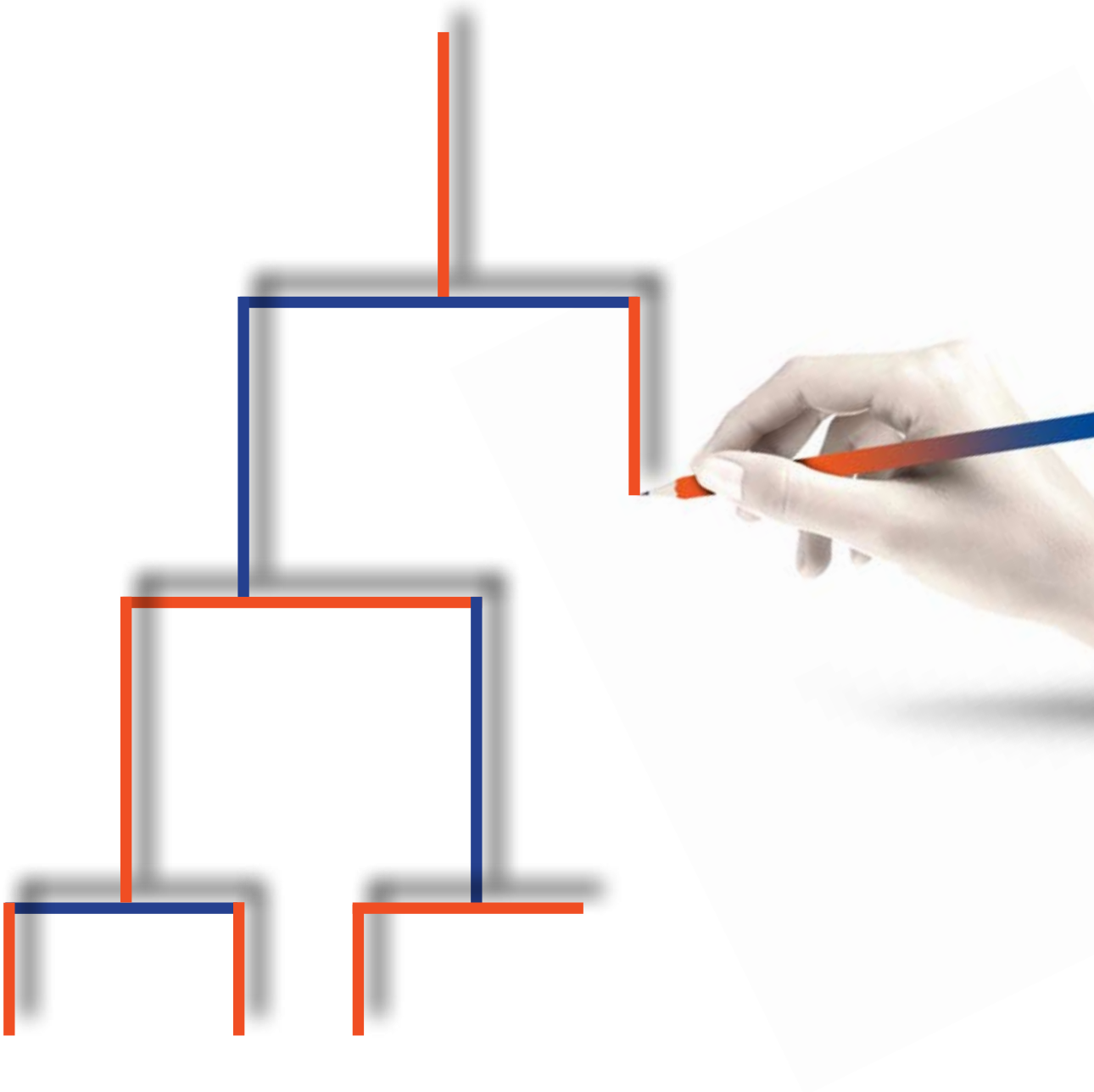


Portugal Telecom
Corporate governance report _ 2008



Corporate governance report

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The purpose of this report is to disclose the corporate governance structure and practices adopted by the Company with the purpose of complying with the provisions of the Recommendations of the Portuguese Securities Commission (Comissão do Mercado de Valores Mobiliários - "CMVM") on Corporate Governance of Listed Companies, as published in September 2007, as well as with the best international corporate governance practices. This report has been drawn up in accordance with articles 7 and 245-A of the Portuguese Securities Code (Código dos Valores Mobiliários) and the form attached to the CMVM Regulation no. 7/2001, as amended by the CMVM Regulation no. 5/2008.

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Compliance statement

The Company fully adopts the CMVM Recommendations on the Corporate Governance of Listed Companies, as published in September 2007¹, except for Recommendations I.3.3, I.6.2, II.1.5.5 and II.5.2, which are not complied with for the reasons identified hereunder.

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

CMVM recommendation	Compliance	Report
I. GENERAL MEETING		
I.1 Board of the General Meeting of Shareholders		
I.1.1 The chairman of the board of the general meeting of shareholders shall have human and logistic support resources as appropriate for his needs, taking into account the company's economic position.	Yes	Chapter 2, V., 1.
I.1.2 The remuneration of the chairman of the board of the general meeting of shareholders shall be disclosed on the corporate governance annual report.	Yes	Chapter 2, V., 1.
I.2 Participation in the General Meeting of Shareholders		
I.2.1 Any imposition of a prior deposit or share blocking period for participation in the general shareholders meeting shall not exceed 5 business days.	Yes	Chapter 2, V., 2.
I.2.2 In the event of adjournment of the general meeting of shareholders, the company shall not impose such blocking for the whole period until the session is resumed; the usual advance required for the first session shall be sufficient.	Yes	Chapter 2, V., 2.
I.3 Voting and exercise of the right to vote		
I.3.1 Companies shall not provide for any statutory restriction on voting by correspondence.	Yes	Chapter 2, V., 4.
I.3.2 The statutory advance period for the receipt of voting declarations issued by correspondence shall not exceed 3 business days.	Yes	Chapter 2, V., 4.
I.3.3 Companies' bylaws shall provide that one vote shall correspond to each share.	No (1)	
I.4 Quorum and resolutions		
I.4.1 Companies shall not establish a constitutive or deliberative quorum in excess of the provisions of the law.	Yes	Chapter 2, V., 6.
I.5 Minutes and disclosure of resolutions passed		
I.5.1 The minutes of general shareholder meetings shall be made available to shareholders on the company's website within 5 days, even though not inside information under the law; also, a historical background of attendance lists, agendas and resolutions at general meetings held for, at least, the three previous years should be kept on this website.	Yes	Chapter 2, V., 5.
I.6 Measures for corporate control		
I.6.1 Measures adopted to prevent the success of takeover bids shall respect the interests of the company and of its shareholders.	- (2)	
I.6.2 Corporate bylaws that provide, in observance of the above principle, for a limitation to the number of votes that may be held or exercised by a single shareholder, individually or in agreement with other shareholders, shall also establish that, at least every five years, the maintenance of such bylaw provision shall be subject to a resolution at the General Shareholder Meeting – with no requirements for an aggravated quorum as compared to the legal one – and that upon such resolution all votes cast shall be counted without the operation of such limitation.	No (2)	
I.6.3 Defensive measures the effect of which is to automatically cause a serious erosion in the company's assets in the case of change of control or of change in the composition of the management body, thus hindering the shares' free transferability and shareholders' free evaluation of the performance of members of the management body, shall not be adopted.	Yes	Chapter 2, V., 3.
II. MANAGEMENT AND SUPERVISORY BODIES		
II.1 General		
II.1.1 Structure and duties		
II.1.1.1 The management body shall assess on its corporate governance report the adopted model, by identifying any constraints on its operation and proposing action measures as are, in its opinion, creditworthy to overcome such constraints.	Yes	Chapter 2, I.
II.1.1.2 Companies shall create internal control systems for an efficient tracking down of risks related to the corporate business, to safeguard their assets, and to the benefit of transparency in their corporate governance.	Yes	Chapter 2, III., 4.

¹ Corporate Governance Code available at www.cmvm.pt.

CMVM recommendation		Compliance	Report
II.1.1.3	Management and supervisory bodies shall be provided with internal regulations and shall have them disclosed on the company's website.	Yes	Chapter 2, II., 1. and Chapter 2, III., 1.
II.1.2	Incompatibilities and independence		
II.1.2.1	The board of directors shall include a sufficient number of non-executive directors whose role is to ensure an actual ability to audit, supervise and assess the activity of its executive members.	Yes	Chapter 2, II., 1.
II.1.2.2	The non-executive members of the management body shall include a number of independent members as appropriate, taking into account the size of the company and its shareholder structure, which shall in no case be less than a quarter of the total number of directors.	Yes	Chapter 2, II., 1.
II.1.3	Eligibility and appointment		
II.1.3.1	The chairman of the audit committee shall be independent, and be qualified as appropriate for his duties.	Yes	Chapter 2, III., 1.
II.1.4	Policy on the report of irregularities		
II.1.4.1	The company shall adopt a policy on the report of irregularities allegedly occurred within it, with the following data: (i) indication of the means that can be used for internal reporting of irregular practices, including the persons with legitimacy to receive such communications; (ii) indication of the treatment to be given to any such communications, including confidential treatment where the communicator so wishes.	Yes	Chapter 2, III., 5.
II.1.4.2	Such policy's general guidelines shall be disclosed in the company's corporate governance report.	Yes	Chapter 2, III., 5.
II.1.5	Remuneration		
II.1.5.1	The remuneration of the members of the management body shall be structured in such a way as to allow the alignment of their interests with the company's interests. Within this framework: (i) the remuneration of directors exercising executive duties shall incorporate a performance-based component, and for such reason it shall take into consideration a performance evaluation carried out, on a regular basis, by the competent body or committee; (ii) the variable component shall be consistent with the maximization of the long-term performance of the company, and dependent on the sustainability of the adopted performance variables; (iii) unless the law so directly imposes, the remuneration of non-executive members of the management body shall be exclusively composed of a fixed sum.	Yes	Chapter 2, IV., 2.
II.1.5.2	The compensation committee and the management body shall submit to appraisal by the annual general shareholder meeting a statement on the remuneration policy for the management and supervisory bodies and for all other managers (in the meaning of article 248B-3 of the Securities Code), respectively. Within this framework, shareholders shall be informed, inter alia, of the criteria and main parameters proposed for the performance evaluation in order to determine the variable component, whether such component consists of share prizes or share call options or annual bonuses or otherwise.	Yes	Chapter 2, IV., 2., 3. and 4.
II.1.5.3	At least one representative of the compensation committee shall be present at the annual general shareholder meetings.	Yes	Chapter 2, IV., 1.
II.1.5.4	"A proposal shall be submitted to the General Meeting on the approval of plans for the allotment of shares (...)".	Not applicable	
II.1.5.5	The remuneration of the members of the management and supervisory bodies shall be subject to individual annual disclosure broken down, as the case may be, into the various components received in terms of fixed remuneration and variable remuneration, as well as remuneration received in other companies of the group or companies controlled by holders of qualified shareholdings.	No (3)	
II.2	Board of Directors		
II.2.1	Within the limits established by law for each management and supervisory structure, and other than by reason of the reduced size of the company, the board of directors shall delegate the management in the normal course of the company, and any delegated responsibilities shall be identified on the annual report on corporate governance.	Yes	Chapter 2, II., 2.
II.2.2	The board of directors shall ensure that any company action is consistent with its goals, and shall not delegate its responsibility, notably, as regards: (i) the definition of the company's strategy and general policies; (ii) the definition of the corporate structure of the group; (iii) any decisions as should be considered strategic decisions due to their amount, risk or special characteristics.	Yes	Chapter 2, II., 2.
II.2.3	In case the chairman of the board of directors carries out executive duties, the board of directors shall find efficient coordination mechanisms for non-executive member matters ensuring that such members may be able to decide in an independent and knowledgeable manner; furthermore, due information on such mechanisms shall be made available to the shareholders within the framework of the corporate governance report.	Yes	Chapter 2, II., 2.
II.2.4	The annual management report shall include a description of the activity carried out by non-executive directors, and mention, inter alia, any constraints faced.	Yes	Chapter 2, II., 2.
II.2.5	The management body shall promote a rotation of the member responsible for the financial area, at expiration of each two terms of office at least.	Not applicable	Chapter 2, II., 1
II.3	Executive Committee		
II.3.1	Directors exercising executive duties, where requested by other corporate body members, shall provide, in a timely manner and as appropriate for any such request, any information as so requested.	Yes	Chapter 2, II., 2.
II.3.2	The chief executive officer shall send all notices and minutes of such committee's meetings to the chairman of the board of directors and to the chairman of the audit committee.	Yes	Chapter 2, II., 2.
II.3.3	"The Chairman of the Executive Board of Directors shall send to the Chairman of the General and Supervisory Board (...)".	Not applicable	
II.4	Audit Committee		
II.4.1	"The General and Supervisory Board (...)".	Not applicable	
II.4.2	Annual reports on the business carried out by the audit committee shall be subject to disclosure on the company's website, together with the financial statements.	Yes	Chapter 2, III., 1.

CMVM recommendation		Compliance	Report
II.4.3	Annual reports on the business carried out by the audit committee shall include a description of its supervisory activity, and mention, inter alia, any constraints faced.	Yes	Report available on PT's website Chapter 2, III., 1.
II.4.4	The audit committee shall represent the company, for all intents and purposes, vis-à-vis the external auditor, it being the committee's responsibility, inter alia, to propose the provider of such services and such provider's remuneration, to take charge of ensuring, within the company, conditions as appropriate for such service provision, as well as being the company's interlocutor and primary addressee of the relevant reports.	Yes	Chapter 2, III., 3.
II.4.5	The audit committee shall evaluate the external auditor each year and propose the removal of the same to the general shareholder meeting where cause therefor occurs.	Yes	Chapter 2, III., 3.
II. 5	Special committees		
II.5.1	Other than by reason of the reduced size of the company, the board of directors and the general or supervisory board, according to the adopted model, shall create any committees as required to: (i) ensure a competent and independent performance evaluation of the executive directors and of their own overall performance evaluation, as well as of the various existing committees; (ii) ponder on the adopted governance system, check its efficiency and propose to the competent bodies any action as required to improve it.	Yes	Chapter 2, II., 3. and Chapter 2, II., 4.
II.5.2	The members of the compensation or similar committee shall be independent from the members of the management body.	No (4)	
II.5.3	All committees shall draw up minutes of the meetings held.	Yes	Chapter 2, I.
III.	INFORMATION AND AUDIT		
III.1	General disclosure obligations		
III.1.2	Companies shall ensure the existence of a permanent contact with the market, in observance of principle of equality of all shareholders and preventing any asymmetries in the access to information by investors. For such purpose, the company shall keep an investor support office.	Yes	Chapter 3, IV.
III.1.3	The following information, to be available on the company's website, shall be disclosed in English: a) The name of the company, that it is a public company, its registered office and all other data mentioned under article 171 of the Companies Code; b) The bylaws; c) Identity of all members of the corporate bodies and the representative for market relations; d) Investor Support Office, its duties and means of access; e) Financial statements; f) Six-month agenda of corporate events; g) Proposals submitted to discussion and voting at the general shareholder meeting; h) Notices for general shareholder meetings.	Yes	Chapter 3, IV

(1)

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

In particular, the issue concerning proportionality between ownership and control of the shares held in listed companies has been widely discussed in the European Union, and several studies were produced and concluded that it is not possible to establish a clear causal connection between deviations from proportionality and the financial performance or corporate governance of a listed company.

In this way, PT understands that there is justification not to adopt such recommendation, as the proportionality principle is not universally accepted (on the contrary, it is disputed in several national and international venues).

