

Portugal Telecom
Sustainability Report _ 2005





Brazil
Vivo
 Mobile
UOL
 ISP, Internet contents
Mobitel
 Call center services

Hungary
Hungaro Digital HD
 VSAT operation

São Tomé e Príncipe
CST
 Wireline, mobile,
 Internet and data

Guinea-Bissau
Guiné Telecom
 Wireline
Guinetel
 Mobile

Cape Verde Islands
CVT
 Wireline, mobile,
 Internet and data
Directel Cabo Verde
 Directories

Morocco
Médi Télécom
 Mobile

Kenya
Kenya Postel
Directories
 Directories

Mozambique
LTM
 Directories
Teledata
 ISP and data

Angola
Unitel
 Mobile
Elta
 Directories
Multitel
 ISP and data

East Timor
Timor Telecom
 Wireline, mobile,
 Internet and data
Macao [MSAR-China]
CTM
 Wireline, mobile,
 Internet and data
TV Cabo Macau
 Pay-TV
Telesat
 Satellite broadcast
Directel Macau
 Directories

Customers (million)

12
 national
 +2%

35
 international
 +17%

Employees

13,100
 national
 -6%

19,289
 international
 +39%

Portugal Telecom

Portugal

Wireline Euro 2,214 million (revenues)	> Retail [PT Comunicações 100%] > Large corporates' voice and data [PT Corporate 100%] > SMEs' voice and data [PT Prime 100%] > ISP and broadband services [PT.COM 100%]
Mobile Euro 1,557 million (revenues)	> TMN 100% > PT Wi-Fi 100%
PT Multimédia 58.43% Euro 628 million (revenues)	> Pay-TV and cable Internet > Audiovisuals

International

			Revenues (Euro million)
Brazil	> Vivo 50%	> Mobile	2,037
Brazil	> UOL 29%	> ISP, Internet contents	146
Morocco	> Médi Télécom 32.18%	> Mobile	392
Cape Verde	> Cabo Verde Telecom 40%	> Wireline, mobile, Internet and data	55
São Tomé e Príncipe	> CST 51%	> Wireline, mobile, Internet and data	8
Angola	> Unitel 25%	> Mobile	357
East Timor	> Timor Telecom 41.12%	> Wireline, mobile, Internet and data	14
Macao	> CTM 28%	> Wireline, mobile, Internet and data	190

Support companies

Systems and IT [PT Sistemas de informação 100%]; Innovation, research and development [PT Inovação 100%];
Backoffice and shared services [PT PRO 100%]; Consultancy and procurement [PT Compras 100%];
Telemarketing and information services [PT Contact 100%]; Pension scheme management [Previsão 78.12%]

Main financial data

6,385
operating revenues
+7%

2,496
EBITDA
+6%

654
net income
+5%

943
Capex
+24%

The current report concerns the activities of Portugal Telecom Group in Portugal. The social, economic and environmental data included in it result from the aggregation of the Group's accounts for 2005.

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



Portugal Telecom

Sustainability Report _ 2005

Methodological Notes

The presentation of this report obeys the following criteria:

Global Reporting Initiative (GRI)

This sustainability report is elaborated in accordance with the guidelines of the Global Reporting Initiative, under the highest standards, also contemplating the directives for the telecommunications sector.

GRI table

The table referring to the GRI indicators can be found on the final edge of this report.

Analysis period

This report contains data relating to PT's profile in 2005. Considering that the PT Group is formed by several companies with different starting up times, the time series mentioned here will not always comprise the same periods.

Auditing and accuracy of the included data

This report, much like the previous one, will undergo a process of examination regarding the whole information included in it, according to the GRI's directives concerning the credibility and quality of its contents and the auditing guidance by an independent body.

Significant changes in 2005 in relation to the previous report

The accounting rules for quoted companies were altered in 2005. The International Financial Reporting Standards – IFRS, were introduced.

There were no significant changes to the structure of the organisation.

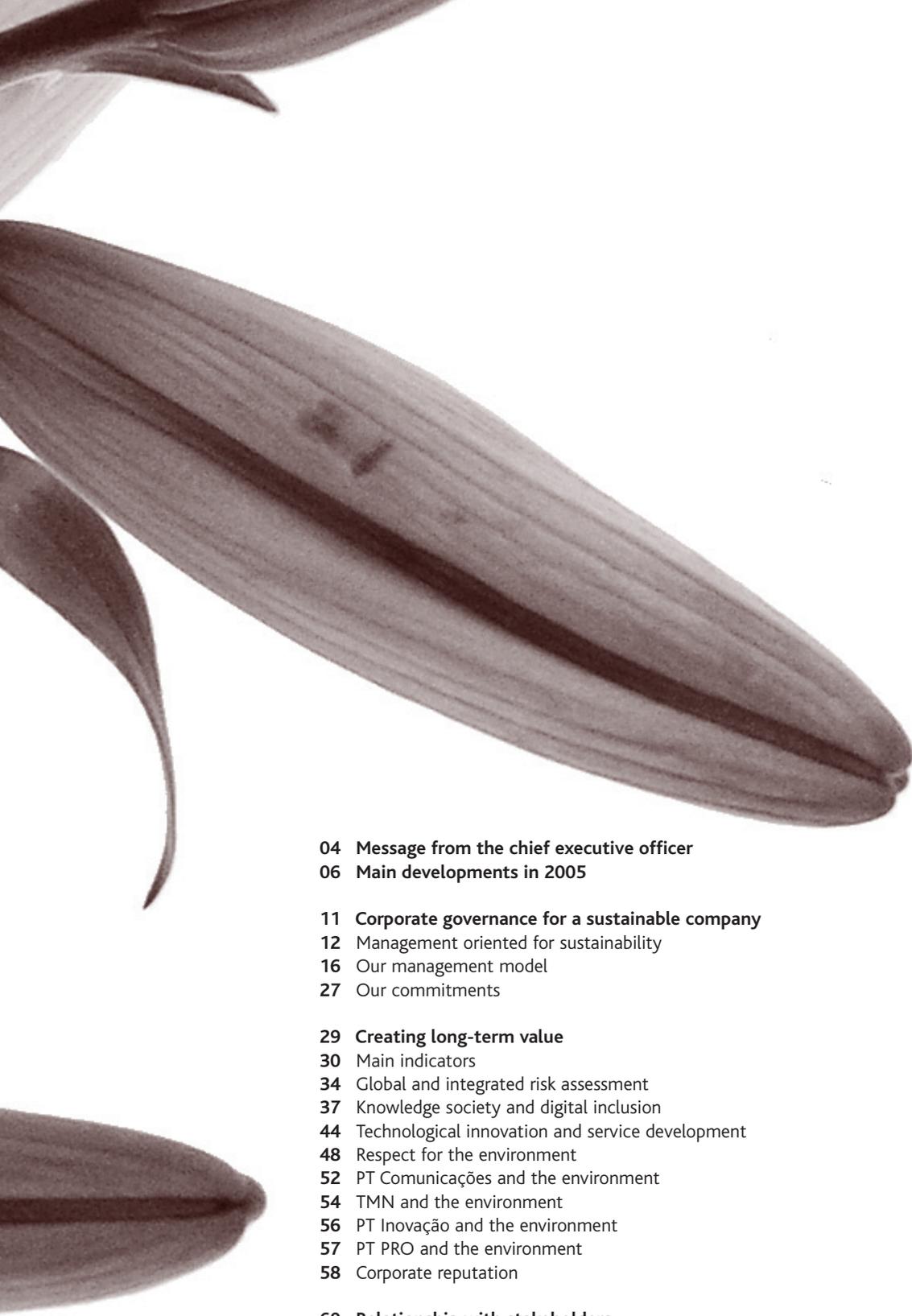
Criteria used in the accounting of economic, environmental and social costs and benefits

The accounting of costs and benefits in the economic and social data are based on the International Financial Reporting Standards – IFRS, the Portuguese fiscal system and labour rights legislation. Regarding the environment area, the Group companies already certified according to ISO14001:2004 have developed internal methodologies, which are at the basis of the displayed values.

www.telecom.pt

A channel that is always available for your suggestions, so that we may continue to improve our sustainability report.





