listed company, such bodies were not yet aware of the CMVM Code in its version published in July 2013. As such, this recommendation (the wording of which strictly respects to disclosure matters) shall be considered non-applicable to the statements made at the annual general meetings held in 2013.

In any case, Portugal Telecom considers that, whether on the date of said general meetings or of publication of the CMVM Code in July 2013, the shareholders, investors and the market in general were already in a position materially equivalent to the one in which they would have been had such information been included in the statement.

# 05

Thus, the shareholders were and are in a position, considering the amounts of fixed remuneration disclosed in the 2012 governance report and the limits applicable to the variable remuneration included in the statements on the remuneration policy for the 2012-2014 term of office, both submitted to the General Meeting, to establish a potential maximum amount, on both an individual and aggregate basis.

As regards the statement to be submitted to the next annual General Meeting, Portugal Telecom shall fully adopt this recommendation, regarding the quantification of the potential maximum amounts of the fixed remuneration and will continue with the practice carried out to date, indicating the maximum limits and the criteria for the variable remuneration.

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

Thus, PT believes that the provision of the maximum amounts of fixed remuneration of the members of the corporate bodies, together with the provision of the limits and criteria of the variable component (which are established precisely through reference to the fixed remuneration of each executive director), is not only sufficient in itself but also the most suitable means for the shareholders to become aware of and resolve on the remuneration policy, with the Compensation and Evaluation Committees being responsible for analysing the suitability of the individual remuneration of each member of the management team, thus appearing as a mechanism fully ensuring compliance with the objectives sought by CMVM Recommendation no. II.3.3 b).

# 06



## APPENDIX

<b>00 INTRODUCTION</b>	
<b>01 SHAREHOLDER STRUCTURE</b>	
<b>02 CORPORATE BODIES AND COMMITTEES</b>	
<b>03 INTERNAL ORGANISATION</b>	
<b>04 REMUNERATION</b>	
<b>05 RELATED PARTY TRANSACTIONS</b>	
<b>06 APPENDIX</b>	
	<b>09 APPENDIX I</b>
	13 Functions performed by members of the management body in other companies 100
	19 <b>APPENDIX II</b>
	55 United States rules applicable to PT, as a Foreign Private Issuer 112
	75 <b>APPENDIX III</b>
	87 Statement of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2013 financial year 114
	<b>APPENDIX IV</b>
	Code of Ethics 119
	Code of Ethics for Senior Financial Officers 119
	Procedures implemented by PT for compliance with the rules applicable to Officer and Related Party Transactions 120
	a) Group Officer Transactions 120
	b) Related Party Transactions 120
	Sustainable Development and Social Responsibility Policy 121

# 06 APPENDIX

## APPENDIX I

### Functions performed by members of the management body in other companies

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

#### **Henrique Granadeiro (Chairman of the Board of Directors and Chief Executive Officer)**

**Functions in other PT Group companies:** Chairman of the Board of Directors of Portugal Telecom – Investimentos Internacionais Consultoria Internacional, SA | Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS SA | Chairman of the Board of Directors of PT Participações, SA | Chairman of the General Council of Fundação Portugal Telecom

**Functions in other entities:** Member of the Founders Council of Fundação Casa da Música | Member of the Founders Council of Fundação Serralves | Member of the Founders Council of Fundação Portugal África | Member of the General Board of the University of Lisbon | Member of the Strategy Council of Banco Finantia | Member of the Council of Curators of Fundação Luso-Brasileira | Non-executive Director of Fundação Eugénio de Almeida | Member of Board of AEM – Associação de Empresas Emitentes de Valores Cotados no Mercado

#### **Alfredo José Silva de Oliveira Baptista (Executive Director)**

**Functions in other PT Group Companies:** Director of PT Portugal, SGPS SA | Director of PT Comunicações, SA | Director of Meo – Serviços de Comunicações e Multimédia, SA (formerly designated TMN – Telecomunicações Móveis Nacionais, SA) | Chairman of the Board of Directors of PT Sistemas de Informação, SA | Director of Portugal Telecom Data Center, SA | Director of SIRESP – Gestão de Redes Digitais de Segurança e Emergência, SA