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

(2)

Although existing A shares representing PT's share capital, which were created during the Company's privatisation, grant special rights to the Portuguese State as the holder of such shares, PT's understands that its bylaws do not contain any defensive clauses contrary to the interests of the Company and its shareholders.

PT's bylaws also contain a limitation on the counting of the votes of a single shareholder, whereby the votes cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total share capital, shall not be counted (article 13). The bylaws do not establish that this bylaws provision must be subject, every five years, to the evaluation of the General Meeting of Shareholders who should resolve on its maintenance or not. Therefore, PT does not adopt Recommendation I.6.2.

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

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

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

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

In this way, it is PT's understanding that the measures adopted (or which effect may be) to prevent the success of tender offers respect the interests of the Company and of its shareholders, and they correspond to their will, as expressed at the abovementioned General Meeting of Shareholders of 2 March 2007.

(3)

PT does not adopt these recommendations, since it does not disclose individualized directors' remunerations, similarly to the practice of the majority of listed companies listed on our market. This is also the dominant practice on the PSI-20.

In fact, it is the Company's understanding that: (i) the Compensation Committee, a committee appointed by the shareholders, shall be responsible for analysing the adequacy of individual remunerations; and (ii) the overall information disclosed by PT complies with the ratio of this recommendation and seems to include sufficient information for investors to know the "agency cost" incurred into by the Company.

Indeed, the information that is important to disclose to shareholders is the information on the overall value of the remunerations paid to the members of the management body and, particularly, to the management composing the Executive Committee. The Company fully discloses such information in detail in this report.

Moreover, the members of the Company's management and supervision bodies that perform duties in other companies within the PT Group are not paid any remuneration in addition to the remuneration they already earn for the duties they carry out in PT.

Therefore, the Company disagrees and does not adopt the Recommendation concerning the individualized disclosure of the remunerations of the members of its corporate bodies, and it maintains its understanding that shareholders' analysis of the performance of the Company's management shall be made on an overall basis and that it is the Compensation Committee's responsibility to analyse the adequacy of the individual remuneration of each member.

(4)

The Chairman of the Audit Committee, who is, by virtue of the governance model adopted by PT, a director of the Company, is one of the members of PT's Compensation Committee.

The CMVM understands that the Company fails to comply with the Recommendation identified above since the Compensation Committee includes a member of the management body, although the presence of this member in the Compensation Committee is meant to guarantee that the composition of the Compensation Committee includes the Chairman of the supervisory body, and not to guarantee it includes a director.

In this way, it should be stressed that PT does not adopt this recommendation due to a comparative disadvantage of the governance model adopted by the Company, as opposed to the monist and dualist models. In fact, should PT have opted for one of such models, the presence of any member of its supervisory body in the Compensation Committee would not affect such member's independence therein.

Furthermore, as the Chairman of the supervisory body is a non-executive independent director (as understood by the Audit Committee in light of the criteria provided for under the Portuguese Companies Code, Rule 10A-3 of the Securities Exchange Commission and according to the best practices of the New York Stock Exchange), independence in the determination of remunerations is ensured.

1_Structure of the PT group

Covering all info-communication business areas (local, long-distance and international telephone service, leased circuit lines, mobile communications, data, internet, IP and satellite television, contents and information systems, corporate solutions and entertainment, areas in which PT is an information market leader), PT offers its services, products and solutions in a global and integrated manner to more than 30 million customers.

PT is today the Portuguese corporation with the largest national and international projection, with a presence in the European, American, Asian and African continents. This position stems from a clear investment in quality and innovation aimed at the satisfaction of each customer's specific needs in the various business areas.

The highlight at the international level is PT's operation in the Brazilian market, where the company is currently the largest Portuguese investor. PT holds a 50% share in Brasilcel, which in turn holds 63.56% of VIVO, the largest mobile operator in South America and the fourth largest mobile telecommunications service company in the world.

The PT Group is structured in two organization units: (i) Domestic Business (ii) International Business. Such units are coordinated by the Group's Holding, led by its Executive Committee with the support of the corporate centre.

Portugal Telecom

Domestic Business

Wireline Business

100%	PT Comunicações
100%	PT Prime

Mobile Business

100%	TMN
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International Business

50%	Brasilcel, which holds 63.56% of Vivo
25%	Unitel
100%	Dedic
40%	Cabo Verde Telecom
34%	MTC
51%	CST
41.12%	Timor Telecom
32.18%	Médi Télécom
28%	CTM
29%	UOL inc

Instrumental Companies

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

2_Corporate governance

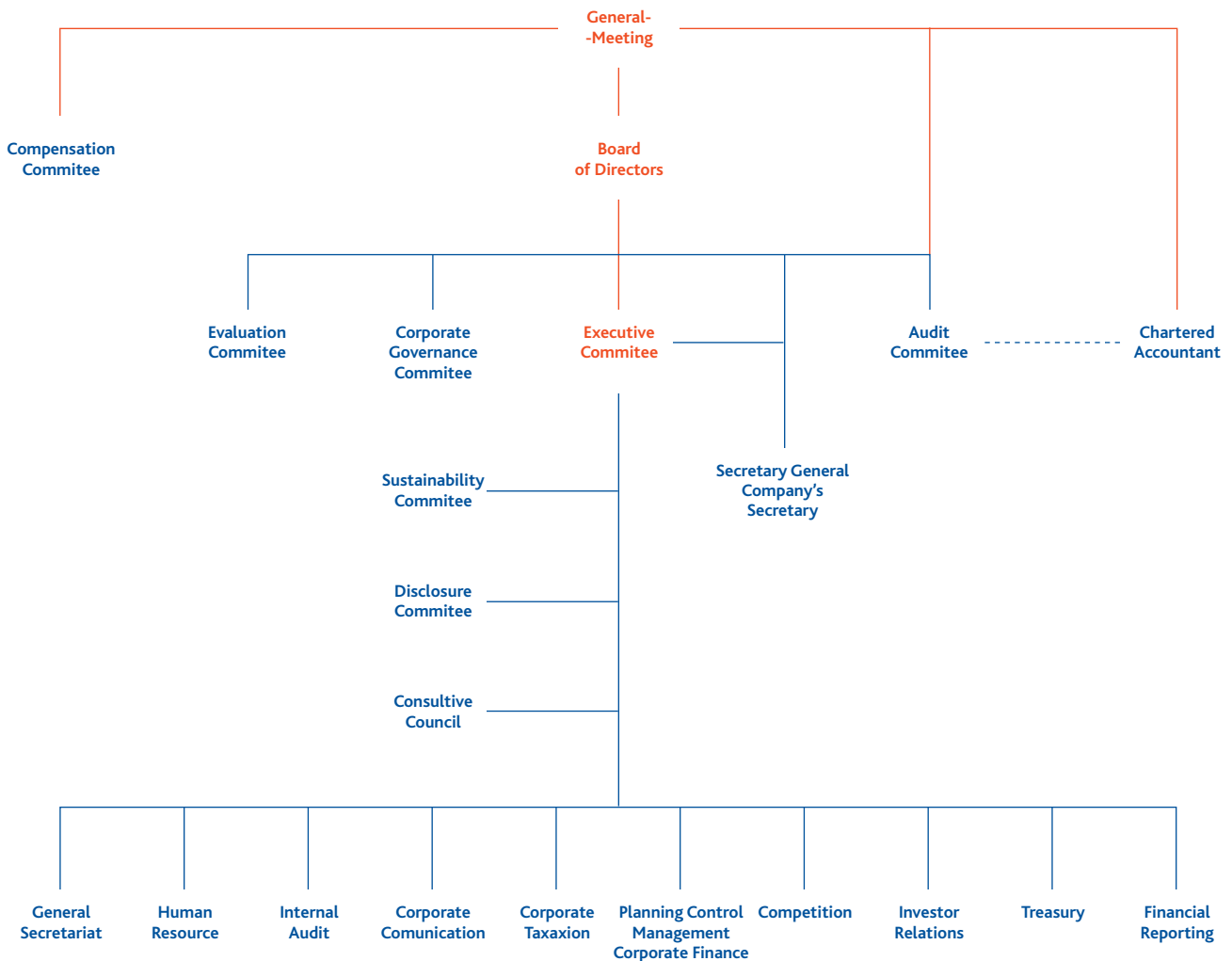
I. Governance model

Following the amendment to the Portuguese Companies Code made by Decree-Law no. 76-A/2006, of 29 March 2006, PT adopted, after the General Meeting of Shareholders held on 22 June 2007, an Anglo-Saxon governance model, which is based on the existence of a Board of Directors, an Audit Committee composed by non-executive directors specifically appointed by the General Meeting of Shareholders and a Chartered Accountant elected by the General Meeting of Shareholders following a proposal presented by the Audit Committee.

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

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

PT’s governance model may be described as follows:



The values of efficiency, simplicity, transparency and accuracy are the basic pillars of this governance model, and it provides PT with an appropriate structure considering the specificities and needs of the company. This model has also been welcomed by the market.

Within this context, PT's governance includes an Executive Committee with powers delegated by the Board of Directors, which acts on a predominantly operational basis, while the Board of Directors is entrusted with the supervision of corporate activities, with the support of the Corporate Governance Committee and a new Evaluation Committee created in October 2008, each such committee acting within the scope of their respective specific powers delegated by the management body. This supervision task is further reinforced by the action of the non-executive independent members of the Board of Directors.

A Consultative Council, a Disclosure Committee and a Sustainability Committee, as well as several operational departments that guarantee and effective and transparent management of the Company complete the management 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.

It should be stressed that most CMVM Recommendations on the governance of listed companies published in September 2007 were fully adopted by Portugal Telecom, and are reflected on its corporate governance model. This model's integrity, transparency and accuracy have been reinforced by the Company's compliance with the mandatory 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 the New York Stock Exchange ("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 of the Securities and Exchange Commission ("SEC"), which implemented Section 10A(m) of the Securities Exchange Act, as amended by the Sarbanes-Oxley Act, and the Final Rules approved by NYSE on corporate governance ("Section 303A Corporate Governance Standards"), as described under Appendix I to this report.

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

Additionally, PT has approved several conduct and transparency rules, namely the Group's Code of Ethics, the Code of Ethics for Senior Financial Officers and the rules on Transactions by Managers and Transactions with Related Parties, the main features of which are described under Appendix II hereto, as well as rules and structures implemented concerning internal control, risk management and whistleblowing.

In this way, considering the full implementation and consolidation of the governance model adopted by the General Meeting of Shareholders of 22 June 2007, for purposes of compliance with the CMVM Recommendation II.1.1.1, and based on the outcome of the Corporate Governance Committee's resolution pursuant to Recommendation II.5.1. part ii), Portugal Telecom considers that this governance model has ensured an effective performance of the duties of its corporate bodies and their articulation, and has proven appropriate to the specificities of the Company. There have been no constraints to its operation and no circumstance that might impair the regular functioning of the adopted checks and balances system as occurred as to justify any change to PT's organization structure or governance practices. In fact, and as concluded within the follow-up of this governance model made by the Corporate Governance Committee, such a model has proven to be appropriate to catalyse national and international corporate governance best practices and to contribute to the transparency and accountability of the Company and its management vis-à-vis its shareholders, investors and the market.

II. Management of the company

1. Board of Directors

The term of office of the members of the Board of Directors (as well as of the members of all other corporate bodies and committees as identified herein) has lapsed on 31 December 2008. Such directors will remain in office until new members are appointed in accordance with the law and the bylaws.

As of 31 December 2008, the Board of Directors of the Company was composed as follows:

Board of Directors on 31 December 2008							
Members (date of first appointment)	Board of Directors	Executive Committee (5)	Audit Committee	Corporate Governance Committee	Evaluation Committee	Independence	No. of shares
Henrique Granadeiro (2003) (1)	Chairman				Chairman		150
Zeinal Bava (2000) (1)	Member	Chairman (CEO)			Member		63,161
Luís Pacheco de Melo (2006) (2)	Member	Member (CFO)					45
António Caria (2006)	Member	Member					486
Rui Pedro Soares (2006)	Member	Member					50
José Maria Alvarez-Pallete (2008) (3)	Member						100
Franquelim Alves (2006)	Member			Member		Yes	
Francisco Bandeira (2008) (3)	Member						483
José Xavier de Basto (2007)	Member		Member			Yes	
Fernando Soares Carneiro (2006)	Member				Member	Yes	
Luís de Azevedo Coutinho (2006)	Member					Yes	
Santiago Valbuena Fernández (2008) (3)	Member						100
João de Mello Franco (1998) (4)	Member		Chairman	Chairman	Member	Yes	13,308
Joaquim Goes (2000)	Member			Member	Member		2,437
Gerald S. McGowan (2003)	Member					Yes	
Rafael Mora Funes (2007)	Member			Member	Member		
Amílcar de Moraes Pires (2006)	Member						2,146
Francisco Soares(2006)	Member			Member		Yes	
Jorge Tomé(2002)	Member			Member	Member		
Nuno de Almeida e Vasconcellos (2006)	Member						11,190
Thomaz Paes de Vasconcellos (2003)	Member		Member			Yes	

(1) The director Henrique Granadeiro performed duties as Chief Executive Officer until 28 March 2008. As from such date, such duties have been performed by the director Zeinal Bava. (2) The director Luís Pacheco de Melo has performed the duties of Chief Financial Officer for one term of office only, since 2006. Therefore, the CMVM Recommendation II.2.5 (which determines the Board shall promote rotation of the CFO every two terms of office) is not applicable. (3) The directors Francisco Manuel Marques Bandeira, José Maria Alvarez-Pallete and Santiago Fernández Valbuena were coopted on 12 February 2008 to replace the directors Armando Vara, António Viana-Baptista and Fernando Abril-Martorell, who had notified the Company of their resignations on 18 January 2008, the first one, and on 31 January 2008, the others. (4) The director João de Mello Franco is also a member of the Compensation Committee, as the Chairman of the Audit Committee. (5) The resignation of the director João Pedro Baptista, who was a member of the Executive Committee, was disclosed to the market on 20 June 2008.

The Board of Directors of PT is made up of a minimum of 15 and a maximum of 23 members, who are elected for a three-year term of office by a majority of the votes cast at the General Meeting of Shareholders. Pursuant to the Bylaws, for the election of one-third of the total number of directors, which must comprise the Chairman of the Board of Directors, such majority shall include the votes of the majority of the class A shares.

Additionally, and according to corporate law, a minimum of shareholders representing at least 10% of the share capital and voting against the winning proposal in the election of the Board of Directors may appoint a member of the management body. The directors are appointed for a three-year term of office, the election year being considered as a full calendar year. There are no restrictions on the re-election of directors.

On 3 October 2008, the Board of Directors approved its internal regulation, whereby non-executive members of this corporate body shall correspond to, at least, the majority of the directors in office. Amongst current directors of the Company, 4 are executive directors and 17 are non-executive directors (this proportion largely exceeds the one taken as reference in the CMVM Circular of 15 January 2009, in the corporate governance chapter – one third of the total of members of the Board of Directors should be non-executive – and is in accordance with the report prepared by the CMVM concerning the levels of adoption of its Recommendations, which was disclosed to the market on 2 December 2008).

Appendix III hereto describes the duties performed by members of the Board of Directors in other companies, indicating the duties performed in other PT Group companies and the duties performed outside the Group, as well as their qualifications and professional activities for the last 5 years.

The Board of Directors is responsible for managing the Company's businesses and to practice all acts regarding the corporate purpose that are not within the powers of other corporate bodies. It establishes the strategic orientation of the Group and monitors the day-to-day management performed by the Executive Committee.

In order to guarantee the existence of an adequate structure considering PT's management needs, the Board of Directors delegated day-to-day management powers to the Executive Committee and granted specific powers in the supervision of the governance model and in the evaluation of the directors to the Corporate Governance Committee and to the Evaluation Committee, respectively, as described herein.