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Each day counts on the long way of sustainability

Miguel Horta e Costa
Chief executive officer



On the long way of sustainability, a year is a short period of time. However, this does not prevent the last 365 days from registering a set of facts, which are a matter of pride for Portugal Telecom. In 2005, the strategic orientation for sustainability was integrated in our management model. For this, we created the Sustainability Committee, which comprises all the Executive Committee members, among others. This formalization to the highest level of our commitment to a sustainable management is a clear sign that this is the road to our future.

We are today the biggest Portuguese economic group, with over 40 million customers, 6 million euros in operating revenues and over 31 thousand employees. These numbers strengthen our responsibility and our commitment to the Portugal Telecom stakeholders and the society in general.

The year 2005, when PT published its first sustainability report, represented a period of progress in our sustainability policy and in the public recognition of the initiatives we have been assuming as a framework for the involvement with the community where we are inserted. This year the report was, once more, elaborated in accordance with GRI's 2002 directives, and presents a balanced and true account of the economic, environmental and social performance of our organisation.

At a national level, our group gained the distinction of a family-responsible company. This was the recognition of a set of cohesive initiatives developed through the years to give Portugal Telecom's employees the best response regarding the integration between company and family, by creating a harmony between both universes.

The entrance in the Footsie4Good index, a joint-venture between the Financial Times and the London Stock Exchange, which aims to distinguish the best corporate responsibility practices, was undoubtedly a milestone worth mentioning. By joining the group of institutions which better promote the sustainability strategy at an international level, Portugal Telecom has received an encouraging sign of being on the right track.

These have been two high moments of a year in which we continued working in a coherent and committed way, towards a sustainable future. This is the meaning of a large set of measures developed within the ambit of society, environment, health, education and information society management and the global improvement of populations' quality of life.

These initiatives have a wide action span. In the defence of rigour and transparency of the information given to the markets, more meaningful steps have been taken, such as the adoption of the Code of Ethics for Financial Officers, the implementation of a policy of procedures to pre-approve the hiring of external auditing services and the creation of a system of qualified malpractice denunciation -Whistleblowing Procedures.

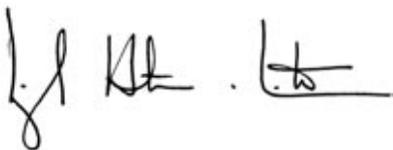
In the relationship with its employees, Portugal Telecom has reinforced its commitment to maintain social peace within the Group, and its vision of effective partnership with its employees, subscribing UNI's (Union Network International) Code of Conduct.

According to what has been PT's current practice, the environment stands out as a management priority, patent in the internal and external awareness programmes and the obtaining of environmental certification in one more company of the Group. This report describes dozens of projects happening simultaneously with our doing-well daily practice. Due to their importance and impact on the community, I cannot avoid referring two initiatives. One is related to education, the most significant investment we can make with a view to a better future for the new generations. In this ambit, PT Escolas, a real knowledge adventure, which took the challenge of Internet to 30 thousand students from schools all over Portugal, has revealed itself to be an emblematic initiative. Not only for the school community's support, but also for the enthusiastic participation of the students and, above all, for the certainty that the knowledge society is an unavoidable path to our progress as a country.

Innovation has directed the behaviour of PT Group in the various domains in which it is present. Far from being a merely technological concept, innovation is understood by Portugal Telecom as a way of being and doing, finding the best or the most adequate solutions to respond to the needs of evolution and development. It was with this spirit that, in Portugal, a broadband solution was born within the universe of our company Group, which allowed us to anticipate in time the full coverage of the country, thus reinforcing our position in the world ranking of the most developed countries in this domain.

As a society, we will only be able to succeed in creating a sustainable model if we concern ourselves with being more efficient in what we already do. This is why Portugal Telecom's strategy has only one centre: the customer. From our capacity to serve well 40 million people in far corners of the world, arises our possibility to, in the communities where we are integrated, be active agents of development, modernity and future.

The path of sustainability is long, but each day is unique.



Miguel Horta e Costa,
Chief Executive Officer
19 April 2006

2005 represented a period of progress in our sustainability policy and in the public recognition of the initiatives we have been assuming as a framework for the involvement with the community where we are inserted.

Main developments in 2005

At an economic level

Net profit

In 2005, the net profit amounted to Euro 654 million, the equivalent to a 4,9% increase in comparison to 2004. The operating revenue totalled Euro 6,385 million, which means a 7% increase compared to 2004. Among the most important financial events, we must emphasize the EBITDA of Euro 2,496 million, the equivalent to a 39,1% margin. The EBITDA less the Capex totalled Euro 1,552 million.

The distribution of dividends in 2005 is of Euro 0,475 per share, which represents a 35,7% increase in relation to the dividends distributed in 2004.

Sustainability Committee

Regarding its management model, PT formalized in 2005 the creation and constitution of the Sustainability Committee, which comprises, among others, all the members of the Executive Committee.

Certification of the Quality Management System

Besides PT Comunicações, TMN, PT Contact, PT Corporate, PT SI and PT Inovação, in 2005 PT Pro was also certified APCER with the ISO 9001:2000 standard.

FTSE4GOOD index membership

The PT Group has been selected to integrate the FTSE4GOOD index, having been attributed the Certificate of Membership. This FTSE index results from a joint venture between the Financial Times and the London Stock Exchange.

In 2005, 300 European companies were invited to apply for the FTSE4GOOD, and the application processes require the filling up of a vast questionnaire about the performance (processes, facts, monitoring of processes and facts and respective evidences) of the company regarding the corporate social management, economic, environmental and social areas. The FTSE4GOOD index in collaboration with EIRIS, a consultancy company, measures the performance of the companies that are susceptible of being recognised with good corporate responsibility practices

At a social level

A family-responsible company

Because the best practices should be shared, Portugal Telecom participated in the seminar “Family – work conciliation, a legitimate aspiration of all”, organised by AESE – Scholl of Management and Business that, together with Deloitte, has awarded PT Group with the distinction of “Family-responsible company”.

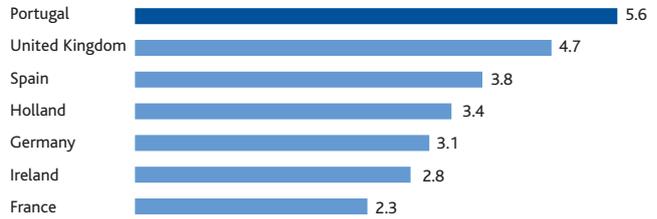
The construction of a family responsible company is a task that many companies have not yet included in their agendas. For Portugal Telecom this is already a reality, which merited the recognition of its employees and the seminar's organisation.

At an environmental level

At an environmental level, PT has seen another of its companies being recognised by an APCER certification with the NP EN ISO 14001:2004 standard, and another company is in the process of conclusion. The companies previously certified with this standard were PT Comunicações and TMN.

Company certified in 2005: PT PRO.
Company concluding the auditing process: PT Inovação.

Weight of telecom's revenue in GDP (%)



Source: Bloomberg

The Group in the Portuguese society

In 2005, telecommunications distinguished themselves by the impact of their activity in the national economy and, in PT's case in particular, by the strong contribution to the dynamisation of the information and knowledge society. As we can see in the chart, in Portugal the weight of the telecommunications sector's revenue is 5,6% of the national GDP, achieving the highest value among the European countries.