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

#### **Amílcar Carlos Ferreira de Morais Pires (Non-Executive Director)**

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

**Functions in other entities:** Chairman of the Board of Directors of AVISTAR, SGPS, SA | Chairman of the Board of Directors of Bank Espírito Santo (International) Limited | Chairman of the Board of Directors of BIC – International Bank, Ltd (BIBL) | Director of Banco Espírito Santo, SA | Director of BES – Vida, Companhia de Seguros, SA | Director of Banco Espírito Santo de Investimento, SA | Director of ESAF – Espírito Santo Activos Financeiros, SGPS, SA | Director of Espírito Santo PLC (Dublin) | Director of Banco Espírito Santo Oriente, SA | Director of BES Finance Limited | Director of ES Tech Ventures, Sociedade de Participações Sociais, SA | Director of Espírito Santo – Empresa de Prestação de Serviços, ACE | Director of BES África SGPS, SA | Non-Executive Director of Execution Noble Limited | Non-Executive Director of Execution Noble & Company Limited | Non-Executive Director of Execution Noble Research Limited



**Carlos Alves Duarte**  
**(Executive Director)**

**Functions in other PT Group Companies:** Director of PT Portugal, SGPS SA | Director of PT Comunicações, SA | Director of Meo – Serviços de Comunicações e Multimédia, SA (formerly designated TMN – Telecomunicações Móveis Nacionais, SA) | Director of Portugal Telecom Data Center, SA | Vice-Chairman of the Board of Directors of Caixanet – Telemática e Comunicações, SA | Chairman of the Board of the General Meeting of INESC

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

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

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

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

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

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

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

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

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

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

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

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

**Functions in other entities:** Director and Chairman of the Audit Committee of EDP Renováveis, SA | Director of Corretores de Seguros, SA

**Joaquim Aníbal Brito Freixial de Goes**  
**(Non-Executive Director)**

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

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

# 06 APPENDIX

## **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 Audit Committee of Millenium BCP, SA | Member of the Ordem dos Técnicos Oficiais de Contas (OTOC)

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

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

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

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

**Functions in other PT Group companies:** Director of PT Portugal, SGPS SA | Director of PT Comunicações, SA | Director of Meo – Serviços de Comunicações e Multimédia, SA (formerly designated TMN – Telecomunicações Móveis Nacionais, SA) | Director of PT Sales – Serviços de Telecomunicações e Sistemas de Informação SA | Director of Portugal Telecom Data Center, SA | Director of PT Pay, SA

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

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

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

**Functions in other entities:** Chair of European University Association (EUA) | Chair of the working group of the EUA on Internationalisation and Research | Member of the Institutional Evaluation Group of the EUA | Member of the Expert Group established by the European Commission for the Development of the European Research Area | Member of the Steering Committee Institutional Evaluation EUA



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

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

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

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

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

**Functions in other entities:** Adviser to Helbor Empreendimentos SA | Member of the Board of Directors of Cielo SA | Member of the Board of Directors of Monteiro Aranha SA

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

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

**Functions in other entities:** Chairman of the Board of Directors of Rocha dos Santos Holding, SGPS, SA | Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS SA | Chairman of the Board of Directors of Ongoing TMT | Chairman of the Board of Directors of Ongoing Media | Chairman of the Board of Directors of Ongoing Telecom | Chairman of the Board of Directors of Económica SGPS | Chairman of the Board of Directors of RS Holding, SGPS | Chairman of the Board of Directors of Insight Strategic Investments, SGPS, SA | Chairman of the Board of Directors of Ongoing Comunicações – Participações, SA | Chairman of the Board of Directors of Heidrick & Struggles

**Otávio Marques de Azevedo****(Non-Executive Director)**

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

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

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

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

**Functions in other entities:** Vice-Chairman of the Board of Directors of Grupo Visabeira, SGPS SA | Chairman of the Board of Directors of Visabeira Global, SGPS SA | Chairman of the Board of Directors of Vista Alegre Atlantis, SA | Chairman of the Board of Directors of Real Life Technologies, SA | Chairman of the Board of Directors of Ria Stone, SA | Chairman of the Board of Directors of Visabeira Investimentos Financeiros SGPS SA | Chairman of the Board of Directors of Visabeira Estudos e Investimentos SA | Chairman of the Board of Directors of Visabeira Saúde – Serviços de Saúde, SA | Chairman of the Board of Directors of Visabeira Moçambique, SA | Chairman of the Board of Directors of Visagreen, SA | Chairman of the Board of Directors of Marmonte, SA | Chairman of the Board of Directors of Natureenergia – Agro-Energias, SA | Chairman of the