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

The Board of Directors may not approve resolutions on matters that must be resolved upon by the General Meeting of Shareholders, as established in the law or the Company's Bylaws.

However, the Board of Directors may 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 on Chapter 3, I., 1. of this report.

Directors' Independence

Article 414, number 5 of the Portuguese Companies Code and the internal Service Order no. 3,08 on the Independence of the members of the Board of Directors of Portugal Telecom, SGPS, SA, other than the members of its Audit Committee, approved on 31 January 2008, were taken into consideration in the qualification of the independent directors on the table above.

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

Additionally, pursuant to no. II.9 of the Appendix to the CMVM Regulation no. 1/2007, executive directors may not be deemed independent.

According to the Service Order no. 3,08, the members of the Board of Directors of the Company, other than members of the Audit Committee, must send to the Chairman of the Board, within 10 business days as from their election or cooptation and no later than 31 January of each year, declarations prepared in accordance with an Appendix to the said Service Order.

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

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

Taking into account the above rules and the communications made by its members that do not compose the Audit Committee in the course of the financial year, as well as the evaluation of the independence of the members of the Audit Committee, on 31 December 2008, the Board of Directors comprises 8 non-executive independent directors, i.e. over a quarter of the total number of members, in compliance with the provisions of the CMVM Recommendation no. II.1.2.2 on the Governance of Listed Companies.

Independence criteria as provided for under Service Order no. 3,08 are applicable to the members of the Corporate Governance Committee and of the Evaluation Committee as such. The Audit Committee adopts specific independence criteria, as described under Chapter 2, III., 1. hereof.

Under no. II.9 of the Appendix to the CMVM Regulation no. 1/2007, the members of the Executive Committee are not independent.

Furthermore, all the non-executive members of the Board of Directors identified as independent hereabove fulfil all the incompatibility rules set forth in article 414-A, no. 1 of the Portuguese Companies Code, with exception to paragraph b).

PT has not adopted further rules resulting in limitations to the maximum number of functions a director may perform or other incompatibilities applicable to the members of the Board of Directors.

Operating rules of the Board of Directors

On 3 October 2008, the Board of Directors adopted its internal functioning regulation. The full text of this regulation may be consulted on the Company's website.

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

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

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 accepted by the Board of Directors, shall be deemed as a definitive absence of such director. Such definitive absence shall be declared by the Board of Directors, and the director in question shall be replaced as provided for in the law and the bylaws.

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

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

During the 2008 financial year, the Board of Directors held 14 meetings.

Conflicts of Interest

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

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

Control of the management activity

The activity of the Board of Directors is subject to control by other corporate bodies elected at a General Meeting of Shareholders for such purpose, notably the Audit Committee and the Compensation Committee (which determines the remuneration of the members of the management body based on criteria it has approved and the evaluation of the overall performance of the Board of Directors and of the performance of its executive members carried out by the Evaluation Committee within the framework of its specific powers).

Furthermore, as provided for by the law, the General Meeting of Shareholders carries out, each year, a general appraisal of the management (and supervision) of the Company.

On the other hand, the Corporate Governance Committee has powers that, although delegated by the Board of Directors, determine that this Committee shall assess government practices adopted by the Company and by its management body.

2. Executive Committee

The Board of Directors appoints the Chief Executive Officer and the other members of the Executive Committee. These members are appointed following a proposal presented by the Chief Executive Officer.

Composition:

Zeinal Bava (Chairman)

Luís Pacheco de Melo (Member)

António Caria (Member)

Rui Pedro Soares (Member)

The Board of Directors has delegated the day-to-day management of the Company to the Executive Committee, and retained the duties of supervision and control. For such purpose, the Board of Directors assigned to the Executive Committee all necessary powers, although it may revoke at any time the delegation wholly or in part. Additionally, the following powers are excluded from the delegation:

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

In this way, the CMVM Recommendation no. II.2.2 is complied with, as no authority of the Board of Directors is delegated as regards: (i) the determination of the Company's general strategy and policies, (ii) the definition of the PT Group's corporate structure, and (iii) strategic decisions due to their amount, risk or special features, notably as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its internal regulation.

The Corporate Governance Committee, in its report on the performance of the management body, declares that the Executive Committee and the Chief Executive Officer have acted, throughout 2008, within the delegation of powers and have effectively informed the Board of Directors of their activities, as provided for under the Service Order no. 1,06 of the Board of Directors regarding the delegation of powers to the Executive Committee and the functioning of the latter.

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.

Until 28 March 2008, Mr. Henrique Granadeiro performed both the functions of Chairman of the Board of Directors and Chief Executive Officer. However, autonomy of non-executive members of the Board of Directors vis-à-vis the executive structure and access to information by the same were ensured, notably as a result of the existence of information obligations in favour of the non-executive directors that bind the Executive Committee, as established in the delegation of powers and described herein.

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

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

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

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

The non-executive members of the Board of Directors have prepared a report on their activities carried out during the 2008 financial year. This report was approved at the meeting held by the non-executive directors on 29 January 2009 and is disclosed in the Company's management report in compliance with the CMVM Recommendation no. II.2.4.

Division of powers

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

Executive Committee	Corporate Assignments	Executive Assignments
Zeinal Bava CEO	<ul style="list-style-type: none"> > Strategy > Investor Relations > Communication and Corporate Image > Internal Audit > Regulation and Competition > Institutional and International Relations > Financial Holdings Abroad > Operations Abroad 	<ul style="list-style-type: none"> > PT Portugal > TMN > PT Prime > PT Investimentos Internacionais > PT SI > PT Inovação > Fundação PT
Luís Pacheco de Melo CFO	<ul style="list-style-type: none"> > Human Resources > Management Planning and Control > Financial Reporting > Corporate Finance > Financial Operations and Treasury > Taxation > Internal Control and Risk Management 	<ul style="list-style-type: none"> > PT PRO > PT Contact > PT ACS > Previsão
António Caria	<ul style="list-style-type: none"> > Service Hiring Strategy > Buildings, Networks and System Safety 	<ul style="list-style-type: none"> > PT Compras
Rui Pedro Soares	<ul style="list-style-type: none"> > Real Estate > Financial Holdings > Marketing > Relations with Regions and Local Authorities > Security Policies > Environment and Energy Efficiency 	<ul style="list-style-type: none"> > PT Imobiliária

Operating rules of the Executive Committee

The Executive Committee sets the dates and periodicity of its ordinary meetings, and will meet extraordinarily whenever called upon by its Chairman or by two of its members or by the Audit Committee.

The Executive Committee may not function without the presence of the majority of its members in office. The Chairman may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or by power of attorney, and also by conference call or videoconference.

Resolutions are passed by a majority of the votes cast, and the Chairman has a casting vote.

During the 2008 financial year, the Executive Committee held 41 meetings.

Information duties 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 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.

Additionally, the Chief Executive Officer shall send to the Chairman of the Board of Directors and to the Chairman of the Audit Committee all notices for and minutes of the meetings of the Executive Committee in order to allow such officers to be informed as appropriate.

3. Corporate Governance Committee

In compliance with the applicable legal or regulatory requirements, and in order to adopt the existing recommendations and best international practices, as of 31 December 2008, in addition to the Executive Committee and the Audit Committee, the Board of Directors comprised a committee responsible for assessing and developing the corporate governance model: the Corporate Governance Committee.

Composition:

João de Mello Franco (Chairman)

Franquelim Alves (Member)

Joaquim Goes (Member)

Rafael Mora Funes (Member)

Francisco Soares (Member)

Jorge Tomé (Member)

The Corporate Governance Committee is made up of non-executive members of the Board of Directors with experience and knowledge as appropriate to reflecting on the corporate governance model and permanently follow up the adoption of the best corporate governance practices within the PT Group, in light of the specific characteristics of the company. The Chairman of the Corporate Governance Committee is appointed by the Board of Directors.

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

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

In particular, the Corporate Governance Committee has the following assignments:

- > To propose to the Board of Directors and to review and re-evaluate the Company's corporate governance model, including the 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 conflict of interest prevention and information discipline;
- > To assist the Board of Directors in evaluating its performance in order to contribute to efficiency and transparency in this procedure;

- > To study, review and re-evaluate the values, principles and practices that must govern the conduct of the Group's employees, including the study, review, interpretation and supervision of application of the codes of ethics or conduct approved or to be approved by the Company.

During the 2008 financial year, the Corporate Governance Committee carried out the following main activities:

- > Assessment of the impact on PT of the Corporate Governance Code as approved by CMVM in September 2007, and benchmarking analysis on good corporate governance practices in other international reference venues;
- > Promoting the adoption of the recommendations established in the CMVM Corporate Governance Code that were deemed as good practices towards reinforcing PT's governance system;
- > Proposal to the Board of Director of operating rules for such body;
- > Proposal to the Board of Directors of the creation of the Evaluation Committee within this body;
- > Implementation of internal rules and procedures aimed at having a periodical revision of independence of directors and incompatibilities, independence and specialization of members of the Audit Committee;
- > Proposal to the Board of Directors of a revision of the Code of Ethics applicable to Financial Officers;
- > Revision of internal rules on the identification, decision-making procedure and disclosure of related-party transactions;
- > Proposal to the Board of Directors of revision of the internal rules on transactions performed by officers of the Group;
- > Evaluation of implications of amendments to legislation in force on the matter of financial information;
- > Preparation of a communication to be addressed to the Board of Directors on the level of compliance by the Company with national and international rules, recommendations and best practices applicable to corporate structure and governance and principles and practices of conduct;
- > Assessment of the governance practices of the Board of Directors;
- > Comments on the draft governance report of the Company for the 2008 financial year;
- > Preparation of the self-evaluation report, including the evaluation of the Committee's internal operating rules.

The Corporate Governance Committee ordinarily meets once every quarter and whenever called upon by its Chairman, on his own initiative or at the request of any one of the Committee members. The Committee may not function without the presence or representation of the majority of its members. Its resolutions are passed by a majority of the votes cast, and the Chairman has a casting vote.

In addition to the above rules, the operating rules of the Board of Directors provide that the Corporate Governance Committee provides information to the members of the Board of Directors that are not members of such Committee.

During the 2008 financial year, the Corporate Governance Committee held 7 meetings, and several informal meetings were held in order to prepare such meetings.

4. Evaluation Committee

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

Composition:

Henrique Granadeiro (Chairman)
Zeinal Bava (Member)
João de Mello Franco (Member)
Fernando Soares Carneiro (Member)
Joaquim Goes (Member)
Rafael Mora Funes (Member)
Jorge Tomé (Member)

As provided for under the corresponding delegation of powers, the Evaluation Committee is made up 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.

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 the General Meeting of Shareholders.

Additionally, the Evaluation Committee has the duties and powers required to perform consulting functions in respect of criteria for selection of the members of the management bodies of some PT subsidiaries and of any special committees created within the Board of Directors.

In particular, the Evaluation Committee is entrusted with:

- > Submitting to the Board of Directors and Compensation Committee, as applicable, a communication on the level of compliance by the Company with the legal and regulatory provisions, recommendations and guidelines issued by the competent authorities in the specific areas of evaluation, remuneration and selection, and studying and recommending the adoption of measures that prove to be required or appropriate in order to ensure compliance with such rules;
- > Assisting the Board of Directors within the framework of the annual evaluation of the performance of such body, submitting for such purpose a written annual performance evaluation report, and evaluating the performance of the members of the Executive Committee each year, in accordance with the objective criteria approved by the Compensation Committee for purposes and within the framework of the procedure of determining the variable component of the remuneration of executive directors, after the Chief Executive Officer has been heard;
- > In view of the determination of the relevant remuneration criteria by the Compensation Committee, defining, for each term of office and each year, the goals of the Executive Committee, taking into account the plans approved by the Board of Directors;
- > Proposing and discussing with the Compensation Committee the remuneration policy for members of the management and supervisory bodies of the Company, and issuing an opinion on the annual remuneration policy 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 reviewing 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 cooptation 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 special committees of the Company's Board of Directors, as well as the directors composing the Executive Committee, in this latter case upon proposal of the Chief Executive Officer;
- > Advising the Executive Committee in the matter of selection and relevant criteria for determination of the remuneration of the members of management bodies of PT's most relevant subsidiaries.

The Evaluation Committee 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. The Committee may not function without the presence or due representation of the majority of its members. Its resolutions are approved by a majority of the votes cast, and the Chairman has a casting vote. The Chief Executive Officer must not vote in the Evaluation Committee in respect of resolutions concerning the annual evaluation of the performance of the members of the Executive Committee.

In addition to these rules, the operating rules of the Board of Directors provide that the Evaluation Committee provides information to the members of the Board of Directors that are not members of such Committee.

5. Structures Supporting The Executive Committee

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

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

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

Consultive Council

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

Duties

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

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

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

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

Sustainability Committee

The composition of the Sustainability Committee results from other functions performed within the Group, as follows: PT's CEO (Chairman of the Sustainability Committee)

- > Directors of PT Comunicações, TMN, PT PRO, PT Compras, PT II, and PT Inovação responsible for the sustainability area within their companies;
- > General-Secretary of PT (coordination with Fundação Portugal Telecom)
- > Financial Reporting Officer
- > Human Resources Officer
- > Investor Relations Officer
- > Internal Audit Officer
- > Communication and Corporate Image Officer (operating coordination and implementation)

Duties

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

The Committee has the following main global goals:

- > Reinforcing the Group's performance as a sustainable company, and disseminate this information both internally and externally;
- > Ensuring the conditions required in order to include PT in the international sustainability indexes, aiming at gaining a leading position;
- > Promoting an upgrade in the sustainable performance of the subsidiaries, evaluating and approving projects that these companies may develop in this area and stimulating the analysis of this issue at the meetings of the corresponding Executive Committees, at least twice each year.

The Sustainability Committee has the following duties:

- > To develop a transversal corporate sustainability strategy that is integrated and consistent with the PT Group's strategy;
- > To ensure the creation within the PT Group of conditions as required for its sustainable growth, in a three-dimensional perspective, in economic, environmental and social terms, in accordance with international criteria;
- > To evaluate, approve and support implementation initiatives and plans that subsidiaries may define in this area;
- > To develop, promote and supervise projects and actions as required for the proposed goals;
- > To identify, define and control the best teams to carry out such projects;
- > To guarantee internal and external communication by reinforcing the performance of the PT Group as a sustainable company and making it recognized as such;
- > To control and evaluate the action plan as established and incorporated in the sustainability strategy.

Disclosure Committee

Luís de Sousa Macedo (Chairman)

Francisco Nunes (Member)

Nuno Prego (Member)

Carlos Cruz (Member)

Nuno Vieira (Member)

Pedro Guterres (Member)

Duties

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

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

- > Complies with applicable laws and regulations;
- > Is accurate, complete and made in due time;
- > 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.

During the 2008 financial year, the Consultive Committee held 8 meetings, the Disclosure Committee held 6 meetings and the Sustainability Committee held 1 meeting.

III. Supervision of the Company

1. Audit Committee

The Audit Committee is exclusively composed by non-executive directors, observing the requirements of article 423-B of the Portuguese Companies Code, which requires that the Audit Committee is composed by a majority of independent members as defined in article 414, no. 5 of that same Code, and that, of such independent members, at least one of them has had higher education as appropriate to carry out his duties and has knowledge of audit or accounting matters.

The members of the Audit Committee are appointed by the General Meeting of Shareholders together with all other directors, and the lists proposed for the Board of Directors shall identify the members to appoint to the Audit Committee and specify its Chairman.