PT has been committed to increasing the connectivity and the access to the telecommunications, and has invested in the optimisation of the use of its services, committing itself to contribute to the construction of a more informed and digitalized society, as well as to an economy which is technologically more advanced, dynamic and competitive.

Portugal is nowadays gifted with one of the best infrastructures for broadband Internet access in all Europe. The PT Group has been strongly involved in this reality, as it is leading the several broadband Internet access platforms. It has also made several investments – over Euro 3 billion over the last decade – in network upgrading and launching new and more flexible services. Presently, the country has 100% broadband coverage, which makes it the fourth country in the world to have so, just after Holland, Belgium and Singapore.

ADSL broadband territory coverage (%)



Broadband in homes with computers (%)



Bi-directional cable (%)



Pay-TV (%)



Mobile phones penetration (%)



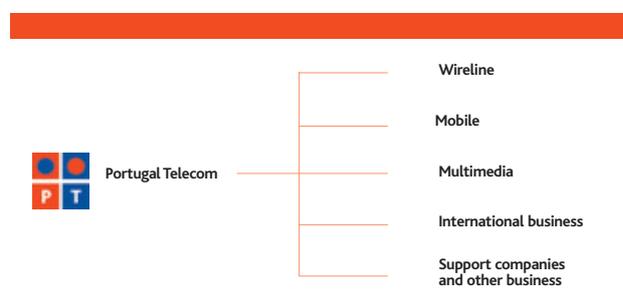
Source: Screen Digest; Merrill Lynch

Company Structure

Portugal Telecom is structured by business lines corresponding to the following units: wireline business in Portugal (PT Comunicações), mobile business in Portugal (TMN), multimedia business (PT Multimedia) and international businesses, which include Vivo and corresponding support companies. The business units are coordinated by the Group's Holding, led by its Executive Committee, with the support of the corporate centre units. The reporting of subsidiary companies is functional and not hierarchical, thus allowing for an effective articulation.

The Group's Holding is responsible for the definition of policies, and the normalisation and harmonisation of processes, which ensure the execution of strategic orientations defined by the management bodies.

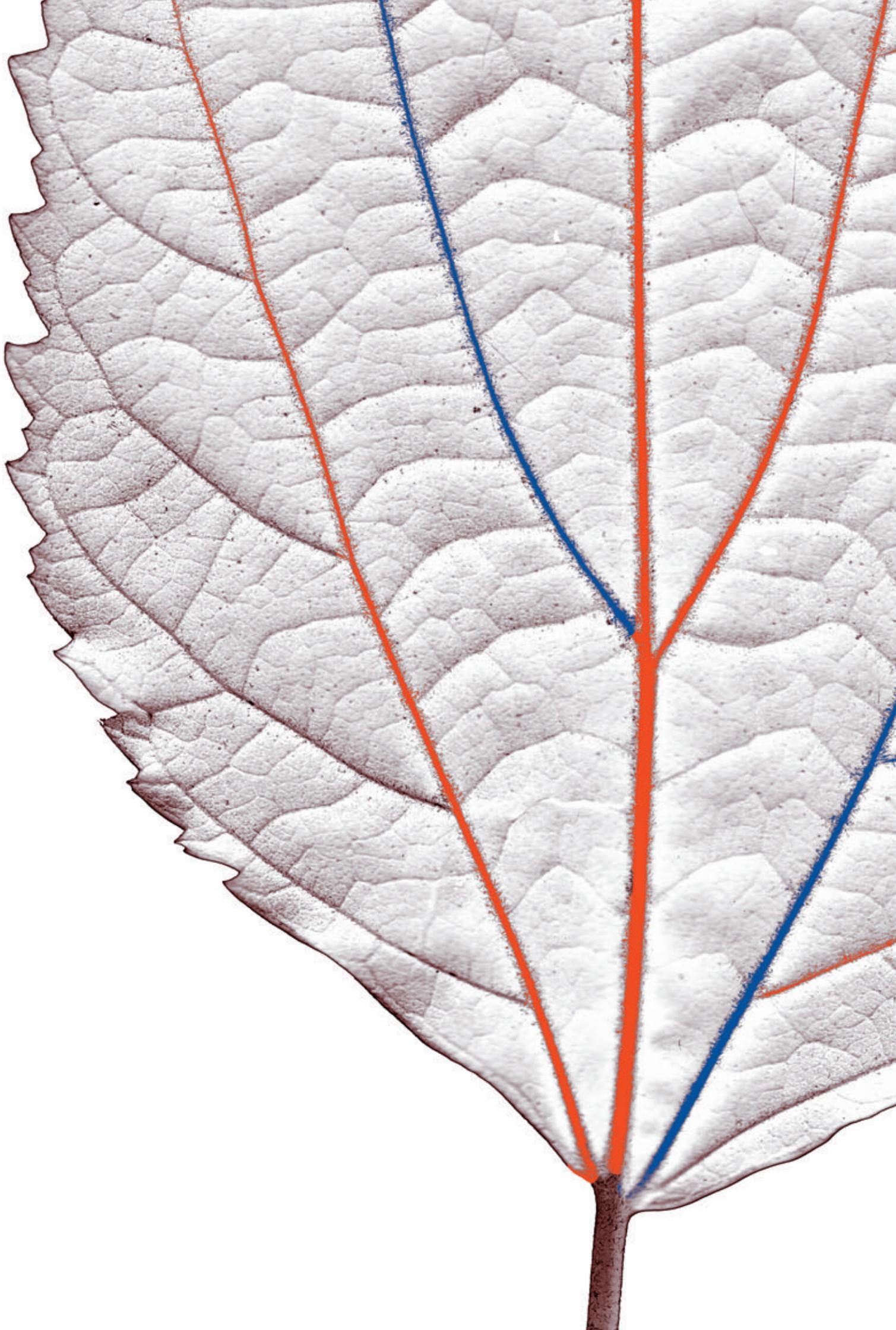
This way, each line of business works according to principles of management autonomy, oriented by a common policy, under the coordination of a corporate planning and control system.



The corporate units that supported PT's management and its responsible members are the following:

Luís Sousa de Macedo	General Secretary
Abílio Martins	Communication
Miguel Dias Amaro	Internal Auditing
Rita Sampaio Nunes	Competition
Francisco Nunes	Accounting, Consolidation and Financial Reporting
Carlos Cruz	Finance
Nuno Prego	Investor Relations
Luís Moura	Human Resources
Miguel Chambel	Planning and Management Control
Rogério Henriques	Businesses Development

Legal nature of PT Group – The Portugal Telecom Group holding, was created on 23 June 1994, through the merging of the companies Telecom Portugal, Telefones de Lisboa e Porto and Teledifusora de Portugal. In a public deed signed on 12 December 2000, Portugal Telecom changed its name to Portugal Telecom SGPS, and its operation to capital management company. This change was approved in an extraordinary general meeting of shareholders on 14 June 2000 and is part of PT Group's restructuring, which divided its businesses by several sub-holdings. Portugal Telecom SGPS and its subsidiary and associated companies operate mainly in the telecommunications field in Portugal and abroad.



A close-up photograph of a leaf, showing its intricate vein structure. The leaf is light green with prominent blue veins and a thin orange vein. The leaf's edge is serrated. The image is partially obscured by a red rectangular box at the top.

Corporate Governance for a sustainable company

Management oriented for sustainability

A good economic and financial performance is and will only be possible in the future if companies invest conscientiously and entirely in social development and with respect for the community and the environment.

PT takes sustainability as part of its corporate strategy, trying to continue ensuring the long-term creation of value for all the stakeholders. At PT, corporate sustainability is seen not as a management trend but as a strategic attitude that has been a part of its culture for many years.

The issues about corporate management have been discussed in international corporate and financial areas throughout the past decades. The issues that have stood out are the ones regarding the conduct, which leads organisations' performance, the independence as a way of remunerating managers, and the capacity to communicate and interact with the various stakeholders.