# 06 APPENDIX

Board of Directors of Visabeira Angola, Lda | Chairman of the Board of Directors of GATEL | Chairman of the Board of Directors of CONSTRUCTEL | Chairman of the Board of Directors of Constructel Sweden AB | Vice | Chairman of Constructel Infrastructures SAS | Director of Banco Único, SA | Director of Constructel Belgium | Director of AMBITERMO SA | Director of HPP Viseu, SA | Director of PCI – Parque de Ciência e Inovação, SA | Director of Selfenergy | Member of the Board of Managers of TV Cabo Angola, Lda. | Member of the Board of Managers of Constructel GmbH

## **Pedro Humberto Monteiro Durão Leitão (Executive Director)**

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

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

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

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

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

## **Shakhaf Wine (Executive Director)**

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

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

## **Professional qualifications and professional activities performed during the last 5 years**

### **Henrique Granadeiro (Chairman of the Board of Directors and Chief Executive Officer)**

**Portuguese, 70 years old**

Elected for the first time in 2003. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chief Executive Officer of Portugal Telecom, SGPS SA from 2006 to March 2008 | Chairman of the Board of Directors of Africatel Holdings B.V. from 2007 to 2008 | Chairman of the Board of Directors of PT Rede Fixa, SGPS SA, from 2006 to 2009 | Chairman of the Board of Directors of PT Centro Corporativo, SA from 2006 to 2008 | Chairman of the Board of Directors of PT Portugal, SGPS SA from 2006 to 2007 | Chairman of the Board of Directors of Fundação Portugal Telecom from 2006 to 2008 | Member of the General Board of COTEC Portugal – Associação Empresarial para a Inovação from 2006 to 2009 | Member of the Council of Founders of Fundação Casa da Música from 2006 to

2009 | Member of the Board of Directors of Fundação Portal África from 2006 to 2009 | Vice-Chairman of the Board of ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação during 2009 | Non-Executive Member of the Board of Directors of OPCA – Obras Públicas e Cimento Armado, SA from 2005 to 2007 | Member of the Board of Directors of Espírito Santo Resources from 2005 to 2007 | Chairman of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from 2006 to 2007 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from 2002 to 2006 | Non-Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, in 2001 | Chief Executive Officer of Lusomundo Media, SGPS, SA from 2002 to 2004 | Chief Executive Officer of Diário de Notícias from 2002 to 2004 | Chief Executive Officer of Jornal do Fundão from 2002 to 2004 | Chief Executive Officer of Jornal de Notícias from 2002 to 2004 | Chief Executive Officer of TSF from 2002 to 2004 | Chief Executive Officer of Açoreano Oriental from 2002 to 2004 | Chief Executive Officer of DN da Madeira from 2002 to 2004 | Chairman of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2000 to 2004 | Member of the Board of Directors of Aleluia – Cerâmica Comércio e Indústria, SA from 2004 to 2007 | Member of the Board of Directors of Parfil SGPS, SA from 2001 to 2004 | Chairman of the Board of Directors of Margrimar - Mármore e Granitos SA from 1999 to 2005 | Chairman of the Board of Directors of Marmetal – Mármore e Materiais de Construção, SA from 1999 to 2005 | Member of the Board of Directors of Controljornal SGPS, SA from 1990 to 2001 | Member of the Board of Directors of Sojornal – Sociedade Jornalística e Editorial SA from 1990 to 2001 | Director of Marcepor – Mármore e Cerâmicas de Portugal, SA in 1990 | Chairman of Fundação Eugénio de Almeida from 1989 to 1992 | Chairman of IFADAP – Instituto Financeiro de Apoio ao Desenvolvimento da Agricultura e Pescas from 1987 to 1990 | Managing Director of Fundação Eugénio de Almeida from 1981 to 1987 | Member of the Board of Directors of M.N. Tiago, Construções SA during 1981 | Member of the Board of Directors of Standard Eléctrica during 1981 | Portuguese Ambassador to the OECD from 1979 to 1981 | Head of the Civil House of the President of the Republic of Portugal from 1976 to 1979 | Graduate in Corporate Organization and Business Administration by the Instituto Universitário de Évora (Sociology Department).

### **Alfredo Baptista (Executive Director)**

**Portuguese, 62 years old**

Elected for the first time in 2011. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Director of PT Comunicações since 2004 | Director of TMN since 2008 | Director of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA from 2006 to 2011 | Chief Executive Officer of PT Prime, SA from 2000 to 2002 | Vice-Chairman of PT Prime, SA from 1999 to 2000 | General Manager of Negócios Empresariais from 1996 to 1999 | Director of PT Internacional from 1996 to 1997 | Director of Portugal Telecom, SA from 1994 to 1996 | Graduate in Electrotechnical Engineering and Telecommunications by the Instituto Superior Técnico.