Composition:

João de Mello Franco (Chairman)

José Xavier de Basto (Member)

Thomaz Paes de Vasconcellos (Member)

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

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

- > To approve and disclose the annual report of the supervisory activity, expressly mentioning any constraints faced;
- > To approve an annual action plan contemplating, inter alia, the measures required for compliance with its powers and duties in the following year;
- > To inform and discuss with the Board of Directors and the Executive Committee, within their respective powers and duties, 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 legally 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;
- > To analyse and issue its opinion on relevant matters connected to accounting and auditing aspects and impact on financial statements of changes to the accounting rules applicable to the Company and to its accounting policies;
- > To control the auditing to the Company's financial statements performed by the chartered accountant and the auditors, as well as to supervise and assess internal procedures on accounting and auditing matters;
- > To propose the appointment of the Chartered Accountant to the General Meeting of Shareholders;
- > To control the independence of the Chartered Accountant, notably as regards the rendering of additional services;
- > Direct and exclusive responsibility as to the appointment, hiring, confirmation or termination of duties and determination of remuneration of the Company's external auditors, as well as to the control over their qualifications and independence, and approval of audit and/or other services to be rendered by such external auditors or by persons associated to the same; the External Auditors of the Company must report and be subject to the direct and exclusive supervision of the Audit Committee, which each year shall obtain from and review with the external auditors an External Audit Report;
- > To settle any differences between the Executive Committee and the abovementioned external auditors in respect of the financial information to be included in the financial statements to be reported to the competent authorities, as well as in respect of the procedure of preparation of the audit reports to be issued by the said external auditors;

- > To control the quality, integrity and efficiency of the risk management system, internal control system and internal audit system, including an annual review of their adequacy and efficiency, and generally to supervise the execution of the functions performed within the framework of the Company's internal audit and internal control system;
- > 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, and internal control procedures on such matters;
- > To comment and issue its prior opinion within its powers established by law or by the bylaws, and whenever it deems necessary or appropriate, on any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities.

Independence, incompatibilities and specialisation of Audit Board members

For purposes of assessment of independence, non-existence of incompatibility situations and specialization of the members of the Audit Committee as such, the Audit Committee and the Board of Directors have adopted, on 31 January 2008, the internal Service Order no. 4,08, which was prepared on the basis of the independence concept set out under article 414, no. 5, the list of incompatibilities provided for under article 414-A and the specialization concept set out under article 414, no. 4, all of the Portuguese Companies Code and applicable by virtue of article 423-B 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, the Rule 10A-3 on Listing Standards Relating to Audit Committee of the 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 Service Order, the members of the Audit Committee must send to its Chairman, within the 10 business days following their appointment and no later than 31 January of each year, declarations prepared in accordance with an Appendix to such Service Order no. 4,08.

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

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

Taking into consideration the abovementioned rules and the communications made by its members in the course of the financial year, as of 31 December 2008 the Audit Committee complies with the provisions of article 414, no. 6 of the Portuguese Companies Code, since all its members are independent.

In this regard, it should be mentioned that, should the CMVM understand that re-election in any corporate body (and not exclusively in the supervisory body) is relevant for the purposes of paragraph b) of article 414, no. 5 of the Portuguese Companies Code, the Chairman of the Audit Committee, although having been elected for the first time for the supervisory body on 22 June 2007, was re-elected for more than two terms of office to carry out non-executive duties in the management body of the Company.

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

Furthermore, it should be stressed that (i) independence of the members of the Company's Audit Committee is also assessed in accordance with Rule 10A-3 on Listing Standards Relating to Audit Committee as approved by the SEC and 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, and that (ii) all the members of the Audit Committee are independent according to such rules.

PT has not adopted further rules resulting in limitations to the maximum number of functions a member of the Audit Committee may perform or other incompatibilities applicable to the members of such Committee.

Operating rules of the Audit Committee

The Audit Committee adopted its internal operating regulation, which may be consulted on the Company's website, on http://www.telecom.pt/NR/rdonlyres/67EC0B7D-5B4B-49DA-B5E0-87B32C5D3B22/1411230/Regulamento_Comisso_de_Auditoria_PT.pdf.

The Audit Committee meets at least once every two months of each financial year, on the day and at the place established by its Chairman, although extraordinary meetings being called upon by its Chairman or at request by a majority of the members of the Committee.

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

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

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

The annual activity report of the Audit Committee is made available on the Company's website, together with the financial statements, in compliance with the CMVM Recommendations no. II.4.2 and no. II.4.3.

During the 2008 financial year, the Audit Board held 13 meetings.

2. Chartered Accountant

The term of office of the Chartered Accountant, both effective and alternate, has lapsed on 31 December 2008, but such supervisory body will remain in office until new members are appointed pursuant to the bylaws. As of 31 December 2008, the appointed officers were:

- > P. Matos Silva, Garcia Jr., P. Caiado & Associados, Sociedade de Revisores Oficiais de Contas, represented by Pedro João Reis de Matos Silva as Chartered Accountant (effective)
- > Ascensão, Gomes, Cruz & Associado, Sociedade de Revisores Oficiais de Contas, represented by Mário João de Matos Gomes as Chartered Accountant (alternate).

Pursuant to its duties and in line with the CMVM Recommendations n.º II.4.4 and II.4.5, the Audit Committee assessed the independence of the Chartered Accountant (effective) and positively appraises its work in the 2008 financial year.

3. External Auditors

During the 2008 financial year, the annual remuneration paid to the Company's External Auditors, Deloitte & Associados, SROC, SA ("External Auditors"), was 1,819,710 Euros, such payment corresponding to the following services:

External Auditors				
	2007	%	2008	%
Audit fees	1,857,274	79%	1,262,490	69%
Audit related fees	277,978	12%	213,820	12%
Tax consultancy fees	18,900	1%	37,950	2%
Other fees – not audit nor audit-related	194,991	8%	305,450	17%
Total	2,349,143	100%	1,819,710	100%

In order to safeguard the independence of the External Auditors, the following powers of the Audit Committee were exercised during the 2008 financial year and should be highlighted:

- > Appointment and hiring of External Auditors and responsibility for establishing their remuneration, as well as pre-approval of any services to be hired from the External Auditors;
- > Direct and exclusive supervision by the Audit Committee;
- > Annually obtaining, directly from the External Auditors, written information on the Auditors' quality control internal procedures, any substantial issues arisen within such control or following any inquiry carried out by competent authorities over the last 5 years, as well as all relations existing between the Company and the Auditors or associated persons, including all services rendered and all services in progress; in fact, the Audit Committee, in order to evaluate independence, obtained from the External Auditors information on their independence in light of the Independence Standard Board no. 1 Independence Discussions with Audit Committees;
- > Evaluation of the qualifications, independence and performance of External Auditors;
- > Definition of the Company's hiring policy concerning persons who have worked or currently work with the External Auditors;
- > Review, with the External Auditors, of the scope, planning and resources to be used in their services;
- > Responsibility for the settlement of any differences between the Executive Committee and the External Auditors concerning financial information;
- > Definition of the annual fee limits to be paid regarding the services to be rendered by External Auditors and quarterly review of the contracting levels of such services.

Within this context, it should be particularly stressed that External Auditor independence was safeguarded by the implementation of the Company's policy on pre-approval of the services to be hired to External Auditors, which results from the application of the rules issued by the SEC on this matter. According to such policy, the Audit Committee makes an overall pre-approval of the services proposal made by the External Auditors and a specific pre-approval of other services that will eventually be provided by the External Auditors, particularly the services other than "audit and audit-related".

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

4. Risk Management System

The management of business risks has been acquiring increasing relevance, not only due to the current globalization context, but also considering the great dynamism that characterizes the environment where the various business areas of the PT Group are carried out. In this way, risk management has a relevant role in mitigating risk factors in order to minimize the possible impact resulting from their materialisation both at company's and stakeholders' levels. Risk management also contributes to identify new opportunities.

As a Company listed on the Euronext Lisbon and on the New York Stock Exchange and as an organisation subject to high corporate governance and internal control requirements, the PT Group has, since long ago, strongly committed itself to a Risk Management System.

Furthermore, the Internal Control System, of which the Risk Management System is an integral part, has been certified by the External Auditors since 2006 pursuant to the SOX rules, with no material weakness.

In addition to ensuring compliance with all the rules to which the PT Group is subject, the Risk Management System is also viewed as a management tool inherent to the implementation and constant use of the best management practices.

Based on such commitment, PT has been extending the work already done, and it has been investing in a Risk Management System that holds a structured rationale permitting, in an effective manner, the identification of strategic and operational risks and to systematise the existing and the desired internal control levels in these areas.

In this way, the Management created an Internal Control and Risk Management Team that reports directly to an Executive Director (the Chief Financial Officer), whose mission is to carry out a permanent assessment of the Risk Management procedures that are set in place and to make improvements and adaptations as eventually identified, thus contributing to its efficiency and effectiveness, by using methods conforming to the best practices and complying, as regards internal control matters, with the COSO method.

Risk Management is promoted by the Executive Committee directly supported by the management teams of the various businesses, both at national and international levels, in order to ensure a prior identification and "prioritization" of critical risks, and the development of risk management strategies in order to implement appropriate controls and ensure a reduction in risk to an acceptable level. It should also be mentioned that the whole process is followed up and monitored by the Audit Committee, an autonomous supervisory body composed by non-executive members.

In this way, it is important to shortly describe the risks to which the Company is subject, in order to make the comprehension of the existing risk control system easier.

Main risk factors

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

- > **Regulation:** The PT Group is subject to the risk of regulatory change or actions of national, international or European Union regulatory entities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner. The Corporate Regulation Office is in charge of the management of the regulation risk, and shall be up to date on new business regulations applicable to the sector with an impact on the PT Group, as issued by national and international entities.
- > **Competition:** Potential reduction in the wireline service revenues as a result of the progressive effect of wireline-mobile replacement, as well as potential reduction in the PT Group's revenues by virtue of an increase in competition by other operators or new players in the market, notably through (i) development of new products and services, (ii) aggressive marketing and sales policies, (iii) improvements in product and service quality, (iv) increase in productivity and cost reduction, and (v) re-configuration of the value chain from the customer's point of view.

- > **Technological evolution:** In view of the history of quick technological changes, the PT Group is subject to the risk of failing to leverage technological advances and developments in its business model in order to obtain or maintain competitive advantages. The PT Group holds PT Inovação, a company created in order to implement the technological development of the Group's businesses, at applied investigation, engineering services and development of innovating solutions and services levels, both in the domestic and international markets.
- > **Economic environment:** The international financial crisis may lead to a recession in the Portuguese and world economies, which might have an impact on the level of product and service demand and, as a result, on the level of the operational and financial performance of the PT Group. In this sense, management continuously monitors impacts on the operational and financial performance of the Company.
- > **Financial markets:** Recent events have increased uncertainty and volatility in financial markets. Risk premium in the markets generally, and for PT in particular, have increased significantly. In this way, the current conditions of the financial markets may have an adverse effect on the PT Group's ability to access the capital it needs to support its growth, its strategies, and to generate future financial returns. The management of the financial market risk is ensured by the Corporate Finance Department. Portugal Telecom executes agreements regarding a set of derivative financial instruments so as to minimize the risks of exposure to variations in interest rates. The execution of agreements concerning financial instruments is made after a careful analysis of risks, benefits inherent to this type of transactions and consulting with various institutions acting in this market. These transactions are subject to prior approval by the Executive Committee and involve a permanent follow-up of the financial markets' evolution and of the positions held by the Company.
- > **Exchange rate exposure:** Portugal Telecom holds financial investments in foreign countries whose currency is not the Euro, namely Brazil and several African countries. Exchange rate fluctuations of those currencies against Euro affect the translation of the results attributable to Portugal Telecom and therefore impact Portugal Telecom financial position and results. Portugal Telecom does not have a hedging policy regarding the financial investment amount, notwithstanding the Executive Committee analyzes the execution of cash flow hedging of the dividends and other capital income.
- > **Strategic partnerships:** The growth strategy at international level is based on a combination of alliances, joint ventures and partnerships that positively affect the Company's competitive capacity. The Executive Committee of PT and its subsidiary companies have played a central role in the management of this risk, by reinforcing existing opportunities.

5. Whistleblowing

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

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

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

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

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

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

Both confidentiality of the communication and the 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 tolerated against those that make the said communications.

The Audit Committee ensures the receipt and follow-up of communications, which are first received by a Qualified Communication Analysis Team (NAPQ – Núcleo de Análise de Participações Qualificadas), who process the communications and send them to the Audit Committee. The Audit Committee has powers to make the required decisions, reporting them to the CEO and CFO, as well as to other internal or external entities whose involvement is required or justified.

IV. Remunerations

1. Compensation Committee

The Compensation Committee is elected at the General Meeting of Shareholders and serves the purpose of defining the remuneration policy of the members of PT's corporate bodies, determining the remunerations applicable taking into account the performance (following an evaluation made by the Evaluation Committee) and the economic position of the Company.

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

The members of the Compensation Committee were elected on 22 June 2007 to complete the 2006-2008 term of office, which ended on 31 December 2008. According to the bylaws, the members of the Compensation Committee shall remain in office until new members are appointed.

Composition

Álvaro Pinto Correia (Chairman)

João de Mello Franco* (Member)

Francisco Esteves de Carvalho (Member)

Independence of the members of the Compensation Committee

Notwithstanding the necessary articulation of this Committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body. Two members of the Compensation Committee, including its Chairman, are not members of the Board of Directors or of any committee within the Company. The Compensation Committee is also made up of the Chairman of the Audit Committee, who is bound to specific duties as a result of his functions in the supervisory body.

Additionally, no member of the Compensation Committee has any family relationship with members of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree.

The members of the Compensation Committee are remunerated for the functions performed in this Committee, except the member who is also the Chairman of the Audit Committee. The remunerations of the members of the Compensation Committee were determined by an ad hoc Committee composed by Prof. João Calvão da Silva, Mr. Rui Silveira and Mr. Rodolfo Lavrador, which Committee was elected for such purpose by the annual General Meeting of Shareholders held on 28 March 2008. The said ad hoc Committee was dissolved immediately after determining such remunerations.

* The Member of the Compensation Committee João de Mello Franco is also a non-executive director of PT is a member of the Compensation Committee as Chairman of the Audit Committee.

At the General Meetings of Shareholders held by the Company, at least one of the members of the Compensation Committee has been present, and therefore PT complies with the CMVM Recommendation no. II.1.5.3.

2. Remuneration of directors

Remuneration policy for executive and non-executive directors

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the Audit Committee) is described on the declaration on this matter to be submitted by the Compensation Committee to the annual General Meeting of Shareholders to be held on 27 March 2009, in compliance with the part concerning this matter of the CMVM Recommendation no. II.1.5.2. Such declaration is set out in Appendix IV hereto.

At the annual General Meeting of Shareholders dated 28 March 2008, a description of the director remuneration policy and of its implementation during the 2007 financial year was also submitted to the shareholders in a text incorporated in the corporate governance report for such year.

Fixed and variable remunerations for executive and non-executive directors

See note 45 to the consolidated financial statements set out in the Report and Consolidated Accounts for 2008.

As to the deferment of payment of variable components, it is expected that the payment of the multi-annual variable component to executive members will be made at the end of each term of office, as per declaration on the remuneration policy for directors described in the said Appendix IV.

Amounts paid to directors by companies in a control or group relationship

During the 2008 financial year, no amounts were paid to PT directors by companies in a control or group relationship.

Payments in connection with the termination of directors' duties during their term of office

PT has established with the Chairman of the Board of Directors and the Chief Executive Officer individual agreements, whereby, should such directors not be re-appointed once their current term of office lapses, they will be entitled to a compensation equivalent to the remuneration they would earn in up to two subsequent years - such compensation incorporating a variable component. In return, those directors undertook not to carry out a business competing with PT for a certain period, as agreed between the parties.