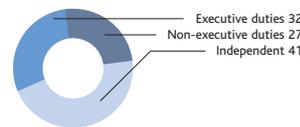
Once the contents of these reflexions and its strategic importance for a sustained development have been assimilated, in 2002, PT implemented a management model based on four basic pillars: efficiency, simplicity, transparency and rigour.

The Code of Ethics, which regulates PT's attitude and conduct towards itself and the society, and the Code of Ethics for Financial Officers, which establishes the moulds for preparation and information reporting to the market, have been elaborated.

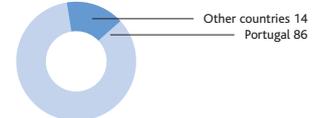
In the management model, the positions of president of the Board of Directors and of Chief Executive Officer are held by different directors, thus ensuring a better separation between the supervision and control duties and the current management tasks. This model also foresees that all Executive Committee members are chosen by the Board of Directors' members. The Board of Directors comprises seven members with executive duties, six non-executive and nine independent.

Members of the Board of Directors

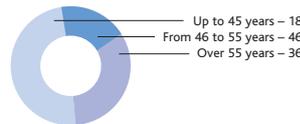
Duties (%)



Nationality (%)



Age groups (%)



The changing of its statutes has allowed PT to have an Executive Committee which is more operational in key-decisions and contributed to consolidate the involvement of second line managers in the discussion of critical issues, ensuring the close accompaniment of strategic issues on the part of the Board of Directors.

In the context of this corporate management model, the statutes and acting rules of the Auditing Committee were approved in 2003, in accordance with the rules of the New York Stox Exchange, applicable to the Group since 2005.

By having its shares quoted in the New York Stock Market, PT is required to comply with pertinent legal dispositions of the North-American law, particularly the ones on the USA Senate Law, known as Sarbanes Oxley-Act, among which we must stress the sections regarding the public company audit committees and the protection for employees of public companies who provide evidence of fraud, called Whistleblowing Protection for Employees of Publicly Traded Companies.

Therefore, in 2005, the policy and procedures to pre-approve the hiring of external auditing services and the creation of a system of qualified malpractice denunciation – Whistleblowing Procedures, were defined and implemented.

These two documents define the course of action of the Auditing Committee regarding the two subjects and establish the independence principles facing the external auditing services and the concept and treatment flow of malpractice.

In 2005, the constitution was also formalized and the responsibilities of PT's Sustainability Committee, which comprises all the members of the Executive Committee, the secretary-general and some of the responsible for the company's corporate units, were defined.

The Committee became part of PT's management model, ensuring transparency and rigour in the relationship with stakeholders, encouraging the dialogue and avoiding any conflict of interests. In that sense, PT does not develop any lobby activity and/or contribute monetarily for organisations which do not fit with its policy of sponsorship, philanthropy and patronage.

Summary of the Code of Ethics

"Companies' identity and image are more and more the result not only of their economic and financial performance, but also of the set of principles, values, behaviour and options that prevail in them. A company's ethic is, beforehand, the result of its employees' ethic, who must follow a set of conduct rules and principles, consubstantiating an irreprehensible behaviour model."

Values to uphold

Acting principles: honesty, integrity, dignity, professional rectitude and diligence, impartiality and equity

Loyalty duty

Legislation observance

Rules of Conduct relate to:

Responsibilities

Recourse to illegal activities

International Relations

Personal transactions by members of staff

Professional perfecting and merit by employees

Professional confidentiality and secrecy

Using companies' resources

Conflict of interests

Relations with suppliers

Movable values transactions'

Relationship with competitors

Summary of the Code of Ethics for financial officers

"In this code, financial officers are considered to be the following elements with responsibilities at the level of PT Group: chief executive officer and chief financial officer, as well as chief accounting officer, and directors and sub-directors who have some management responsibility in the financial, accounting and planning and control areas, as well as the members of the Disclosure Committee and any other PT Group employee, who, independently of its contact, is directly or indirectly involved in the making, analysis and divulgence of financial statements or any other activity report indicators."

Principles, duties and conduct rules

Honesty and responsibility

Conflict of interests

Qualification

Professional secrecy

Legislation observance

Information divulgence

Strategic pillars of corporate sustainability

Conscientiousness	To know all the environmental, social and economic impacts, of products and services, either positive or negative.
Regulation	To be in conformity with all the relevant legal requisites and, when necessary, surpass them.
Innovation	To promote the research and the development of new products and services, which contribute to a sustainable development.
Resources efficiency	To implement an effective management of energy resources and residues, controlling the levels of emissions and stimulate environmentally friendly processes that respect human rights and working conditions.
Making known	To make data about the environmental, social and economic performance accessible to all stakeholders. To be transparent. To create proximity with the different stakeholders, in order to reflect the needs and aspirations in the corporate activities.
Cooperation	To cooperate in a constructive way with governments, clients, partners, civil society and international organisations, every time they investigate, develop or promote benefits that information and the information technologies may bring to sustainable development.
Processes	To create an entity with responsibilities of coordination of the programmes of improvement of the economic, social and environmental areas. Gradually implement management systems that contribute to measuring the activity.
Relationship	To create working environments which promote the balance between professional and private life and which are susceptible of encouraging a will to become better and the respect for diversity.

PT's corporate sustainability strategy is integrated in a coherent and transversal way within the Group and lies in the development of a vast set of practices and processes in three main areas: economic, environmental and social.

In the case of telecommunications' market, there are powerful resources to bring people closer and contribute to improve everyone's life. Therefore, we consider that technology should contribute to benefit society, allowing PT to share value with the community, the environment and the shareholders.

The dynamisation of PT's corporate sustainability pillars is ensured by the Sustainability Committee, in accordance with the action plan and the commitments taken on for each year.

The dialogue with the stakeholders is ensured by each business unit and by the units, which constitute the Group's corporate centre. The methods, the frequency and the incorporation of the feedback from the dialogue with each public are deepened in this report in the area related to the relationship with stakeholders.

The objectives and instruments of the management model oriented for the creation of value, following the Triple Bottom Line, are the following:

Vector	Management goals	Management tools
Social	Internal	Individual performance analysis model
	To maximise human assets value.	Training model
	External	Benefits policy for employees
	To promote Digital Inclusion in all market areas by creating solutions for groups of customers with special needs.	Company Agreement
	To Stimulate the quality and the access to knowledge and culture through the support to credible initiatives.	Code of Ethics
	Develop projects of strategic corporate social responsibility.	Research and development
		Communication and information
		Market and opinion surveys
		PT Foundation – areas of strategic action:
		Knowledge society
		Community
		Customers with special needs
		Arts Patronage
		History and patrimony
Environmental	To manage the environmental impacts that result from its activity.	Environmental management
		Environmental certification
		Management of energy consumption levels
		Management of water consumption levels
		Management of resource consumption levels
		Waste management
		Management of suppliers' environmental impacts through the inclusion of an "environment" criterion in suppliers' selection.
Economic	To maximise shareholders' profit.	Financial and commercial marketing
		Code of Ethics for Financial Officers
		Dialogue and market studies
		Planning and control
		Technology and innovation
		Management of human assets

Our management model

Specific committees created within the company

These days, investor decisions pertaining to listed companies takes into account not only economic evaluations, but also information transparency and the companies' executive management security and reliability levels.

Therefore, in compliance with applicable legal or regulatory requirements, and so as to adopt the best international practices within this scope, the Board of Directors created several committees within itself, besides the Executive Committee, which are responsible for the performance of specific functions that fall within the powers vested in the Board of Directors. The composition and duties of these specific committees are as follows:

Governance Committee

Ernâni Rodrigues Lopes
Miguel Horta e Costa
Henrique Granadeiro
Jorge Tomé
João Mello Franco
Jorge Bleck*
Carlos Blanco de Morais

* Resigned in February 2006.