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

**Portuguese, 52 years old**

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Non-Executive Director of Espírito Santo Bank (Florida) until November 2013 | 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 | Advisor of the Board of Directors of Banco Espírito Santo, SA, in July 2000 | General Manager

# 06 APPENDIX

of Banco Espírito Santo, SA in March 2003 | Director of Banco Espírito Santo, SA since March 2004 | Graduate in Economy Sciences by Universidade Católica Portuguesa.

## **Carlos Alves Duarte (Executive Director)**

**Portuguese, 53 years old**

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

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

**Brazilian, 62 years old**

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

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

**Portuguese, 64 years old**

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Director of Gadsa – Arquivo e Depósito, SA from October 2006 to October 2008 | Economic Consultant at the Civil House of the President of the Republic of Portugal, from 2001 to 2006 | Chief Executive Officer of API Capital, Sociedade de Capital de Risco, SA, from January 2003 to October 2004 | Chairman of the Board of Directors of API Capital, Sociedade de Capital de Risco, SA, from May 2004 to January 2005 | Director of NAER - Novo Aeroporto, SA from 2001 to 2002 | Director and Chief Executive Officer of I.P.E. – Tecnologias de Informação, SGPS SA from 2000 to 2001 | Executive Director of I.P.E. – Investimentos e Participações Empresariais, SA from 1996 to 2000 | Chairman of the Board of Directors of I.P.E. Capital, Sociedade de Capital de Risco, SA from 1996 to 2000 | Member of the Board of Ambelis – Agência para a Modernização Económica

de Lisboa, SA from 1994 to 1996 | Graduate in Economics by the ISCEF (Universidade Técnica de Lisboa), 1972 | Master of Science in Management by Arthur D. Little Management Education Institute, Cambridge Massachusetts, USA (1979) | Master in Public Administration by Harvard University, John F. Kennedy School of Government, Cambridge Massachusetts, USA (1981).

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

**North-American, 67 years old**

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

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

**Portuguese, 67 years old**

Elected for the first time for the Audit Committee in 2007, and non-executive Director since 1998. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Corporate Governance Committee since 2005, and Chairman of that same Committee between 2006 and 2009 | Member of the Evaluation Committee since 2008 and Member of the Compensation Committee between 2003 and 2008 | Since 2008, Non-Executive Director of EDP Renováveis, SA, of which he is Chairman of the Audit Committee since that same year and Member of the Related Parties Transactions Committee since that same year | Chairman of the Supervisory Board of Sporting Clube de Portugal and of Sporting SAD from 2011 to 2013 | Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 to 2004 | Director of Soponata – Sociedade Portuguesa de Navios Tanques, SA from 1997 to 2000 | Chairman of the Board of Directors of Soponata – Sociedade Portuguesa de Navios Tanques, SA from 2000 to 2001 | Chief Executive Officer and Vice-Chairman of the Board of Directors of LISNAVE from 1995 to 1997 | Chairman of the Board of Directors of Companhia Portuguesa Rádio Marconi from 1994 to 1995 | Chairman of the Board of Directors of TMN – Telecomunicações Móveis Nacionais, SA from 1991 to 1994 | Chairman of the Board of Directors of TLP – Telefones de Lisboa e Porto, SA from 1989 to 1994 | Graduate in Mechanical Engineering by the Instituto Superior Técnico | Additional Training in Strategic Management and High Business Management (PADE).

**Joaquim Aníbal Brito Freixial de Goes**  
**(Non-Executive Director)**

**Portuguese, 47 years old**

Elected for the first time in 2000. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Member of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from August 2002 to September 2007 | Director of ESDATA, Espírito Santo Data, SGPS SA from August 2002 to September 2007 | Director of Companhia de Seguros Tranquilidade-Vida, SA from 2002 to 2006 | Chairman of the Board of Directors of E.S. Interaction, Sistemas de Informação Interactivos, SA from 2000 to 2006 | Member of the Board of Directors of BEST – Banco Electrónico de Serviço Total, SA from May 2001 to July 2007 | Manager of the Strategic Marketing Department of Banco Espírito Santo, SA from 1995 to 1999 | Manager of the Strategic Planning and Studies Department of CIMPOR – Cimentos de Portugal, SA from 1994 to 1995

# 06 APPENDIX

| Senior Consultant at Roland Berger & Partner, Munich, from 1991 to 1993 | Consultant at Roland Berger & Partner, Portugal, from 1989 to 1991 | Graduate in Business Administration and Management | Specialisation in Marketing and Finance, by Universidade Católica Portuguesa | MBA by INSEAD, Fontainebleau.