In addition, under the terms of those same agreements, should PT remove such directors from office without just cause, PT would have to pay, cumulatively, a compensation equivalent to the remuneration they would earn until the end of the then current term of office.

These directors do not have an employment agreement with PT, nor have they access to its pension funds.

Allotment of shares or other share incentive system - Bonuses, non-financial benefits and profit sharing

There are no share allotment or stock option plans or other share programme based on share price variation or share incentive system. There are no annual bonuses or non-financial benefits of any nature, notably profit sharing.

Complementary pension or early retirement systems applicable to directors

One director is included in the Post-Retirement Benefits Plan sponsored by PT Comunicações, which includes all employees hired by PT until 1994 or, in respect of the former Marconi company, until 1998. See note 9 of the Appendix to the consolidated financial statements set out in the Report and Consolidated Accounts.

Estimate of other non-financial benefits

No significant non-financial benefits were granted to the directors, other than those described above. In fact, the Chairman of the Board of Directors and the members of the Executive Committee are only granted, as applicable, the benefits set forth for the Company's senior officers.

3. Remuneration of the members of the Supervisory Bodies

The remuneration policy for members of the supervisory body (incorporated in the director remuneration policy) is described on the declaration on this matter to be submitted by the Compensation Committee to the annual General Meeting of Shareholders to be held on 27 March 2009, in compliance with the part concerning this matter of the CMVM Recommendation no. II.1.5.2. Such declaration is set out in Appendix IV hereto.

The remuneration of the members of the Audit Committee is set out in note 45 to the consolidated financial statements included in the Report and Consolidated Accounts for 2008, and no payment was deferred.

No payment in excess of twice the corresponding fixed monthly remuneration is expected to be made to the members of the Audit Committee, in case of termination of duties during their term of office.

During the 2008 financial year, the Company's Chartered Accountant was remunerated in accordance with remuneration practices and conditions usual for similar services, subsequent to the execution of a services agreement and following a proposal submitted by the Audit Committee.

4. Remuneration of Corporate Officers

In the annual General Meeting of Shareholders to be held on 27 March 2009, the Board of Directors will submit to the shareholders a declaration on the remuneration policy for the corporate officers of the PT Group, in the meaning of article 248-B of the Portuguese Securities Code, other than those that make up the management or supervisory bodies. This declaration will be submitted together with information on the remunerations actually paid to such managers, as per note 45 to the consolidated financial statements included in the Report and Consolidated Accounts for 2008. As a result, the part concerning this matter of the CMVM Recommendation no. II.1.5.2 is complied with.

V. Shareholders and general meeting of shareholders

1. General meeting of shareholders and its board

The General Meeting of Shareholders, composed of shareholders with the right to vote, ordinarily meets once a year or whenever its call is requested to the Chairman of board of the General Meeting of Shareholders by the Board of Directors, the Audit Committee or shareholders representing at least 5% of the share capital.

The meetings are held at the registered office or other location as chosen by the Chairman of the board pursuant to the law. They cannot take place by remote-access telematic means.

The members of the board of the General Meeting of Shareholders were elected on 21 April 2006 for the 2006-2008 term of office, which ended on 31 December 2008. However, pursuant to the bylaws, the members elected to the board of the General Meeting of Shareholders shall remain in office until new members are appointed.

Board of the General Meeting of Shareholders
António Menezes Cordeiro (Chairman)
Eduardo Vera-Cruz Pinto (Vice-Chairman)
Francisco Leal Barona (Secretary)

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.

The members of the board of the General Meeting of Shareholders comply with the independence requirements of article 414, no. 5 and incompatibility rules of article 414-A, no. 1, both of the Portuguese Companies Code, applicable by virtue of the provisions of article 374-A of that same Code.

In carrying out their duties, notably in the preparation, convening and running 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, 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 through the following contacts:

Chairman of the Board of the General Meeting of Shareholders

Address: Avenida Fontes Pereira de Melo, n° 40-10° piso, 1069-300 Lisboa

Telephone: +351.800.207.369

Fax: +351.215.001.890

E-mail: "mailto:assembleia-ptsgps@telecom.pt" assembleia-ptsgps@telecom.pt

By determination of the Compensation Committee approved during the 2008 financial year, the remuneration of the Chairman of the Board of the General Meeting of Shareholders corresponds to the remuneration of a non-executive director of the Company.

2. Right to vote

According to the Company's bylaws, each 500 shares grant the right to one vote. Shareholders holding a lesser number of shares may group together and be represented by one of the group members, so as to jointly accumulate the number of shares necessary to exercise the right to vote. Only shareholders entitled to vote may attend a meeting of shareholders with voting rights.

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.

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

As of 31 December 2008, the bylaws provide that blocked shares should remain inscribed or registered in the name of the shareholder at least until the General Meeting is closed. However, the Board of Directors will submit a proposal to the annual General Meeting of Shareholders to be held on 27 March 2009 in order to amend article 13, no. 4 of the bylaws, so that the bylaws will expressly provide that share blocking may be released in the event of adjournment of the General Meeting. Should this proposal be approved, in case of adjournment of a meeting, share blocking may be cancelled, and shareholders will not have to prove, once again, the registration of the shares in a book-entry securities account until no later than 5 business days prior to the date on which the meeting is resumed.

Notwithstanding the foregoing, the Company had already implemented a similar practice. In fact, in respect of the annual General Meeting of Shareholders held on 1 April 2005, which was adjourned and then resumed on 29 April 2005. PT informed that shareholders who had blocked their shares for the purpose of participating in the General Meeting could unblock such shares, and then provide evidence, until a certain date, of ownership of the PT shares they held and make a new share blocking in order to participate in resumed General Meeting of Shareholders.

As described above, PT complies with the CMVM Recommendation no. I.2.2.

There is no system specifically applicable to employees' shareholdings which involves that the corresponding voting rights shall not to be exercised directly by the employees.

3. Limitations on the transferability and ownership of shares and the exercise of voting rights; shareholders' agreements

There are no limitations on the transfer of shares nor measures which effect is to automatically cause a serious erosion in the Company's assets in case of change in control or of change in the composition of the management body. The Company has no knowledge of the existence of any shareholders' agreements.

However, the bylaws provide for limitations on the exercise of voting rights and on ownership of shares as described hereinafter.

Limitation on counting of the votes of a single shareholder

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.

Limitations on ownership of shares

Pursuant to the bylaws, shareholders which are, either directly or indirectly, engaged in an activity which competes with the activity being performed by companies in a controlling relationship with PT may not hold more than 10% of the company's ordinary shares without the prior authorization of the General Meeting of Shareholders.

4. Voting by correspondence, by electronic means and by proxy

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 voting.

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

Additionally, votes cast by correspondence or 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 electronic means, or of his representative, determines the revocation of the vote so cast.

Voting by correspondence

According to the procedures generally followed by PT, the voting by correspondence shall be performed as follows:

- > Shareholders entitled to vote may, according to article 22 of the Portuguese Securities Code, exercise such vote by correspondence, provided that, by the time and date scheduled on the notice, a communication addressed to the Chairman of the Board of the General Meeting is delivered to the latter, such communication to be with a legally-acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant ID card), and set out the address to where voting papers and other documentation should be sent. In reply, the voting papers and other relevant documentation will be sent to such shareholders, who shall send to the Chairman of the board of the General Meeting, in such a way as to be received by the time and date scheduled on the notice for the General Meeting (the bylaws establish no deadline – a 5-business day period had usually been adopted, but, as from the 2008 annual General Meeting, this was reduced to 3 business days, in compliance with the CMVM Recommendation no. I.3.2), a closed envelope containing another closed envelope with the duly filled in voting papers.
- > Notwithstanding the possibility to download 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 internet site www.telecom.pt, and send the same, addressed to the Chairman of the board of the General Meeting, duly filled in and in a closed envelope, in such a way as to be received, together with an envelope containing a copy of the ID card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.
- > In any case, shareholder votes may only be considered if the declaration of the financial intermediary entrusted with the registration of the relevant shares is received no later than 5 business days prior to the General Meeting.

Voting by electronic means

Also according to a practice implemented in the company, shareholders may vote through the internet site www.telecom.pt, according to the requirements established thereon, provided that, by the time and date scheduled on the notice for the General Meeting of Shareholders, they deliver to the Chairman of the board of the General Meeting a communication, prepared in accordance with the form made available on that same internet site, with a legally-acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant ID card), and setting out the post address to where the password to be made available by the Company should be sent.

Such shareholders may exercise their voting rights during the period established on the notice for the General Meeting of Shareholders. Only the votes of shareholders, in respect of whom the declaration of the financial intermediary entrusted with the registration service of the relevant shares has been received during the period fixed on the notice for the General Meeting, may be taken into account.

Shareholder representation

Shareholders may participate directly in the General Meeting or appoint their representatives, within the broadest terms foreseen in the Portuguese Companies Code. A 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 internet site [HYPERLINK "http://www.telecom.pt"](http://www.telecom.pt) 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.

5. Preparatory information and information subsequent to the meeting

The proposals to be submitted by the Board of Directors to the General Meeting of Shareholders, as well as the reports that must be attached thereto and all other preparatory information data, are made available to shareholders at the Company's registered office for a period of no less than 15 days prior to the meeting. The content of such documents is also disclosed on the Company's website, both in Portuguese and in English.

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

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

Moreover, the text of the notice for the General Meeting of Shareholders and of the proposals received by the board of the General Meeting of Shareholders will be available on the Company's website sufficiently in advance of the day of the General Meeting and as provided for by law and regulations.

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

In order to comply with the CMVM Recommendation no. I.5.1, PT will make available on its website, as from its next annual General Meeting, a summary of the minutes and results of the votings, within 5 days from the next annual General Meeting of Shareholders to be held on 27 March 2009.

PT keeps on its website, in respect of the three preceding years, a record of the agendas and resolutions approved at the General Meetings, as well as information on the attendance to the meetings.

6. Amendment to the bylaws

Meeting quorum

In order to meet (and be able to start works) so as to resolve an amendment to the bylaws, on a first call, shareholders holding at least shares corresponding to one third of the share capital must be present or represented. There is no such requirement for a second call, and the General Meeting may approve resolutions on any matter whatever the number of shareholders present.

Resolution quorum

In order to resolve an amendment to the bylaws, a majority of two thirds of the votes cast is required.

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

Thus, PT bylaws do not establish a quorum for the Meeting to be held or a quorum to approve resolutions that is higher than the ones set forth in the law.

In any case, no resolutions on bylaws amendments may be approved against the votes of the majority of the class A shares, as referred to in Chapter 3, I., 1. hereof.

Additionally, the Board of Directors is authorized to increase the share capital, subject to an opinion in favour issued by the Audit Committee and following a resolution of the General Meeting of Shareholders, according to the terms described in Chapter 3, I., 1. hereof.

3_Information on the company

I. Capital structure and major shareholders

1. Capital structure

Upon completion, on 10 December 2008, of a share capital reduction in the amount of 1,382,480.31 Euros, through the cancellation of 46,082,677 own shares, PT's share capital is, as from such date, 26,895,375 Euros, and it is fully paid up and represented by 896,512,500 shares with a nominal 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 (therefore, these shares are not admitted to trading on any regulated or non-regulated market), and are currently held by the Direcção-Geral do Tesouro.

Class A shares grant their holders special rights as provided for under article 14, no. 2 and article 19, no. 2 of the Company's bylaws, as follows:

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

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

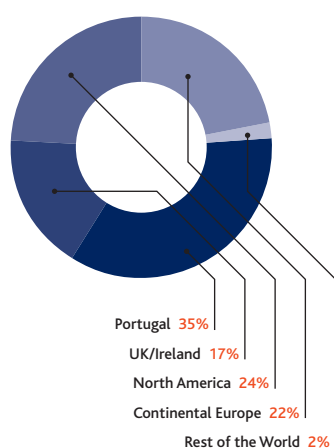
In addition, the election of one third of the total number of directors, including the Chairman of the Board of Directors, requires the votes issued by the State, in its capacity as holder of the Class A shares.

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

All PT ordinary shares are admitted to trading on the Eurolist by Euronext regulated market.

According to the bylaws, the Board of Directors is authorised to increase the share capital, on one or more occasions, through contributions in cash, in an amount up to 15,000,000 Euros, provided however that the Audit Committee gives an opinion in favour of such share capital increase and the increase is preceded by a resolution of the General Meeting of Shareholders establishing the parameters to which such increase or increases are subject, such parameters to be established as provided for in the bylaws.

2. Major shareholders



Qualified holdings				
Date of report	Institutions	No. of shares	% of capital	% of voting rights
17-Dec-08	Telefónica	89,651,250	10.00%	10.00%
31-Dec-08	Brandes Investments Partners	84,975,020	9.48%	7.52%
31-Dec-08	Espirito Santo Group	83,694,971	9.34%	9.34%
31-Dec-08	Caixa Geral de Depósitos Group	65,298,917	7.28%	7.28%
12-Mar-07	Ongoing Strategy Investments ⁽¹⁾	60,404,969	5.35%	5.35%
15-Dec-08	Barclays Group ⁽²⁾	23,924,243	2.54%	2.54%
26-Dec-08	BBVA ⁽³⁾	23,089,754	2.58%	2.58%
05-Jun-07	Visabeira Group ⁽¹⁾	22,667,473	2.01%	2.01%
04-Apr-08	Controlinvest Comunicações ⁽⁴⁾	20,421,247	2.17%	2.17%
10-Apr-08	Taube Hodson Stonex Partners ⁽⁴⁾	19,401,182	2.06%	2.06%
30-Dec-08	Ontario Teachers' Pension Plan Board	17,938,889	2.00%	2.00%

⁽¹⁾ Reported before share capital reductions occurred on 20 December 2007, 24 March 2008 and 10 December 2008. ⁽²⁾ Information regarding the holding on 5 December 2008, i.e. before the share capital reduction occurred on 10 December 2008. ⁽³⁾ In January 2009, BBVA reduced its holding to 0.76% of PT's share capital and corresponding voting rights. ⁽⁴⁾ Reported before share capital reduction occurred on 10 December 2008.

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

3. Transactions with related parties

Relevant transactions with members of corporate body, owners of qualified holdings or companies in a control or group relationship with PT are described in Note 45 to the consolidated financial statements included in the Report and Consolidated Accounts for 2008.

4. Change of control

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 agreements should be highlighted:

- > Shareholders' agreement dated 16 April 1999 on the incorporation of Médi Telecom between the companies of the Banque Marocaine du Commerce Extérieur Group, Holdco, SA, Telefónica Intercontinental, SA and Portugal Telecom. Under such agreement, in the event of a change of control in any party thereto, the other parties shall have a call option whereby they may require that the party affected by the change of control dispose of its holding in Médi Telecom to the other parties for the fair market price with a 10% discount. In case this call option is exercised by more than one party, the acquisition of the holding of the party affected by the change of control shall be prorated. In PT's case, and for the purposes of this agreement, a change of control shall be deemed to exist upon acquisition by a direct or indirect competitor of the Group of a controlling share in PT.
- > Shareholders' agreement dated 17 October 2002 between Telefónica and PT, whereby it was agreed that Telefónica Móviles shall be entitled to sell to PT, who shall be obliged to purchase, its shareholding in Brasilcel in the event of a change of control in PT or in any of its subsidiaries owning, directly or indirectly, a shareholding in Brasilcel. Similarly, PT shall be entitled to sell to Telefónica, who shall be obliged to purchase, its shareholding in Brasilcel, in the event of a change of control in Telefónica or in any of its subsidiaries owning, directly or indirectly, a shareholding in Brasilcel.

PT describes the financial covenants that may affect the Company, notably concerning change of control clauses, under note 35.9 to the consolidated financial statements included in the Report and Consolidated Accounts for 2008.