Duties

- > To study, review, and evaluate the corporate governance principles for the PT Group, namely concerning the responsibilities of directors, relations between directors and shareholders, relations with holders of qualified shareholdings and the general evaluation of the Group's governance terms within the performance of the Board of Directors and its Committees;
- > To advise and propose to the Board of Directors the adoption and review of the governance model of the Group's holding, namely concerning the internal rules and procedures pertaining to corporate governance principles and practices, their articulation and relationship with the management structure, shareholders, stakeholders and the market, the prevention of conflicts of interests and information discipline;
- > To supervise the application of the Code of Ethics of the PT Group accompanying its implementation and, whenever necessary or convenient, interpreting its rules and integrating cases that are not contemplated therein, as well as issuing opinions on matters referred in the previous paragraphs and other related matters, whenever requested by the Board of Directors.

The Governance Committee held four meetings during the financial year of 2005, having mainly discussed the following matters:

- > review of the Code of Ethics;
- > creation of a Code of Conduct for Financial Officers;
- > regulations on the purchase of PT shares by high-ranking management staff;
- > creation of a System of Qualified Communications of Undue Practices (Whistleblowing).

An average of five members of the Governance Committee were present at the abovementioned meetings.

Audit Committee

João Mello Franco
Nuno Silvério Marques
Thomaz Paes de Vasconcellos

Duties

- > To assist the Board of Directors and its Executive Committee (1) in the supervision of the quality and integrity of the financial information contained in the Company's account rendering documents; (2) in the evaluation of the capacity and independence of the Company's External Auditors; (3) in the evaluation of the quality, integrity and efficiency of the Company's internal control system; (4) in the evaluation of the execution of the functions performed by the Company's External Auditors and of the Corporate Internal Auditing Department; and (5) in the evaluation of compliance with legal and regulatory provisions, and with recommendations and guidelines issued by competent entities;
- > To ensure the definition and/or the implementation of policies for compliance with national and international laws and regulations, which the Company is bound to.

The Audit Committee held eleven meetings during the financial year of 2005, having mainly discussed the following matters:

- > Analysis of the biannual and annual Financial Statements;
- > Evaluation of the performance of the external auditors;
- > Selection and hiring of external auditors;
- > Definition and implementation of the policy of services prohibited to external auditors;
- > Supervision of the Internal Control System;
- > Definition of procedures for communication and analysis of irregularities;
- > Following and supervising Internal Auditing Function in PT Group.

All members of the Audit Committee were present at the abovementioned meetings.

Strategy Committee

Ernâni Rodrigues Lopes
Miguel Horta e Costa
Zeinal Bava
Carlos Vasconcellos Cruz
Iriarte Esteves
Paulo Fernandes
Joaquim Goes
Carlos Oliveira Cruz
António Viana-Baptista
Patrick Monteiro de Barros

Duties

- > To debate, analyse and present recommendations concerning the Group's Strategic Plan;
- > To state its opinion on the impact and efficiency of the Strategic Plan and of the major strategic decisions made, proposing possible adjustments;
- > To study and prepare, for future debate within a Board of Director's meeting, matters proposed by the Chairman of the Board of Directors and/or the Chairman of the Executive Committee, pertaining to strategic issues that may arise during each financial year.

The Strategy Committee held eight meetings during the financial year of 2005.

An average of nine members of the Strategy Committee were present at the abovementioned meetings.

Other Committees

The following specific committees were also incorporated within PT:

Consultive Council

Estanislau Mata Costa (chairman)
 Aníbal Santos
 Diogo de Lucena
 João Confraria Jorge
 José Manuel Neves Adelino
 José Manuel Tribolet
 Luís Filipe Nazaré
 Luís Todo Bom
 Manuel Pinto Barbosa

Duties

The functions of the Consultive Council are to analyse, together with the Executive Committee, areas with special relevance for PT, namely matters pertaining to regulation and competition, international investments, mergers, acquisitions and sales.

The Consultive Council held four meetings during the financial year of 2005, having mainly discussed the following matters:

- > PT's strategy in response to technological changes;
- > Regulation and the PT Group: recent developments and perspectives;
- > Analysis of studies on competitiveness in the Telecommunications Sector in Portugal;
- > Evolution of the Telecommunications Sector;
- > Future evolution alternatives for PT Group within new technology areas, new products and services and new markets.

An average of thirteen members of the Consultive Council were present at the abovementioned meetings.

Remuneration Advisory Committee

Patrick Monteiro de Barros
 Carlos Oliveira Cruz
 Peter Golob*

Duties

This Committee was incorporated on 28 April 2005 and its internal regulations have been approved in a Board of Director's meeting of 28 July 2005, with the following duties:

- > To propose and discuss with the Compensation Committee the remuneration policy to be adopted by the Company, in the medium and long-term, concerning the attribution, determination and calculation of the fixed and variable director remuneration;
- > To propose and discuss with the Compensation Committee a model for the calculation of the variable remuneration of the CEO and all other members of the Executive Committee;
- > To annually evaluate the performance of the CEO and of all other members of the Executive Committee, in the light of the approved criteria, and to propose to the Compensation Committee the specific value of the variable remuneration to be attributed to the members of the Executive Committee;
- > To propose to the Compensation Committee the value of the variable remuneration to be attributed to the Chairman of the Board of Directors.

The Remuneration Advisory Committee held three meetings, having discussed the following matters:

- > Proposal to the Compensation Committee for attribution of the variable remunerations of Executive Directors pertaining to 2004;
- > Creation of a variable remuneration model for 2005.

* This member replaced the previously appointed director, Fernando Ulrich, on 28 July 2005 and in the meantime, resigned in February 2006.

Disclosure Committee

Luís Sousa de Macedo
Francisco Nunes
Carlos Cruz
Nuno Prego
Miguel Amaro
Miguel Chambel

Duties

The Disclosure Committee was incorporated in order to assist the Executive Committee in the procedures of disclosure of information to the markets. The purpose of this body is to ensure the quality and reliability of the information disclosed to the financial markets and to guarantee compliance with all national and international regulatory requirements pertaining to this matter.

Thus, this Committee is in charge of approving and implementing the necessary procedures and controls to ensure that the disclosure of information by Portugal Telecom to shareholders and investors: (i) complies with applicable laws and regulations; (ii) is accurate, complete and made in due time; and (iii) reliably represents the Group's financial situation and the results of its operations in all aspects materially relevant for the adequate knowledge of its financial condition and performance.

The Disclosure Committee held six meetings during the financial year of 2005, having mainly discussed the following matters:

- > Adequacy of the financial information to be disclosed to the market, in light of the financial and non-financial information reported by the subsidiary companies;
- > Review of quarterly, half year and annual disclosures of results.

An average of 6 members of the Disclosure Committee were present at the abovementioned meetings.

Sustainability Committee

Miguel Horta e Costa
Zeinal Bava
Carlos Vasconcellos Cruz
Iriarte Esteves
Paulo Fernandes
Luís Sousa de Macedo
Francisco Nunes
Luís Moura
Nuno Prego
Miguel Amaro
Abílio Martins

Duties

The overall goals of the Sustainability Committee are the following:

- > To guarantee that corporate sustainability is integrated and consistent with the Group's strategy and is transversal to all the companies;
- > To reinforce the PT Group's performance as a sustainable company, making it recognized as such, both internally and externally.