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

**Portuguese, 75 years old**

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

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

**Portuguese, 47 years old**

Elected for the first time in 2006. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Chairman of the Board of Directors of CST – Companhia Santomense de Telecomunicações, SARL from March 2011 to October 2013 | Chairman of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, SA from April 2008 to April 2013 | Director of Tele Norte Leste Participações, SA from April 2011 to February 2012 | Member of the Board of Directors of UOL, SA from April 2010 to January 2011 | Chairman of the Board of Directors of PT Contact – Telemarketing e Serviços de Informação, SA from July 2008 to March 2009 | Member of the Board of Directors of Telemig Celular, SA from August 2008 to July 2010 | Member of the Board of Directors of Telemig Celular Participações, SA from August 2008 to November 2009 | Member of the Board of Directors of Vivo Participações, SA from July 2006 to July 2010 | Member of the Board of Directors of Brasilcel from July 2006 to July 2010 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS SA from June 2002 to April 2006 | Chairman of the Board of Directors of Cabo TV Açoreana, SA from December 2004 to October 2007 | Central manager and invited member of the Executive Committee of BES Investimento from 1998 to 2002 | Associate and Director of UBS Warburg from 1994 to 1998 | Graduate in Civil Engineering by Instituto Superior Técnico with an MBA by IESE Barcelona.

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

**Portuguese, 46 years old**

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



**Maria Helena Vaz de Carvalho Nazaré  
(Non-Executive Director)****Portuguese, 64 years old**

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

**Mário João de Matos Gomes  
(Non-Executive Director and Member of the Audit Committee)****Portuguese, 66 years old**

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



# 06 APPENDIX

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

**Brazilian, 57 years old**

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | Effective member of the Board of Directors of Fleury SA from July 2009 to April 2013 | Effective member of the Board of Directors of Banco Espírito Santo (BES) – Portugal from July 2012 to April 2013 | Statutory Departamental Director, from December 1997 to March 2000, Executive Director, from March 2000 to March 2002, and Executive Vice-Chairman of Banco Bradesco, SA, from March 2002 to June 2009 | He was also a member of the management bodies of the other companies of the Grupo Bradesco | He was a Member of the managing body and Managing Director of Fundação Bradesco, Member of the Board of Directors and Managing Director of Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (FIMADEN), Member of the Board of Directors of the Investor Relations Brazilian Institute – IBRI, Effective Member of the Supervisory Board of Fundo Garantidor de Créditos – FGC, Member of the Board of Directors of the Brazilian Association of Public Companies – ABRASCA, Member of the Auto Regulation Board of FEBRABAN, and Bradesco representative in the Managing Board of the Instituto Brasileiro de Pesquisas Contábeis, Atuariais e Financeiras – IPECAFI | Member of the Board of Directors of CPMBRáxis from July 2009 to July 2012 | Graduate in Business Administration by UNIFIEO – Centro Universitário FIEO, Osasco.

## **Nuno Rocha dos Santos de Almeida e Vasconcellos (Non-Executive Director)**

**Portuguese, 49 years old**

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

## **Otávio Marques de Azevedo (Non-Executive Director)**

**Brazilian, 62 years old**

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

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

**Portuguese, 45 years old**

Elected for the first time in 2009. Former term of office ended on 31 December 2011 and was re-elected in 2012 | For long related to Grupo Visabeira (where he started performing his duties in 1992 in Portugal), he lived between 1995 and 2006 in Mozambique and Angola, where, in his capacity as Chairman of the Board of Directors of Visabeira Moçambique and Visabeira Angola, he was responsible for the institutional representation of the Group, general coordination of the activities of the Grupo Visabeira's subsidiaries in such countries, representation of the shareholder Grupo Visabeira in the management bodies of its subsidiaries and planning and strategy definition of the Group's businesses, including its integrated financial management | In 2002, he was appointed Vice-Chairman of Grupo Visabeira, SGPS, SA | In 2008, he was appointed Chairman

of the Board of Directors of Visabeira Global SGPS SA | In November 2009, he was appointed Chairman of the Board of Directors of Vista Alegre Atlantis, SA | Graduate in Law by the Faculdade de Direito, Universidade de Coimbra, with several post-graduations in Management and Business Administration.