The Company does not adopt any defensive measures the effect of which is to automatically cause serious erosion in the company's assets in the event of a change of control (or change in the composition of the Board of Directors), as referred to in Chapter 2, V., 3 above, nor are there any agreements between PT and the members of the management body and corporate 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.

II. Economic rights

1. Share price evolution

PT performance vs. DJ Stoxx Telecom Europe in 2008



Most relevant facts announced during the 2008 financial year

- 16 January** _ Acquisition of 21,000,791 PT shares through equity swaps
- 18 January** _ Resignation of a non-executive Board member
- 31 January** _ Resignation of two non-executive Board members
- 31 January** _ Acquisition of 10,984,998 PT shares through equity swaps
- 12 February** _ Appointment by cooptation of two non-executive Board members
- 13 February** _ Acquisition of 10,765,997 PT shares through equity swaps
- 28 February** _ 2007 annual results
- 7 March** _ Acquisition of 20,919,219 PT shares through equity swaps
- 20 March** _ Acquisition of 83,204,823 PT shares, corresponding to 8.11% of the Company's share capital social, through equity swaps
- 24 March** _ Reduction in the share capital from 30,774,000 euros to 28,277,855.31 euros within the framework of the share buy-back programme
- 25 March** _ Sale of a 34% holding in Banco Best
- 28 March** _ PT Annual General Meeting of Shareholders
- 28 March** _ Appointment of Zeinal Bava as Chief Executive Officer
- 28 March** _ Filing of the annual report – Form 20-F with SEC
- 2 April** _ Presentation of the TV strategy and launching of the TV offer based on satellite service
- 4 April** _ Completion of the acquisition by Vivo of shareholder control in Telemig Participações
- 8 April** _ Announcement by Vivo of the voluntary tender offer over up to 1/3 of the preferred shares in Telemig Celular and Telemig Participações
- 22 April** _ Agreement for tender for Terrestrial Digital Television (TDT)
- 24 April** _ Payment of dividend in respect of the 2007 financial year
- 30 April** _ Appointment of the new person responsible for PT's Investor Relations
- 8 May** _ Results for the first quarter of 2008
- 5 June** _ Acquisition of 10,073,059 PT shares through equity swaps
- 18 June** _ Meo exceeds 100 thousand customers
- 20 June** _ Resignation of executive Board director
- 30 June** _ Preliminary decision awarding victory to PT in the TDT tender
- 30 June** _ Acquisition of 10,024,764 PT shares through equity swaps
- 7 July** _ Notification on mobile termination tariffs
- 11 July** _ Acquisition of 10,557,000 PT shares through equity swaps
- 25 July** _ Completion of the de share buyback programme
- 7 August** _ Results for the first six months of 2008
- 1 September** _ Notification of decision by Anti-Trust Authority
- 9 September** _ Notification on mobile termination tariffs
- 23 September** _ Meo exceeds 200 thousand customers
- 13 November** _ Results for the first nine months of 2008
- 10 December** _ Reduction in the share capital from 28,277,855,31 euros to 26,895,375 euros within the framework of the share buyback programme
- 18 December** _ Meo exceeds 300 thousand customers

2. Dividend

Dividend policy

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

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

According to the Company's bylaws, at least 40% of the distributable profits of PT² shall be distributed to the shareholders as dividend, although the General Meeting of Shareholders may resolve, by a qualified majority of two-thirds of the votes cast, to reduce or not to distribute the dividend.

The votes of the majority of the class A shares is required to resolve on the distribution of a dividend higher than a percentage of 40% of the distributable net profits.

Dividend distributed in the last five financial years

Taking into account the general dividend distribution policy as described above, until 2005 PT carried out a progressive dividend policy that involved investment return higher than the average of similar European companies.

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

In this way, the gross dividend per share pertaining to the last five financial years were as follows:

2007 > 0.575 euros
2006 > 0.475 euros
2005 > 0.475 euros
2004 > 0.350 euros
2003 > 0.220 euros

The Board of Directors will submit to the annual General Meeting of Shareholders a proposal for the allotment of a dividend to shareholders in an amount of 0.575 euros per share, concerning the 2008 financial year, thus completing the implementation of the proposed remuneration package.

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

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

Once the implementation of the remuneration package proposed to the shareholders within the Takeover Bid is completed, as described above, the Board of Directors, which will be elected at the Annual General Meeting of Shareholders, will establish the dividend distribution policy to be applied by PT in the next few years.

3. Plans for allotment of shares or share call options

During the 2008 financial year, the Company did not adopt any share allotment plans or share call options, nor did any such plans remain in force, regarding Group directors or employees.

² Calculated in light of the net income evidenced on the individual financial statements and determined according to the accounting principles in force in Portugal, after deduction of retained losses and a 5% allocation to the legal reserve until it has reached 20% of the share capital, and amortization of expenses as provided for under article 33 of the Companies Code.

III. Sustainable development and social responsibility policy

The corporate sustainability strategy in PT is integrated in a consistent and transverse way within the Group and lies on the development and monitoring of a vast combination of practices and procedures at three main levels: economic, environmental and social.

Corporate social responsibility at the ethical, economical and environmental levels are different sides that are intrinsic in this strategy, and that PT expects to progressively consolidate and renew in a systematic and transverse way as to the Group's business.

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

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

IV. Investor relations

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

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

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

The Investor Relations Office has a call centre that can be accessed through a free number, and that provides clarifications for investors. It is open Monday to Friday, from 9 am to 6 pm.

During 2008, PT pursued its investor relation activities, and held several events, notably roadshows, presentations to investors and analysts, meetings and conference calls, and it has taken part in conferences in Europe and the United States.

Overall, PT held, in 2008, over 160 meetings with analysts and investors. Additionally, PT held, on a regular basis, meetings and conference calls with investors and analysts at the company's registered office.

The three roadshows that took place in Europe and the United States should be highlighted. The two most important took place one, in May, in Europe (after disclosure of the results for the first quarter), and the other one, in November, in Europe and the US (after disclosure of the results for the first nine months of the year).

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

Nuno Vieira

Investor Relations Office

Telephone: +351 21 500 1701

Fax: +351 21 500 0800

E-mail: "mailto:nuno.t.vieira@telecom.pt" nuno.t.vieira@telecom.pt

Address: Av. Fontes Pereira de Melo, 40-9º, 1069-300 Lisboa – Portugal

Company Switchboard: +351 21 500 2000

Websites: "http://www.telecom.pt" <http://www.telecom.pt>; HYPERLINK "http://ir.telecom.pt" <http://ir.telecom.pt>

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

- > Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- > The bylaws;
- > The identity of the members of the corporate bodies and of the representative for relations with the CMVM and the market;
- > Duties of and access to the Investor Relations Office as described above;
- > For a period of five years, the annual and interim financial statements;
- > A six-month schedule of corporate events, which is disclosed at the beginning of each six-month period and includes, among other information, scheduled General Meetings of Shareholders and disclosure of annual and interim accounts;
- > Proposals to be submitted to discussion and voting at the General Meeting of Shareholders, at least 15 days in advance of the meeting date;
- > Notices of the General Meetings of Shareholders, at least 30 days in advance of the meeting date.

Appendix I

United States rules applicable to PT as a Foreign Private Issuer

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

- > The following provisions of the Sarbanes-Oxley Act of 2002 (“SOX”)³, as well as the rules approved by the Securities Exchange Commission (“SEC”) implementing such provisions⁴ (both SOX and SEC rules and regulations are fully complied with by PT):

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

- > In addition, the Company is subject to the following rules provided for in Section 303A.00 on Corporate Governance Standards of the Listed Company Manual, approved by NYSE⁵, which are fully complied by PT:

Section 303A	
Mandatory rules	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	Issuers must have an audit committee that satisfies the requirements of Rule 10A-3.
Section 303A.11	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 issuer becomes aware of any material non-compliance with the applicable rules set forth in Section 303A.
Section 303A.12(c)	The issuer is required to submit to the NYSE an executed annual Written Affirmation, as well as an interim Written Affirmation whenever the composition of the board of directors or of any other committee subject to Section 303A is changed.

- > Pursuant to Section 301 of SOX and of Section 303A.06 of NYSE, PT shall comply with Rule 10A-3 on listing standards relating to audit committees, approved by SEC⁶.

³ Available at: http://www.pcaobus.org/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf.

⁴ Available at: www.sec.com.

⁵ Available at: http://www.nyse.com/lcm/subsection_3_303A_00.shtml?printable=yes&title=303A.00.

⁶ Available at: <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=7adb3549cb4278e99c7427fb32dd5b51&rgn=div8&view=text&node=17:3.0.1.1.1.1.58.85&idno=17>

> In this context, the Company has established an audit committee in full compliance with the following provisions set forth in Rule 10A-3 (opting out of the exemptions foreseen therein for foreign private issuers):

Rule 10A-3	Standards applicable to the audit committee
Paragraph (b)(1)(i)	Each of the audit committee members shall be independent and comprise the issuer's board of directors.
Paragraph (b)(1)(ii)	In order to be deemed as independent, the audit committee member shall not, unless in his/her capacity as a member of the audit committee, of the board of directors or of any other board committee: (a) Accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, unless otherwise provided in the exceptional situations foreseen in this Rule; or (b) Be an affiliated person, as defined in this Rule, of the issuer or any subsidiary thereof.
Paragraphs (b)(2) and(3)	The audit committee is directly responsible for: (a) The appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer, and each such registered public accounting firm must report directly to the audit committee; (b) Establishing procedures for the (i) receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and (ii) confidential and anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
Paragraphs (b)(4) and (5)	Autonomy in the engagement of advisors and the provision of funding to the audit committee.

Appendix II

Code of Ethics

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

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

In order to pursue such goals and values, all employees and agents of PT should guide their actions by the following rules as better expressed on the text of the Code of Ethics:

- > Protection of shareholder rights and interests;
- > Safeguard of assets in the course of the company's business;
- > Duty to undertake a loyal behaviour towards the PT Group, by promoting its prestige;
- > Protection of confidentiality and professional secrecy as to any information obtained in carrying out business, including after termination of duties;
- > Compliance with the liability limits assigned to each employee;
- > Good governance, with care and transparency in the management of the PT Group companies;
- > Duty to scrupulously comply with the applicable legal and regulatory rules;
- > Duty to communicate conflicts of interest and refrain from exercise of functions that may put compliance with the PT > Group employee duties in question;
- > Duty not to accept or resort to unlawful offers or advantages;
- > Transaction limitation as to securities issued by a PT Group company, where an employee is in possession of sensitive or inside information;
- > Duty to refrain from participating in transactions under conditions other than usual market conditions with entities having trade relations with the PT Group;
- > Contribution to the creation of a good inter-persons relationship within the PT Group;
- > Duty to show high levels of professionalism, respect, honesty, good faith and courtesy when dealing with the customer, by acting notably in such a way as to provide the customer with an efficient assistance and support service;
- > Negotiation with suppliers always in observance of the good faith principle and duty to fully honour all commitments to suppliers;
- > Compliance with competition rules and promotion of a good relationship with competitors;
- > Duty to cooperate with regulatory authorities;
- > Compliance with the principle of equal opportunities and appreciation of professional careers and merit;
- > Advancement of safety and welfare at work;
- > Rules of conduct regarding press releases and advertising;
- > Undertaking social responsibility with the communities where the PT Group's corporate businesses are carried out, in order to contribute to their progress and well-being.

The full text of the PT Group Code of Ethics is available for consultation on the Company's official website (www.telecom.pt) and may also be made available through the Investor Relations Office

Code of Ethics for Senior Financial Officers

The 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 Group 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 related to one of the entities that composes the PT Group.

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

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

Proceedings implemented by PT for compliance with the rules applicable to Related Party and Officers Transactions

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

a) Transactions by Corporate Officers

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

This Regulation was issued in line with the amendments implemented by Decree-Law no. 52/2006 of 15 March 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 consolidate market abuse prevention.

However, in 2008, the Company thought it should review this document to adjust its rules to the new conditions and to make swifter the insertion of data in the database implemented by the Securities Market Commission for this purpose. In particular, it was taken into account that since the approval of such Regulation, several facts occurred having an effect on the PT Group's structure, especially the spin-off of its subsidiary PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA (currently, ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA).

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

Transactions by corporate officers are disclosed at the CMVM Information Disclosure System, as provided for under the applicable law and regulations.

b) Related Party Transactions

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

This Regulation pursues a double purpose: (1) permitting PT's financial statements to demonstrate, if and where applicable, the possibility that the Company's financial position and results are affected by the existence of related parties and by transactions and pending balances for the same; and (2) safeguarding PT's interest in potential conflict of interest situations vis-à-vis the interests of persons or entities understood as having the possibility of influencing, either directly or indirectly, its management.

However, the Company understood it should reformulate some procedures regarding transactions with related parties, and new rules were approved by the Board of Directors on 31 January 2008.

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 United States Securities and Exchange Commission (SEC) regulations.

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

Appendix III

Functions performed by members of the management in other companies

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

Henrique Granadeiro _ Functions in other PT Group companies: Chairman of the Board of Directors of PT Rede Fixa, SGPS, SA | Chairman of the Board of Directors of Fundação Portugal Telecom || Functions in other entities: Chairman of the General Board of the University of Lisbon | Director of OPWAY, SGPS, SA | Member of the Strategy Council of Banco Finantia | Chairman of the Board of the Portuguese-Chinese Chamber of Commerce and Industry | Member of the General Council of COTEC Portugal – Associação Empresarial para a Inovação | Non-executive Director of Fundação Eugénio de Almeida | Member of the Council of Founders of Fundação Casa da Música | Member of the Board of Directors of Fundação Portugal África | Vice-Chairman of the Board of ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação.

Zeinal Bava _ Functions in other PT Group companies: Chairman of the Board of Directors of PT Portugal, SGPS, SA | Chairman of the Board of Directors of PT Comunicações, SA | Chairman of the Board of Directors of TMN - Telecomunicações Móveis Nacionais, SA | Chairman of the Board of Directors of PT Centro Corporativo, SA | Chairman of the Board of Directors of PT – Sistemas de Informação, SA | Chairman of the Board of Directors of Portugal Telecom Inovação, SA | Chairman of the Board of Directors of PT Prime – Soluções Empresariais de Telecomunicações e Sistemas, SA | Chairman of the Board of Directors of PT Móveis – Serviços de Telecomunicações, SGPS, SA | Chairman of the Board of Directors of Portugal Telecom – Investimentos Internacionais, Consultoria Internacional, SA | Chairman of the Board of Directors of PT Participações, SA | Chairman of the Board of Directors of PT Ventures, SGPS, SA | Chairman of the Board of Directors of Fundação Portugal Telecom | Director of PT Rede Fixa, SGPS, SA || Functions in other entities: Not applicable

Luís Pacheco de Melo _ Functions in other PT Group companies: 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 Contact – Telemarketing e Serviços de Informação, SA | Chairman of the Board of Directors of PT Prestações – Mandatária de Aquisições de Gestão de Bens, SA | Chairman of the Board of Directors of Previsão – Sociedade Gestora de Fundos de Pensões, SA | Chairman of the Board of Directors of PT-ACS – Associação de Cuidados de Saúde | Director of PT Compras – Serviços de Consultoria e Negociação, SA | Director of PT Centro Corporativo, SA | Director of PT Rede Fixa, SGPS, SA | Director of PT Móveis – Serviços de Telecomunicações, SGPS, SA | Director of Portugal Telecom Investimentos Internacionais, Consultoria Internacional, SA | Director of PT Participações, SA | Director of PT Ventures, SGPS, SA | Member of the Board of Directors of Vivo Participações, SA | Member of the Board of Directors of Brasilcel | Member of the Board of Directors of Telemig Celular Participações, SA | Member of the Board of Directors of Telemig Celular, SA | Director of Africatel Holdings B.V. | Director of Unitel, SARL || Functions in other entities: Not applicable.