In order to pursue these goals, the Sustainability Committee has the following duties:

- > To develop a transversal strategy of corporate sustainability that is integrated and consistent with the Group's strategy;
- > To ensure the creation within the PT Group of the necessary conditions for its sustained growth, according to the three-dimensional standpoint, in economic, environmental and social terms, in accordance with international criteria;

- > To develop, promote and supervise projects and actions and to identify, define and control the best teams to carry out such projects;
- > To strengthen the performance of the Portugal Telecom Foundation (Fundação Portugal Telecom) within its areas of specific activity, namely of citizenship and philanthropy;
- > To guarantee internal and external communication, while reinforcing the performance of the PT Group as a sustainable company, making it recognized as such;
- > To control and evaluate the plan of action established and integrated in the sustainability strategy.

The Sustainability Committee is integrated in the governance model of the PT Group and reports directly to the Executive Committee. This Committee guarantees transparency and rigour in the relations of PT with Stakeholders, through the active promotion of dialogue channels while avoiding any conflicts of interest.

The Sustainability Committee held 2 meetings during the financial year of 2005, to discuss several matters related with sustainability and to approve the first PT Group Sustainability Report. All the members of the Sustainability Committee were present at the abovementioned meetings.

Supervisory Board

Taking into consideration the provisions foreseen in the Portuguese Companies' Code (Código das Sociedades Comerciais), Portugal Telecom has a Supervisory Board, whose functions during the financial year of 2005 were performed by the following members:

Pedro Matos Silva (chairman)
Gonçalo Vaz Botelho (member)
Ascensão, Gomes, Cruz & Associado,
represented by **Mário Gomes**
José Vieira dos Reis (alternate member)

Duties

According to article 420 of the Portuguese Companies' Code, the Supervisory Board has the following duties:

- > To supervise the Company's management;
- > To watch over the fulfilment of the law and of the company bylaws;
- > To verify the regularity of the corporate books, accounting registries and supporting documents;
- > To verify, whenever deemed convenient and in the manner considered most adequate, the extension of cash flow and inventories of any kind of goods or values belonging to the company or received by the company in guarantee, deposit or in another capacity;
- > To verify the accuracy of the balance sheet and of the profit and loss accounts;
- > To verify that the value metrical criteria adopted by the company lead to a correct evaluation of its assets and results;
- > To prepare an annual report on its supervisory activity and issue an opinion on the report, accounts and proposals submitted by management;
- > To call the general shareholders' meeting when the chairman of the respective general shareholders' meeting fails to do so, being so obliged;
- > To comply with all other duties foreseen in the law or in the Company by laws.

Compensation Committee

The Compensation Committee is elected directly by shareholders and serves the purpose of determining the remuneration of PT corporate body members.

For the completion of this task, the Compensation Committee continuously follows and evaluates the directors' performance, verifying to what extent the proposed objectives have been achieved, and meets whenever necessary.

The present composition of the Compensation Committee, appointed in April 2003, is as follows:

Armando Marques Guedes (chairman)
Augusto Athayde d'Albergaria
João Mello Franco

The Member of the Compensation Committee João Mello Franco is also an independent non-executive director of PT.

The proposal and selection of the Compensation Committee members is underlined by the Company's intention to guarantee that a majority of the Compensation Committee members are independent from management, notwithstanding the necessary articulation of this Committee with the Board of Directors, namely with the Remuneration Advisory Committee.

Therefore, with the exception of the abovementioned independent non-executive director, the Compensation Committee does not include any other member of the Board of Directors nor any other person who renders other kinds of services to the PT Group or has a family relationship with members of the management body by way of marriage, kindred or affinity in a direct line and up to the third degree.

General shareholders' meeting and voting rights

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

During the financial year of 2005, the Board of the General Shareholders' Meeting of the Company was composed as follows:

Armando Marques Guedes (chairman)
Miguel Galvão Teles (vice-chairman)*
Luís Sousa de Macedo (secretary)

According to the Company's bylaws, each Euro 500 of share capital (which presently correspond to 500 shares) grants the right to one vote. Shareholders holding an inferior amount of share capital may group together, represented by one of the group members, so as to jointly accumulate the amount necessary to exercise the right to vote.

Within American depositary receipts (ADR) or global depositary receipts (GDR) programmes whose scope is Company shares, the holders of the ADR or the GDR are considered to be shareholders, while the entity on behalf of whom the shares are registered is considered to be a mere representative of theirs, provided they comply with the conditions foreseen in the bylaws for the exercise of such right. These conditions are communicated to the holders of the right to vote in each call for the General Shareholders' Meeting.

For confirmation of the title to voting rights, the bylaws require proof of the registry of the shares in a book-entry securities account until 5 business days prior to the respective meeting.

* Renounced in February 2006.

Voting by correspondence and by electronic means

The Company bylaws foresee that voting by correspondence or by electronic means may encompass all matters contained in the call, under the terms and conditions set forth therein.

For this purpose, at the time of preparation of the meetings of the General Shareholders' Meeting, voting bulletins are available to shareholders at the Company's registered offices. These may be obtained through the Company's Internet site, as well as supplied by personal delivery, postal mail or electronic mail.

The declarations of vote by correspondence should be sent or delivered to the competent corporate body, as indicated in the respective call for the General Shareholders' Meeting.

According to the practice adopted by the Company, the voting declarations, along with the elements that must be attached thereto, should be inserted in a closed envelope, addressed to the chairman of the Board of the General Shareholders' Meeting, presented directly at the Company's registered offices, or sent there by registered mail until 5 business days prior to the date of the General Shareholders' Meeting.

All other conditions for the exercise of the right to vote are communicated to shareholders in due course in the call for the General Shareholders' Meeting.

As an alternative to voting by correspondence, the holders of voting rights can choose to exercise their voting right by electronic means. However, the Chairman of the Board of the General Shareholders' Meeting may subject voting by electronic means to the verification of the conditions he establishes for the respective safety and reliability.

Shareholder representation

Shareholders may participate directly in the General Shareholders' Meeting or appoint proxies to represent them, within the broadest terms foreseen in the Portuguese Companies' Code. A signed letter addressed to the Chairman of the Board of the General Shareholders' Meeting is sufficient as an instrument of representation.

Availability of preparatory information

The proposals to be submitted by the Board of Directors to the General Shareholders' Meeting, as well as the reports that must be legally attached thereto and all other elements of preparatory information, are made available to shareholders at the company's registered offices for a period 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.

So as to facilitate access to these documents, specially by foreign shareholders, the Investor Relations Office will send the latter by postal mail, fax or electronic mail, upon request.

In addition, the text of the call for the General Shareholders' Meeting and of the proposals received by the Board of the General Shareholders' Meeting with a sufficient advance, will be available on the company's website.

The result of the resolutions of the General Shareholders' Meeting is disclosed by the company on its website, as well as through its Investor Relations Office.

Composition and characteristics of the Board of Directors

The Board of Directors of PT is composed of an uneven number of members, between 15 and 23, that are elected by the general shareholders' meeting by a majority of votes cast.

Irrespective of the share capital held, any shareholder may individually submit proposals for the election of the Board of Directors.

On the other hand and according to the companies law, a minimum of shareholders, representing at least 10% of the share capital that voted 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 period, being the election year considered as a full calendar year and being there are no restrictions on the re election of directors.