**Pedro Leitão**  
**(Executive Director)**

**Portuguese, 43 years old**

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

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

**Spanish, 48 years old**

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

**Shakhaf Wine**  
**(Executive Director)**

**Brazilian, 44 years old**

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

## APPENDIX II

### 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>2</sup>, as well as the rules approved by the U.S. Securities and Exchange Commission (SEC) implementing such provisions<sup>3</sup> (both SOX and SEC rules and regulations are fully complied with by PT):

#### Sarbanes-Oxley Act

Sections 201 and 202	Prohibition of rendering 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 and 906	Certification of Form 20-F by the CEO and CFO.
Section 303	Prohibition of exercising improper influence on audits by directors and officers or any other person acting under their direction.
Section 304	CEO and CFO disgorgement of incentive compensation following restatement of financial reports.
Section 306	Prohibition of certain transactions by insiders during certain blackout periods.
Section 307	Professional liability and reporting duties by the issuer's attorneys regarding potential breaches of securities laws and fiduciary duties.
Section 402	Prohibition on issuer loans to directors and executive officers.
Section 406	Disclosure of whether or not the issuer has a code of ethics (and if not, why not) and of any amendments or waivers to said code of ethics.
Section 407	Disclosure of whether the issuer has an audit committee financial expert (and if not, why not).

<sup>2</sup>Available at [http://pcaobus.org/About/History/Documents/PDFs/Sarbanes\\_Oxley\\_Act\\_of\\_2002.pdf](http://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf). | <sup>3</sup>Available at <http://www.sec.gov>.

- In addition, the Company is subject to the following rules provided for in Section 303A on Corporate Governance Standards of the NYSE Listed Company Manual (the Manual)<sup>4</sup>, which are fully complied with by PT:

#### Section 303A

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

- Pursuant to Section 301 of SOX and of Section 303A.06 of the NYSE Manual, PT shall comply with Rule 10A-3 on listing standards relating to Audit Committees approved by SEC<sup>5</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: <ul style="list-style-type: none"> <li>(a) Accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, unless otherwise provided in the exceptional situations foreseen in this Rule; or</li> <li>(b) Be an affiliated person, as defined in this Rule, of the issuer or any subsidiary thereof.</li> </ul>
Paragraph (b)(2) e (3)	The Audit Committee is directly responsible for: <ul style="list-style-type: none"> <li>(a) The appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer, and each such registered public accounting firm must report directly to the audit committee;</li> <li>(b) Establishing procedures for the (i) receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and (ii) confidential and anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.</li> </ul>
Paragraph (b)(4) e (5)	Autonomy in the engagement of advisors and the provision of funding to the audit committee.

<sup>4</sup> Available at: <http://nysemanual.nyse.com/lcm/> | <sup>5</sup> Available at: <http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=e891245b9c0e3dea7691375ca8882ab6&rgn=div8&view=text&node=17:3.0.1.1.1.1.67.107&idno=17>.

## APPENDIX III

**Statement of the Compensation Committee on the remuneration policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2013 financial year**

Whereas:

1. Under Law no. 28/2009 of 19 June 2009 (Law on Remunerations), the management body or the Remuneration Committee, when there is one, of companies with securities admitted to trading on a regulated market (Listed Companies) shall annually submit a statement on the remuneration policy of the members of the management and supervisory bodies to the approval of the General Meeting;
2. In its turn, CMVM Recommendation no. II.1.5.2 of the Corporate Governance Code approved by the Portuguese Securities Market Commission in January 2010 (CMVM Governance Code) recommends the submission of a statement on the remuneration policy of the management and supervisory bodies to the Annual General Meeting of shareholders for its consideration, together with a set of additional elements;
3. As a structure aiming to provide technical support to the Compensation Committee, the Evaluation Committee of the Board of Directors of PT SGPS is responsible for providing and presenting its opinion to the Compensation Committee on the annual statement on the remuneration policy;
4. The current statement was prepared by the Compensation Committee elected at the General Meeting of shareholders held on 27 April 2012 and describes the remuneration policy of the members of PT SGPS corporate bodies applicable to the 2012-2014 term of office.