António Caria _ Functions in other PT Group companies: Chairman of the Board of Directors of PT Compras – Serviços de Consultoria e Negociação, SA | Director of Portugal Telecom, Inovação, SA || Functions in other entities: Chairman of the General Meeting of Associação Portuguesa de Qualidade since 2006

Rui Pedro Soares _ Functions in other PT Group companies: Director and Chief Executive Officer of Portugal Telecom Imobiliária, SA | Director of Africatel Holdings, BV | Chairman of the Board of Directors of Timor Telecom, SA | Chairman of the Board of Directors of TPT Telecomunicações Públicas de Timor, SA || Functions in other entities: Vice-Chairman of AIP – Associação Industrial Portuguesa | Chairman of APAN – Associação Portuguesa de Anunciantes | Member of the Board of Associação Comercial do Porto

José Maria Alvarez-Palette _ Functions in other PT Group companies: Not applicable || Functions in other entities: Chairman of the Board of Directors of Telefónica Internacional, SA | Chairman of the Supervisory Board of Brasilcel, NV | Vice-Chairman – Director of Telecomunicações de São Paulo, SA | Vice-Chairman – Director of Telefónica Móviles México, SA | Director of Telefónica del Perú, SA, Telefónica Larga Distancia de Puerto Rico, Colombia Telecom, SA, Telefónica Internacional Chile, SA and Telefónica Datacorp, SA | Alternate Director of Telefónica Móviles Colombia, SA, Telefónica Móviles Chile, SA, Compañía de Telecomunicaciones de Chile SA, (CTC) and Telefónica Argentina, SA

Franquelim Alves _ Functions in other PT Group companies: Not applicable || Functions in other entities: Not applicable

Francisco Manuel Marques Bandeira _ Functions in other PT Group companies: Not applicable. || Functions in other entities: Chairman of the Board of Directors of Banco Português de Negócios, SA | Executive Vice-Chairman of the Board of Directors of Caixa Geral de Depósitos, SA | Non-Executive Vice-Chairman of the Board of Directors of Banco Comercial e de Investimentos, SARL (Moçambique) | Chairman of the Board of Caixa Geral de Aposentações, IP | Non-Executive Director of Grupo Pestana Pousadas Group | Non-Executive Director of AdP—Águas de Portugal, SGPS, SA | Non-Executive Director of Visabeira, SGPS, SA

José Xavier de Basto _ Functions in other PT Group companies: Not applicable || Functions in other entities: Member of the Centre of Studies of the Câmara dos Técnicos Oficiais de Contas (CTOC) | Member of the Privatisations Permanent Committee (Comissão Permanente das Privatizações)

Fernando Soares Carneiro _ Functions in other PT Group companies: Not applicable || Functions in other entities: Member of the Board of Directors and of the Executive Committee of REN SGPS, SA

Luís de Azevedo Coutinho _ Functions in other PT Group companies: Not applicable || Functions in other entities: Chairman of the Audit Committee of Fund Box SGFII | Business Consultant

Santiago Fernández Valbuena _ Functions in other PT Group companies: Not applicable || Functions in other entities: Chief Financial Officer of Telefónica, SA | Chairman of the Board of Directors of Fonditel | Member of the Board of Directors of Ferrovial

João de Mello Franco _ Functions in other PT Group companies: Not applicable || Functions in other entities: Director and Chairman of the Audit Committee of EDP Renováveis, SA | Member of the General Board of Instituto Português de Auditoria Interna (IPAI)

Joaquim Goes _ Functions in other PT Group companies: Not applicable || Functions in other entities: Director of Banco Espírito Santo, SA | Director of ESDATA, Espírito Santo Data, SGPS, SA | Director of E.S.VENTURES, SCR, SA | Director of BES-Companhia de Seguros, SA | Director of Glintt, Global Intelligent Technologies, SGPS, SA

Gerald McGowan _ Functions in other PT Group companies: Not applicable || Functions in other entities: Not applicable |

Rafael Luís Mora Funes _ Functions in other PT Group companies: Not applicable || Functions in other entities: Vice Chairman of the Board of Directors / COO of Ongoing Strategy Investments, SGPS, SA | Vice Chairman of the Board of Directors of Grupo Económica, SGPS, SA | Member of the Compensation Committee of Grupo Impresa and of Grupo Privado Português | Vice-Chairman of Grupo Score and of Score Media in Angola | Member of the Supervisory Board of INDEG –ISCTE Business School | Member of the Board of Automóvel Clube de Portugal | Managing Partner of Heidrick & Struggles

Amílcar de Morais Pires _ Functions in other PT Group companies: Not applicable || Functions in other entities: Director of Banco Espírito Santo, SA | Director of BES-Vida, Companhia de Seguros, SA | Director of Banco Espírito Santo de Investimento, SA | Chairman of the Board of Directors of Bank Espírito Santo (International) Limited | Chairman of the Board of Directors of BIC – International Bank, Ltd (BIBL) | Director of ESAF – Espírito Santo Activos Financeiros, SGPS, SA | Director of Espírito Santo PLC (Dublin) | Director of Banco Espírito Santo Oriente, SA | Director of BES Finance Limited

Francisco T. Pereira Soares _ Functions in other PT Group companies: Not applicable || Functions in other entities: Chairman of the Environment Committee of CEEP – Centro Europeu de Empresas com Participação Pública e de Interesse Económico Geral, Brussels | Consultant to Parpública, SA

Jorge Tomé _ Functions in other PT Group companies: Not applicable || Functions in other entities: Director of Caixa Geral de Depósitos, SA | Chairman of the Board of Directors of Caixa – Banco de Investimento, SA | Chairman of the Board of Directors of Gerbanca, SGPS, SA | Director of Banco Comercial e de Investimentos, SA | Chairman of the Board of Directors of TREM – Aluguer de Material Circulante, ACE | Chairman of the Board of Directors of TREM II – Aluguer de Material Circulante, ACE |

Nuno de Almeida e Vasconcellos _ 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 and of the majority of its subsidiaries | Chairman of the Board of Directors of Insight Strategic Investments, SGPS, SA | Chairman of Heidrick & Struggles in Portugal | Vice-Chairman of the Council of Economic Cooperation of Instituto Luso-Árabe para a Cooperação | Chairman of the Supervisory Board of Círculo de Amizade Portugal-Marrocos | Member of the Board of Automóvel Clube de Portugal | Member of the Consultative Council of the INDEG-ISCTE Executive MBA | Secretary of the Supervisory Board of Associação de Amizade Portugal-EUA | Member of the Supervisory Board of Associação Pró-Infância Santo António de Lisboa

Thomaz Paes de Vasconcellos _ Functions in other PT Group companies: Not applicable || Functions in other entities: Managing Partner of TPV – Consultoria e Gestão, Lda., since 1989

Professional qualifications and professional activities performed during the last 5 years

Henrique Granadeiro _ Portuguese, 65 years old.

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

Zeinal Bava _ Portuguese, 43 years old.

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

Luís Pacheco de Melo _ Portuguese, 42 years old.

Elected for the first time in 2006 | Non-Executive Director of BEST – Banco Electrónico de Serviço Total, SA until 2007 | Executive Director of PT Multimédia – Serviços de Telecomunicações e Multimedia, SGPS, SA from June 2002 to April 2006 | Director of Cabo TV Madeirense, SA from April 2004 to September 2006 | Chairman of the Board of Directors of Cabo TV Açoreana, SA from December 2004 to October 2007 | Director of TV Cabo Portugal, SA from 2002 to 2006 | Director of Lusomundo Audiovisuais, SA from 2002 to 2006 | Director of Lusomundo Cinemas, SA from 2002 to 2006 | Director of Lusomundo – Sociedade de Investimentos Imobiliários, SGPS, SA from March 2006 to March 2007 | Director of Lusomundo Imobiliária 2, SA from March 2006 to March 2007 | Director of PT Conteúdos SA from 2002 to 2006 | Director of PT Televisão por Cabo, SGPS, SA from 2002 to 2006 | Director of Sport TV from June 2002 to November 2005 | Director of Lusomundo España, SL from February 2003 to April 2006 | Central Manager and invited member of the Executive Committee of BES Investimento from 1998 to 2002 | Associate and Director of UBS Warburg from 1994 to 1998 | He has a degree in Civil Engineering from the Instituto Superior Técnico with an MBA from IESE Barcelona.

António Caria _ Portuguese, 56 years old.

Elected for the first time in 2006 | Chairman of the Board of Directors of PT Contact from 2006 to 2008 | Director of Cabo TV Açoreana, SA from 2004 to September 2007 | Executive Director of TV Cabo Portugal from 2002 to 2006 | Chief Executive Officer and, later, Managing Director of TV Cabo Tejo from 1998 to 2002 | Managing Director of TV Cabo Lisboa from 2000 to 2002 | Chief Executive Officer of TV Cabo Sado from 1996 to 1997 | Director of Inesc from 1997 to 2006 | Member of the Board of Fundação CulturSintra from 1999 to 2002 | Member of the Associação Empresarial de Setúbal (AERSET) from 1996 to 1998 | Executive Director of Portugal Telecom, S.A from 1995 to 1996 | Regional Manager of Telecom Portugal from 1990 to 1995 | National Representative in International Telecommunications Standards Organisations (CEPT and CCITT) from 1984 to 1990 | Engaged to CTT Telecomunicações in 1978 and specialising in Automatical, Analogical and Digital Switching, he was responsible for the National Switching Technical Planning at the Engineering Division from 1983 to 1987, and responsible for the first technical-commercial department at the Commercial Division from 1987 to 1989 | Trainee Engineer at RARET, EDP and in technical and professional teaching at the Ministry of Education, from 1975 to 1978 | He was granted the title of Specialist in Telecommunications by the Ordem dos Engenheiros in 2002. | Commendator of Ordem de Mérito de Pedro Álvares Cabral since 2006 | He has a degree in Electrotechnical, Electronic and Telecommunications Engineering from the Instituto Superior Técnico (1975) | Project Leader by Teleskolan-Sweden in 1984 | Post-Graduation in Business Administration from the ISCTE in 1988 and from Universidade Nova de Lisboa (1994).

Rui Pedro Soares _ Portuguese, 36 years old.

Elected for the first time in 2006 | Chairman of the Board of Directors of Portugal Telecom Imobiliária, SA, from 2006 to 2007 | Executive Director of PT Compras – Serviços de Consultoria e Negociação, SA from 2005 to 2006 | Consultant to the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, in the Business Intelligence, Evaluation of Service Quality, Safety and Management of Real Estate, from 2001 to 2004 | Executive in Business Intelligence and Competitive Analysis at Banco Cetelem, Grupo Banque National de Paris/Paribas, from 2000 to 2001 | Assistant of the Socialist Group at the European Parliament from 1998 to 2000 | He has a degree in Marketing Management from IPAM - Instituto Português de Administração de Marketing.

José Maria Alvarez-Palette _ Spanish, 45 years old

Elected for the first time in 2008 | He started his career at Arthur Young Auditors in 1987 and at Benito&Monjardin/Kidder, Peabody & Co. in 1988, where he had duties in financial departments. Chief Financial Officer of Telefónica Internacional in February 1999. Chief Financial Officer of Telefónica, SA in September 1999. Chairman of the Board of Directors of Antares, Fonditel, Telfisa and Telefónica North América; Vice-Chairman of the Board of Directors of T.Perú; Member of the Board of Directors of Cemex Singapur, Admira Media, Inmobiliaria Telefónica, TPI, Telefónica Móviles, Telefónica de España, Telefónica Holding Argentina, Telefónica Larga Distancia de Puerto Rico, Telefónica O2 Europe, Member of the Supervisory Board of Cesky Telecom and Director of China Telecom. He has a degree in Economics from Complutense University, Madrid. He studied Economics at Université Libre, Belgium. Post-Graduation at the International Management Program, at the Instituto Panamericano of High-Management of Companies (IPADE). “Advanced Research Certificate from the Accounting, Financial Administration and Economy Department” from Complutense University Madrid.

Franquelim Alves _ Portuguese, 54 years old.

Elected for the first time in 2006 | Director of SLN – Sociedade Lusa de Negócios, SGPS, SA, from January 2008 to October 2008 | Director of Grupo Cinveste, between 2006 and 2007 | Chairman of the Board of Directors and Chief Executive Officer of IGCP – Instituto de Gestão do Crédito Público from 2004 to 2006 | Assistant Secretary of State to the Minister of Economy from 2003 to 2004 | Chairman of the Board of Directors of SIMAB – Sociedade Instaladora de Mercados Abastecedores, SA from 2002 to 2003 | Chief Financial Officer of Grupo Lusomundo from 2000 to 2003 | Director of Lusomundo, SGPS, SA, Lusomundo Net, Diário de Notícias, Lusomundo Media, SGPS, SA and Lusomundo Audiovisuais, SGPS, SA from 2000 to 2003 | Director of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from 2000 to 2002 | Financial Officer of Jerónimo Martins SGPS, between 1996 and 2000 | Chief Financial Officer of Lusomundo from 1992 to 1996 | He has a degree in Economics from ISE - Instituto Superior de Economia. MBA in Finance from Universidade Católica. Wharton School Advanced Management Program, University of Pennsylvania.

Francisco Bandeira _ Portuguese, 51 years old

Elected for the first time in 2008 | Chairman of the Board of Directors of Banco Caixa Geral from January to December 2008 | Chairman of the Board of Directors of Locarent—Companhia Portuguesa de Aluguer de Viaturas, SA from October 2006 to March 2008 | Director of Caixa Geral de Depósitos SA from 2005 to 2008 | Chairman of the Board of Directors of Caixa Leasing e Factoring—Instituição Financeira de Crédito, SA from 2006 to 2008 | Non-Executive Director of RAVE from 2001 to 2002 | Non-Executive Director of FIEP from 1997 to 2001 | Vice Chairman of the Board of Directors of ICEP from 1996 to 2000 | Membro of the committees for EXPO 98 and for the Pavilhão de Portugal, from 1996 to 1999 | Officer, Sub-manager, Assistant-manager, Manager and Coordinating Manager of Banco de Fomento e Exterior, from 1988 to 1996 | Assistant to the Coordination Committee of the Portuguese Central Territory (Assessor da Comissão de Coordenação da Região Centro), in the PIDR for Baixo Mondego, from 1986 to 1988 | Officer at the IFADAP, from 1981 to 1986 | Lecturer in special education school (Ensino Especial), from 1975 to 1979 | He has a degree in Economics from the Coimbra University.

José Xavier de Basto _ Portuguese, 70 years old

Elected for the first time in 2007 | Tax Consultant | Retired lecturer at the Faculty of Economics of Coimbra University | He has a Law degree from Coimbra University (1960). Complementary Course in Political Economic Sciences (1961).

Fernando Soares Carneiro _ Portuguese, 58 years old.

Elected for the first time in 2006 | Member of the Board of Directors and of the Executive Committee of REN SGPS, SA since 2007 | Between 2003 and 2006, economy adviser at the Portuguese Embassy in London and representative of Portugal at the International Organizations of Base Products | Between 2002 and 2003, consultant | Chairman of the Board of Directors of Somincor, Sociedade Mineira de Neves-Corvo, S.A. from 1998 to 2002 | Chairman of the Board of Directors of EDM – Empresa de Desenvolvimento Mineiro, SA from 1998 to 2002 | Director of the International Copper Association from 1998 to 2002 | Director of the European Bank for Reconstruction and Development from 1993 to 1998 | Director of the World Bank Group from 1989 to 1993 | He has a degree in Mining Engineering from the Instituto Superior Técnico, Universidade Técnica de Lisboa.