Executive Committee

The Executive Committee is composed of the following directors:

Miguel Horta e Costa (chief executive officer)
Zeinal Bava
Carlos Vasconcellos Cruz
Iriarte Esteves
Paulo Fernandes
Henrique Granadeiro
Rodrigo Costa

Duties

The Board of Directors delegated the current management of the company to the Executive Committee, vesting it with all the powers necessary for such purpose, with the exception of those pertaining to the matters referred to hereunder and without prejudice to the faculty of claiming some of the authorities delegated:

- > Co-optation of directors;
- > Request for the call of General Shareholders' Meeting;
- > Annual reports and accounts to be submitted for the approval of the General Shareholders' Meeting;
- > 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 paragraph h) of article 15 of PT's bylaws;
- > Change of company registered offices;
- > Projects for spin-offs, mergers and transformation of the company, to be proposed to the General Shareholders' Meeting, as well as acquisitions, sales, mergers, spin-offs, as well as the main strategic partnership agreements that involve companies of the PT Group;
- > Projects for share capital increases to be proposed to the General Shareholders' Meeting;
- > Amendments to the bylaws to be proposed to the General Shareholders' Meeting;
- > 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 Shareholders' Meeting, namely the definition of the sectors of investment and disinvestment, the policy for geographical expansion of its businesses and the strategic options pertaining to the technology to be adopted, network development and service rendering;
- > Important extensions or reductions of the company's activity and important modifications in the company's organization;
- > Plan of activities, budgets and annual investment plans;
- > Definition of the amount to be annually proposed to the General Shareholders' Meeting for issuing bonds or other securities that may be subsequently resolved by the Executive Committee;
- > Acquisition, sale and encumbrance of real estate;
- > Opening or closing of establishments or significant parts of the latter.

Management body operating rules

Board of Directors

Under the terms of article 24 of the Company's bylaws, the Board of Directors shall set the dates or periodicity of its ordinary meetings and will meet extraordinarily whenever called upon by its Chairman or by two Directors or by the Supervisory Board.

The Board of Directors may not function without the presence of the majority of its members in office. The Chairman of the Board of Directors may, in cases of recognized urgency, waive the presence of that majority if the same is ensured through voting by correspondence or by power of attorney, although a director may not represent more than one other director.

The Board of Directors' resolutions are passed by the majority of votes cast.

The resolutions passed and the voting declarations are recorded in the minutes, which should be signed by all the members of the Board of Directors that participate in the meeting.

The meeting participants may dictate a summary of their interventions to be included in the minutes.

Executive Committee

To better ensure the performance of its duties according to the criteria adopted on that date, the PT Board of Directors created an Executive Committee to which it delegates current management functions, while retaining supervision and control functions.

The Executive Committee establishes the dates and periodicity of its ordinary meetings and will meet extraordinarily whenever called upon by its chief executive officer or by two of its members or by the Supervisory Board.

The Executive Committee may not function without the presence of the majority of its members in office. The CEO may, in cases of recognized urgency, waive the presence of such majority if the same is ensured through voting by correspondence or by power of attorney.

Voting by correspondence and by power of attorney is permitted, although no member of the Executive Committee may represent more than one other member of the latter.

Resolutions are passed by a majority of votes cast, and the chairman is entitled to a casting vote.

Executive Committee	Corporate Duties	Executive Duties
Miguel Horta e Costa Chief executive officer	<ul style="list-style-type: none"> > Strategy > Internal Audit > Regulation and Competition > International Relations > Communication, Image, Sponsorship and Group Trademark > Social Responsibility > Safety 	<ul style="list-style-type: none"> > Co-ordination of the Executive Committee
Zeinal Bava Executive officer	<ul style="list-style-type: none"> > Investor and Capital Markets Relations > Accounting, Consolidation and Financial Reporting > Treasury > Corporate Finance 	<ul style="list-style-type: none"> Domestic Mobile > TMN > PT Wi-Fi Multimedia > TV Cabo > Lusomundo Audiovisuais > Lusomundo Cinemas > PT PRO > Previsão
Carlos Vasconcellos Cruz Executive officer	<ul style="list-style-type: none"> > Internationalisation, new markets research > Project Shaper – organization and leadership > Cooperation with Director Henrique Granadeiro in Human Resources management 	<ul style="list-style-type: none"> International Business > Vivo > PT Brasil > Médi Télécom > Cabo Verde Telecom > CST > CTM > Unitel > UOL
Iriarte Esteves Executive officer	<ul style="list-style-type: none"> > Technology and Networks development > Innovation 	<ul style="list-style-type: none"> > PT Inovação
Paulo Fernandes Executive officer	<ul style="list-style-type: none"> > Planning > Management Control > Business Development > Real Estate > Purchases > Project Shaper - cost control 	<ul style="list-style-type: none"> > PT Compras > SIMARC (Imobiliário)
Henrique Granadeiro Executive officer	<ul style="list-style-type: none"> > Cooperation with the CEO in the strategic and regulatory agenda > Human Resources > Training 	<ul style="list-style-type: none"> > Fundação Portugal Telecom > PT ACS
Rodrigo Costa Executive officer	<ul style="list-style-type: none"> > Information Systems > Cooperation with Director Iriarte Esteves for the development of Technology, Networks and Innovation 	<ul style="list-style-type: none"> Wireline > PT Comunicações > PT Corporate > PTCOM > PT Sistemas de Informação

Director remuneration policy

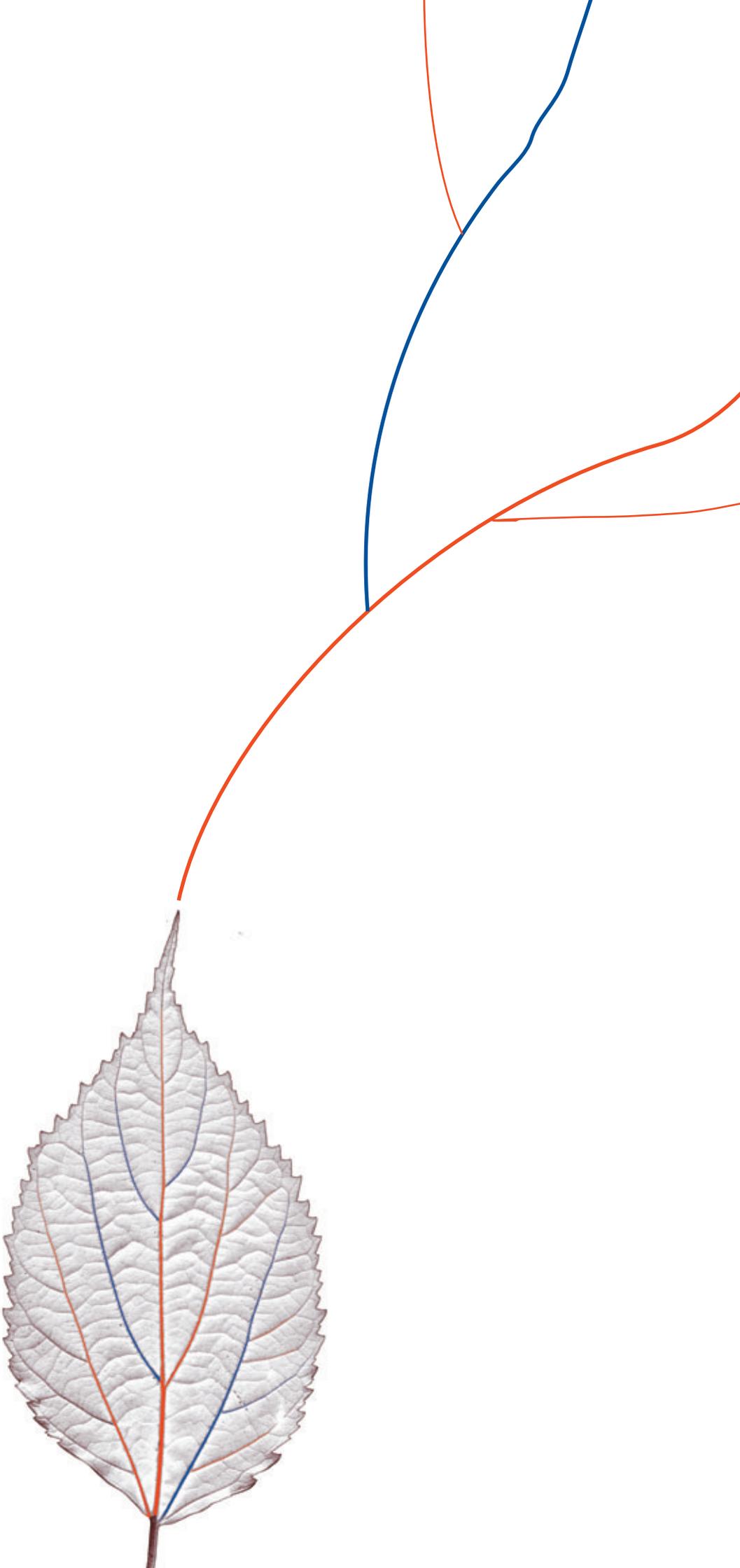
The remuneration of PT directors, as determined by the Compensation Committee based on a proposal prepared by the Remuneration Consulting Committee, takes into consideration the performance of the Board of Directors as a whole, the performance of the PT Group and benchmarks with other companies of a similar dimension and business.