Pursuant to the Law on Remunerations and to CMVM Recommendation no. II.1.5.2, the Compensation Committee of PT SGPS hereby submits to the approval of the Annual General Meeting of shareholders the following statement on the remuneration policy of the management and supervisory bodies applicable to the 2012-2014 term of office, which includes the following models drawn up and implemented in line with the best national and international practices:

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

The compensation of non-executive members of the Board of Directors, including the members of the Audit Committee, is determined on the basis of a fixed model of an annual compensation established by the Compensation Committee (to be paid 14 times/year), without attendance tickets. Such compensation is aligned with the average compensation earned by non-executive directors of PSI-20 companies, according to the benchmarking study prepared by an independent entity and taken into consideration by the Compensation Committee.

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

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

The remuneration of the Chairman of the Board of Directors of PT SGPS corresponds to an annual fixed amount indexed to the annual fixed remuneration of the Chief Executive Officer and does not include a variable component. This fact does not preclude, however, the capacity recognised to the Evaluation Committee of the Board of Directors to propose to the Compensation Committee the granting of a special bonus to the Chairman of the Board of Directors at the end of the term of office, taking into account the performance evaluation of his functions (notably as regards his by-law powers), without being subject, however, to the performance of the Company. This is intended to cause that none of the non-executive directors, the Chairman of the Board of Directors included, have any portion of their remuneration subject to compliance with pre-determined goals, in order to avoid affecting their independence vis-à-vis the executive management.

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

## II. Remuneration policy of executive Directors

The remuneration of executive Directors takes into account the short- and medium-term performance of PT SGPS, as well as referential examples from comparable companies in the sector in Europe. The amounts earned by the members of the Executive Committee under this policy remunerate their function performance in PT SGPS and in its 100% held subsidiaries during each financial year.

The remuneration of executive directors is composed of a fixed portion and a variable portion as described hereinafter:

### a. Fixed remuneration

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

### b. Variable remuneration

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

Within the context of such changes, it was decided that the variable remuneration model (the components of which were referred to, as from 2011, as annual variable remuneration and medium-term variable remuneration) should be simplified by establishing, starting from 2012, a single variable remuneration allocated each year while maintaining the verification of the Company's sustainability levels implied in the

# 06 APPENDIX

option to defer the payment of 50% of the variable remuneration for a three-year period, subject to a positive performance by the Company under pre-defined conditions. In this way, a link was kept between the variable remuneration and the pursuance of medium- and long-term goals of the Company in accordance with the best practices at national and international levels.

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

The variable remuneration policy at PT SGPS is governed by the following principles aiming to ensure a clear alignment between executive directors' interests and Company's interests, in accordance with CMVM Recommendation no. II.1.5.1:

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

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

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

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

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

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

In each year of the current term of office, only 50% of the variable remuneration determined in the relevant year will be paid in cash by the Company, and the payment of the remaining 50% will be deferred for a



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

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

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

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

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

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

After the determination of the variable remuneration according to such methodology, the Compensation Committee may increase or reduce in no more than 10% the variable remuneration of the CEO and the members of the Executive Committee, upon proposal by the Chairman of the Board of Directors and the CEO, respectively. In any case, and even if the level of pursuance of pre-determined goals exceeds 100%, the amount of the variable remuneration will not exceed in over 12.5% the variable remuneration corresponding to 100% goal pursuance added by the said grossing up.

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

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

The current remuneration policy further allows, as confirmed on the above mentioned benchmarking study, for a reasonable overall balance between the fixed and variable components and the deferment of a significant portion of the variable remuneration, as its payment is subject to not affecting the Company's positive performance throughout that period as described above.

Thus being envisaged to contribute to: (i) optimise the long-term performance and discourage excessive risk undertaking; (ii) pursue the Group's strategic goals and compliance with the rules applicable to its business;

# 06 APPENDIX

and (iii) align management interests with the Company's and its shareholders' interests.

Also for the purpose of strengthening the component of the performance evaluation of the directors, unless otherwise agreed or resolved by the Compensation Committee, the Company and its directors should act in accordance with the following principles:

- 1) The directors shall not enter into agreements either with the Company or with any third party that might result in mitigating the risk inherent to the variability of their remuneration as fixed by the Company;
- 2) An unsuitable performance may affect the level of compliance with the above mentioned goals, and consequently the variable remuneration in terms of individual and joint evaluation;
- 3) In the event of removal or agreed termination of the management relationship, no compensation will be paid to the directors if the same is confirmedly due to their unsuitable performance.

#### **d. Payments related to removal or agreed termination of director functions**

The Company has no defined general policy on payments related to removal or agreed termination of director functions. However, on a case-by-case basis, taking into account the circumstances of each termination, the Company has fixed the compensation amounts due to the directors leaving their office as per information disclosed on the Corporate Governance Report.