Luís de Azevedo Coutinho _ Portuguese, 48 years old.

Elected for the first time in 2006 | Invited Assistant Professor at the Faculty of Economics, Universidade Nova de Lisboa, from 1985 to 2008 | Member of the Audit Committee of PT, SGPS, SA, from 2006 to 2007 | Director and Member of the Audit Committee of EDP – Energias de Portugal, SA from May 2003 to 2006 | Director of AMEC – Associação Música, Educação e Cultura from 2003 to 2005 | Consultant to Lisbon City Council (“Câmara Municipal de Lisboa”), from 2002 to 2003 | Director of Valora - Serviços de Apoio à Emissão Monetária, SA, from 1999 to 2002 | Consultant to the Board of Abrantina Group from 2000 to 2007 | Director of Grupo Abrantina from 1991 to 1999 | Consultant to the Bank of Portugal, Fundação Calouste Gulbenkian and IPE | He has a degree in Business Management and Administration from Universidade Católica. MBA from Universidade Nova de Lisboa.

Santiago Fernández-Valbuena _ Spanish, 50 years old

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

João de Mello Franco _ Portuguese, 62 years old.

Elected for the first time in 1997. Former term of office ended on 31 December 2005 and was re-elected in 2006 | Member of the General Board of Instituto Português de Auditoria Interna (IPAI) | Director of José de Mello Participações, SGPS, SA from 2002 to 2006 | Vice-Chairman of the Board of Directors of José de Mello Imobiliária from 2001 to 2004 | Chairman of the Board of Directors of José de Mello Residências e Serviços from 2001 to 2004 | Chairman of the Board of Directors of Imopólis (SGFII) from 2001 to 2004 | Chairman of the Board of Directors of Engimais from 2001 to 2004 | Member of the Board of Directors of International Shipowners Reinsurance Co from 1998 to 2005 | Member of the Senior Council of Portugal Telecom from 1996 to 1997 | Chairman of the Board of Directors of Soponata – Sociedade Portuguesa de Navios Tanques, SA from 1997 to 2001 | Chief Executive Office and Vice-Chairman of the Board of Directors of LISNAVE from 1995 to 1997 | Chairman of the Board of Directors of Marconi from 1994 to 1995 | Chairman of the Board of Directors of Guiné Telecom from 1994 to 1995 | Chairman of the Board of Directors of Companhia Santomense de Telecomunicações from 1994 to 1995 | Member of the Board of Directors of CN – Comunicações Nacionais, SA from 1993 to 1995 | Chairman of the Board of Directors of Associação Portuguesa para o Desenvolvimento das Comunicações from 1993 to 1995 | Chairman of the Board of Directors of TMN – Telecomunicações Móveis Nacionais, SA from 1991 to 1994 | Chairman of the Board of Directors of TLP – Telefones de Lisboa e Porto, SA from 1989 to 1994 | Manager of TDC – Tecnologia das Comunicações, Lda. from 1986 to 1989 | He has a degree in Mechanical Engineering from the Instituto Superior Técnico | Scholarship from Junta de Energia Nuclear for a specialization in Nuclear Power Plant Mechanical Technology | Additional Training in Strategic Management and High Business Management (PADE).

Joaquim Goes _ Portuguese, 42 years old.

Elected for the first time in 2000. Former term of office ended on 31 December 2005 and was re-elected in 2006 | Member of the Board of Directors of PT Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA from August 2002 to September 2007 | Director of Companhia de Seguros Tranquilidade-Vida, SA from 2002 to 2006 | Chairman of the Board of Directors of E.S. Interaction, Sistemas de Informação Interactivos, SA from 2000 to 2006 | Member of the Board of Directors of BEST – Banco Electrónico de Serviço Total, SA from May 2001 to July 2007 | Manager of the Strategic Marketing Department of Banco Espírito Santo, SA from 1995 to 1999 | Manager of the Strategic Planning and Studies Department of CIMPOR – Cimentos de Portugal, SA from 1994 to 1995 | Senior Consultant at Roland Berger & Partner, Munich from 1991 to 1993 | Consultant of Roland Berger & Partner, Portugal from 1989 to 1991 | He has a degree in Business Administration and Management | Specialization in Marketing and Finance, from Universidade Católica Portuguesa | MBA from INSEAD, Fontainebleau.

Gerald McGowan _ American, 62 years old.

Elected for the first time in 2003. Former term of office ended on 31 December 2005 and was re-elected in 2006 | 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 | He has a Law degree from Georgetown University Law Center (J.D. 1974) and Georgetown University (B.S.B.A. 1968).

Rafael Luís Mora Funes _ Spanish, 43 years old.

Elected for the first time in 2007 | Director of PT Group | Vice Chairman of the Board of Directors of Ongoing Strategy | Vice Chairman of the Board of Directors of Grupo Económica | Member of the Compensation Committee of Grupo Impresa and of Grupo Privado Português | Member of the Supervisory Board of INDEG –ISCTE Business School | Vice Chairman of Grupo Score and of Score Media in Angola | Member of the Board of Automóvel Clube de Portugal | Managing Partner of Heidrick & Struggles in Portugal | He has a degree in Economics and Management.

Amílcar de Moraes Pires _ Portuguese, 47 years old.

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

Francisco T. Pereira Soares _ Portuguese, 59 years old.

Elected for the first time in 2006 | 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 . He has an Economics degree from ISCEF (Universidade Técnica de Lisboa), 1972 | Master of Science in Management from Arthur D. Little Management Education Institute, Cambridge Massachusetts, EUA (1979) | Master in Public Administration from Harvard University, John F. Kennedy School of Government, Cambridge Massachusetts, USA (1981).

Jorge Tomé _ Portuguese, 54 years old.

Appointed for the first time in 2002. Former term of office ended on 31 December 2005 and was re-elected in 2006 | Chief Executive Officer of Caixa – Banco de Investimento, SA from 2001 to 2007 | Non-Executive Director of Caixa Gestão de Patrimónios from 2001 to 2005 | Director of the Insurance Companies of Grupo BANIF: Açoreana, O Trabalho, O Trabalho Vida and Director of Pension and Mutual Funds managing companies from 1996 to 2001 | Partner at Coopers & Lybrand in Portugal from June 1995 to November 1996 | Manager of the International Division of Banco Pinto & Sotto Mayor, SA, in 1995 | Director of Banco Pinto & Sotto Mayor from March 1994 to January 1995 | Executive Director of SULPEDIP, SA (currently PME Investimentos, SA) from June 1989 to March 1994 | Technical Officer at the Securities Directorate of Banco Pinto & Sotto Mayor in 1985 | Securities sub-manager and Manager of Banco Pinto & Sotto Mayor from 1986 to 1994 | Technical Officer of Coopers & Lybrand Lda., from 1980 to 1982 | Economist at the IAPMEI (Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento), from 1979 to 1980 | He has a degree in Business Organization and Administration from ISCTE and a master's in Applied Economy from the Faculdade de Economia, Universidade Nova de Lisboa.

Nuno de Almeida e Vasconcellos _ Portuguese, 44 years old.

Elected for the first time in 2006 | From 1995 to 2006, Managing Partner in Portugal for consulting field of Heidrick & Struggles | Member of the Compensation Committee of a banking entity until 2007 | Manager of Andersen Consulting (currently Accenture) from 1987 to 1995 | He has a degree in Business Administration from Curry College, Boston.

Thomaz Paes de Vasconcellos _ Portuguese, 51 years old.

Elected for the first time in 2003 | Former term of office ended on 31 December 2005 and was re-elected in 2006 | General Manager and Member of the Board of Directors of Vandal, ALD, Sfac, Unirent from 1988 to 1998 | Controller at Hubbard Group from 1987 to 1988 | Senior Manager of Arthur Andersen & Co., from 1980 to 1987 | Chartered Accountant no. 561 since 1985 | He has a degree in Business Management and Administration from Universidade Católica Portuguesa, 1980.

Appendix IV

Statement of the Compensation Committee on the remuneration policy of Portugal Telecom, SGPS, SA's Members of the Board of Directors and of the Audit Committee

Whereas:

1. Pursuant to Recommendation II.1.5.2 of the Corporate Governance Code, approved by the Portuguese Securities Exchange Commission ("Comissão do Mercado de Valores Mobiliários" or "CMVM"), in September 2007 and in view of strengthening the transparency in the decision making process over remunerations, the compensation committee shall submit to the annual general shareholders meeting for its consideration a statement on the remuneration policy of the managing and supervisory bodies;
2. Within such a general meeting shall be presented to the shareholders at least the proposed criteria and main factors to be used in the assessment of the performance for the purpose of determining the variable remuneration, including either share bonuses; share options, annual bonuses or other awards;
3. As a structure aiming to provide technical support to the Compensation Committee, the Evaluation Committee of the Board of Directors of Portugal Telecom, SGPS, SA ("PT SGPS" or the "Company") is responsible for providing its opinion and presenting to the Compensation Committee the annual statement on the remuneration policy of the managing and supervisory bodies, to be submitted by the Compensation Committee to the General Shareholders Meeting;
4. Considering the ending of the actual term of office (2006-2008) of the current PT SGPS' corporate bodies, including the Compensation Committee, this statement on the remuneration policy is made by reference to the financial year ended on December 31st, 2008, which is the only complete financial year in which such Committee has performed its functions since its election in the General Shareholders Meeting held on June 22nd, 2007.

Pursuant to the abovementioned Recommendation II.1.5.2 of CMVM, PT SGPS' Compensation Committee hereby submits, to the Annual General Shareholders Meeting for its consideration, the following statement on the remuneration policy of the managing and supervisory bodies made by reference to the financial year ended on December 31st, 2008, which includes the following models drawn up and implemented in line with the best national and international practices:

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

In 2008, the remuneration of the non-executive members of the Board of Directors, including the members of the Audit Committee, was determined on the basis of an inflexible model determined by an annual fee by the Compensation Committee, without attendance tickets. For the purpose of this fixed compensation applied to all non-executive members of the Board of Directors, it was considered whether or not each Board member performed functions in specialized committees of the Board of Directors (Audit Committee, Corporate Governance Committee and Evaluation Committee). Such additional amount of their fixed compensation is not cumulative, should a member of the Board of Directors be a member of more than one committee.

In the abovementioned term of office (2006-2008), should the positions as Chairman and Chief Executive Officer be carried out by different persons, the former would be entitled to a fixed annual remuneration equivalent to half of the remuneration of the Chief Executive Officer.

Since the current Chairman carried out both positions until March 28th, 2008, by analogy with previous cases, the Compensation Committee has decided to maintain the same fixed remuneration until the term of office.

In line with Recommendation II.1.5.1 of CMVM, although this remuneration policy being drawn up in view of allowing an alignment with the Company's interests, no variable remuneration was established for the non-executive members of the managing body, nor for the supervisory body.

II. Remuneration policy of the executive members of the Board of Directors:

The remuneration of executive directors for 2008 took into account the short and medium-term performance of PT Group, as well as such performance when compared to other companies of a similar dimension and business.

The remuneration of the executive Directors is composed of a fixed portion and a variable portion, where the latter may go up to 120% of the fixed remuneration on a yearly basis, and up to 50% of the fixed remuneration as a long-term variable remuneration concept, of which criteria and main factors we identify below:

a. Fixed remuneration:

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

b. Variable remuneration:

The variable remuneration policy at PT SGPS, takes into account the following principles:

- > Pursuing and achievement of objectives through the quality, work capacity, dedication and business know-how;
- > PT SGPS' incentive and compensation policy shall capture and retain the "best professionals" within the market;
- > Implementing a professionalized management approach, based upon the definition and control the pursuance of ambitious (although achievable) and measurable goals on a yearly and long-term (term of office) basis;
- > Devolving a market-oriented culture in line with its best practices, measured to the extent possible by a comparison of the company's performance towards its goals, vis a vis a benchmarking of its (national and international) reference market;
- > Pursuing a high standard in the company's management, through a set of entrepreneurial reference practices allowing the company's business sustainability; For this purpose, shall be implemented a management philosophy with economic, environmental and social dimensions.

(i) Annual Variable Remuneration

Taking into consideration PT SGPS' practices and model in the last decade, the assessment of the performance of the Group's executive directors was indexed, on a yearly basis, to the pursuance of objectives both at a Group level and at a business unit level. In 2008, this variable portion did not include share allotment, nor stock option plans.

Thus being, in 2008, the Executive Directors' goals and their subsequent incentives were subject to the following criteria:

- > The economic performance of the Group, applicable on an equal basis to all members of the Executive Committee;
- > The quantitative assessment of the individual performance, measured through the economic performance of their areas of activity.

The determination of the annual variable remuneration to be granted as a result of the performance in 2008 considered the following aspects:

- > PT Total Shareholder Return ratio by the same concept of Group 2 of the DJ Stoxx Telecom Europe*, where the TSR is understood as the sum of the share price variation and the value of the dividend per share;
- > The consolidated revenue growth delta, as opposed to the same comparison group;
- > EBITDA growth delta, as opposed to the same comparison group;
- > Cost control, OPEX reduction;
- > Net profit and earning per share (EPS) growth.

* Group consisting of the following operators KPN, Swisscom, TeliaSonera, Belgacom, Telenor, Telekom Austria and OTE.

(ii) Long-term variable remuneration

The determination of the long-term variable remuneration was calculated each year and cumulatively over the duration of the term of office and paid at the end of the same if the weighed average of all indicators during the term of office is equal to or greater than 80% of the established goals. This yearly and cumulative calculation shall be based on the analysis of the following indicators:

- > PT Group return on capital employed (“ROCE”) evolution versus the ROCE for Group 2 of the DJ Stoxx Telecom during that same period;
- > Net profit and EPS growth in the period;
- > PT TSR ratio versus the TSR ratio of the same abovementioned comparison group in the period;
- > Evolution of PT SGPS’ sustainability Index according to the DJSI methodology;
- > Evolution of the PT Group image, taking into account the growth of the customer and employee satisfaction index;
- > The fulfillment of strategic goals.

c. Alignment of the directors’ interests with the Company’s interests

As described above, the annual and long-term variable remuneration of PT SGPS’ executive directors in office in 2008 was subject to their performance, as well as to its sustainability and ability to achieve certain strategic goals of PT Group. Thus being envisaged contributing to optimize the long term performance and pursuing PT Group’s strategic goals, as well as further aligning management interests with the Company’s and its Shareholders’ interests.

III. Remuneration policy of the Chartered Accountant

[During the 2008 financial year, the Company’s Chartered Accountant was remunerated in accordance with the usual practices and conditions for similar services, further to its services agreement and the proposal of the Company’s Audit Committee.]

Lisbon, 20th February 2009

The Compensation Committee of PT SGPS

the 1990s, the number of people in the UK who are employed in the public sector has increased from 10.5 million to 12.5 million, and the number of people in the public sector who are employed in health care has increased from 2.5 million to 3.5 million (Department of Health 2000).

There are a number of reasons for this increase in the number of people employed in the public sector. One of the main reasons is the increasing demand for health care services. The population of the UK is ageing, and there is a growing number of people with chronic conditions such as diabetes, heart disease, and cancer. This has led to an increase in the number of people who are hospitalized and the number of people who are in long-term care.

Another reason for the increase in the number of people employed in the public sector is the increasing demand for health care services from the private sector. The private sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the private sector. However, the private sector is not able to meet the demand for health care services, and this has led to an increase in the number of people who are employed in the public sector.

There are a number of other reasons for the increase in the number of people employed in the public sector. One of the main reasons is the increasing demand for health care services from the public sector. The public sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the public sector. However, the public sector is not able to meet the demand for health care services, and this has led to an increase in the number of people who are employed in the private sector.

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