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

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

The Compensation Committee of PT SGPS

## APPENDIX IV

### Code of Ethics

PT Group's Code of Ethics, as revised on December 2013, applies to all employees of PT Group in order to guarantee a set of common ethical standards for all PT Group's companies. Its update and implementation are permanently monitored by the Corporate Governance Committee.

The goals, values and rules listed in the Code of Ethics incorporate 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 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 PT Group;
- Observing the duties of loyalty and confidentiality, and ensuring the principle of accountability by all PT Group's employees;
- Good governance of PT Group companies;
- Scrupulously complying with all laws and regulations applicable to the various PT Group businesses;
- Settling any conflicts of interest, and submission of PT Group's employees to all pertinent limits as to economic transactions;
- Institutionally and individually observing high integrity, loyalty and honesty standards, both in relations with investors, customers and regulatory authorities, and in inter-personal relations between PT Group employees;
- Good faith in any negotiation, observing the social and environmental responsibility commitments, 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 PT Group's corporate businesses are carried out.

The full text of 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.

# 06 APPENDIX

The Code of Ethics for Senior Financial Officers reinforces the principles of honesty and answerability and regulates aspects such as the reporting of conflicts of interest, competence and professionalism, professional secrecy, compliance with the rules applicable to PT Group and the responsibility for disclosure of information. Its scope has been disclosed to all relevant employees through the annual signature of a compliance statement.

This Code is also available on the Company's website.

## **Procedures implemented by PT for compliance with the rules applicable to Officer and Related party transactions**

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

### **a) Group officer transactions**

In 2006, PT Group's officer transactions were regulated through a Regulation on PT Group's officer transactions, which replaced the former Regulation on Transactions for the account of Senior Managers.

This Regulation was issued in line with the amendment implemented by Decree-Law no. 52/2006 of 15 March 2006 to the Portuguese Securities Code, notably aiming at extending the objective and subjective scope of the matters and definitions specified under the applicable legal and regulatory rules in order to complete the system of rules on Corporate Governance and good conduct practices that were already implemented by PT in order to strengthen market abuse prevention.

However, in 2008, the Company thought it should review 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 PT Group's structure, specially the spin-off of its subsidiary PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA (currently, ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA).

In this way, such amendment implements the means for compliance with the legal obligations of communication, by PT Group officers, of the transactions carried out with their participation.

Corporate officers' transactions are disclosed on the CMVM Information Disclosure System as provided for under the applicable laws and regulations.

### **b) Related party transactions**

The Company has in force, since 2006, a Regulation on Transactions with Related Parties aimed at implementing a set of procedures towards ensuring a correct identification and disclosure of transactions with related parties, as well as defining the relevant concepts of "transaction" and "related parties".

This Regulation pursues a double purpose: (i) permitting PT's financial statements to evidence, if and where applicable, the possibility that the Company's financial position and results are affected by the existence of related parties and by transactions and pending balances for the same; and (ii) safeguarding PT's interest in potential conflict of interest situations vis-à-vis the interests of persons or entities understood as having the possibility of influencing, either directly or indirectly, its management.

Such rules provide for internal control procedures and mechanisms that ensure the proper identification and disclosure of transactions with related parties, involving a preliminary stage of definition, identification and transparency in the transaction decision-making process, to culminate in the disclosure of relevant transactions according to the Portuguese Securities Code rules and with the Portuguese Securities Commission (CMVM) and SEC regulations.

In December 2009 and December 2010, the Regulation on transactions with related parties was subject to modifications essentially aimed at adjusting it to the amendment made to IAS 24 and to the Corporate Governance Code issued by CMVM, as well as at adopting the best market practices on this matter.

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

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

Transactions with directors either of PT or its subsidiaries, irrespectively of the amount involved, are also subject to the prior approval by the relevant Board of Directors, upon favourable opinion by their respective corporate supervisory body, as provided for under article 397 of the Portuguese Companies Code.

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

## **Sustainable Development and Social Responsibility Policy**

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

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

The sustainability report is published each year, simultaneously with the consolidated report and accounts, and it is prepared in accordance with the guidelines of the Global Reporting Initiative (GRI). The report is audited by an independent external entity. This document outlines the practices and economic, social and

# 06 APPENDIX

environmental references that allow the performance of the Company to be highlighted in a three-dimensional sustainability perspective, as well as the commitments undertaken by PT towards its stakeholders.

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

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