The remuneration of the chairman of the Board of Directors and of the executive directors is composed of a fixed portion and a variable portion. The remuneration of the remaining non-executive directors includes only a fixed component.

The value of the fixed remuneration of the directors was determined based on a benchmark study carried out by an international Human Resources consulting company. In this study, companies integrating the main indexes like PSI 20, IBEX 35, DJ Eurostoxx 50, CAC 40 were analysed, as well as European telecommunications companies comparable to PT.

The determination of the variable remuneration, to be granted, takes into consideration the analysis of some indicators, namely: (a) Consolidated revenues; (b) EBITDA; (c) EBITDA - Capex; (d) Net profit before curtailment, and (e) the Total shareholder return ratio of PT by the Total shareholder return of the DJ Stoxx 600 Telecom, where the Total shareholder return corresponds to the sum of the variation of the share's price and the value of the dividend per share.

Considering the fact that the Compensation Committee that will establish the remuneration of the corporate bodies for the 2006-2008 period will only be appointed in the Annual General Shareholders' Meeting of 2006, only the new Compensation Committee may submit a statement on the remuneration policy for the corporate bodies to the Annual General Shareholders' Meeting of the Company in the next financial years to be abided by in the future.



Our commitments

PT has been committed to creating long-term “value” for its stakeholders and, in particular, for its shareholders.

Therefore, PT establishes every year a set of commitments aiming to reinforce the relationship with the stakeholders and, consequently, perfect the Group's sustainability.

During 2005, under the coordination of the Sustainability Committee, the commitments fulfilled were the following:

- > integrate and formalise in its management model the strategic orientation of the Group's sustainability;
- > ensure the transparency and rigour of the information disclosed to the markets about its activity, having adopted the Code of Ethics for Financial Officers, implemented the policy to pre-approve the hiring of external auditing services and the creation of a system of qualified malpractice denunciation – Whistleblowing Procedures;
- > contribute actively for the digital inclusion of the Portuguese population, ensuring a 100% broadband coverage in the national territory and developing pedagogical and educational programmes of awareness to better use the Internet;
- > strengthen the communication channels and opportunities near its clients, through call centres and the renovation of its shops' network;
- > intensify the dialogue between the employees and the upper management, having created a new communication channel – the é Directo! portal;
- > strengthen its commitment to maintain social peace within the Group, by subscribing UNI's (Union Network International) Code of Conduct;
- > strengthen the search for young talents near the Portuguese universities and readjust the retention programmes of the highly talented staff already identified in the company;
- > strengthen the conscientiousness and environmental management through internal and external awareness programmes and the obtaining of environmental certification in another of the Group's companies.

Commitments for 2006

At an economic level

- > Financial growth with respect for the society and for the environment.
- > Improvement and promotion of the Code of Ethics.
- > Strengthening of the interaction channels with stakeholders.

At an environmental level

- > Greater energy efficiency and waste management.
- > R&D partnerships to study the environmental impacts of the telecommunications' business.
- > Strengthening of awareness actions.

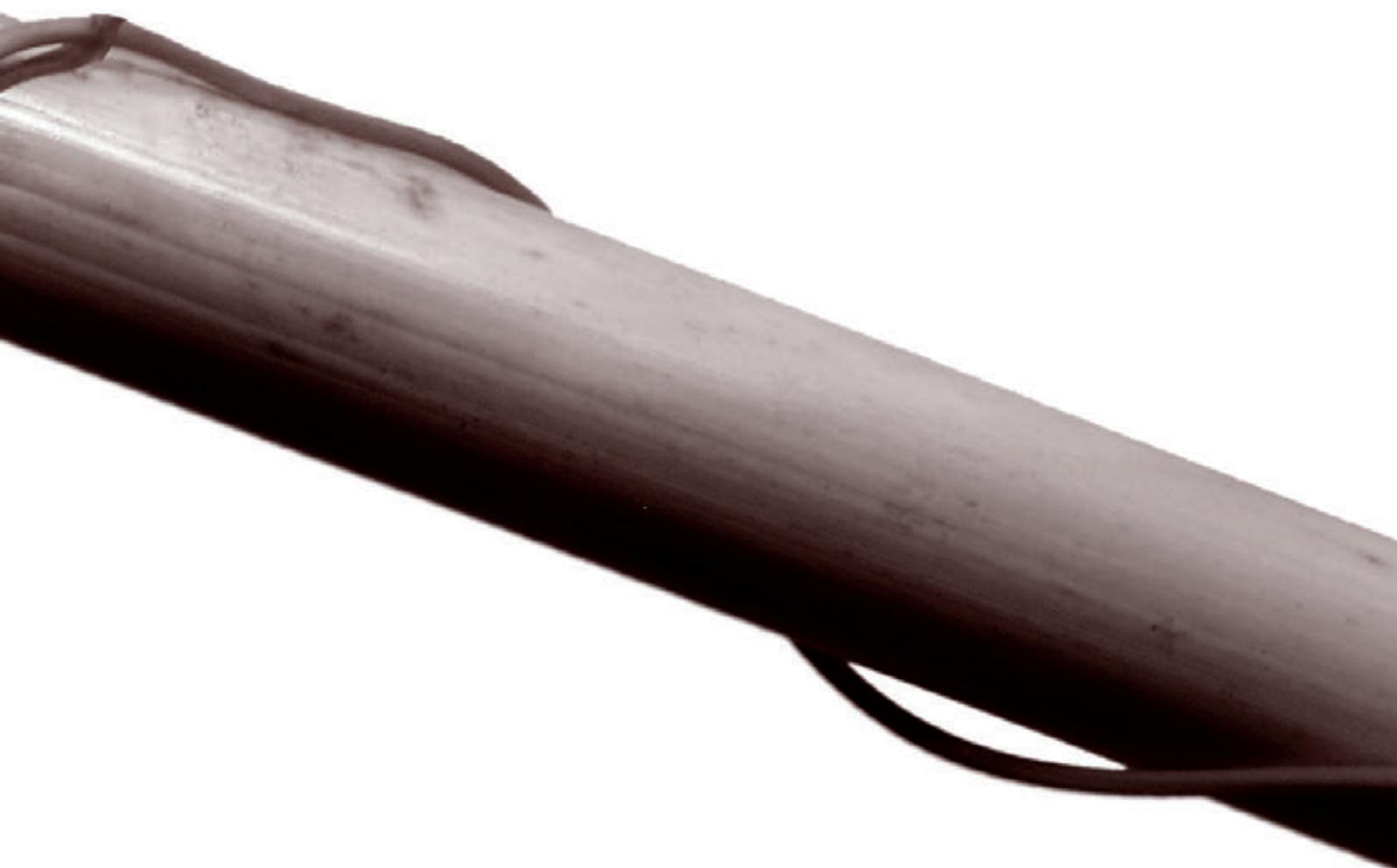
At a social level

- > Dynamisation of the information and knowledge society.
- > Dynamisation community support and voluntary work.
- > Encouraging policies to attract talents.



Creating long-term value

The value of sustainability in the Group's businesses

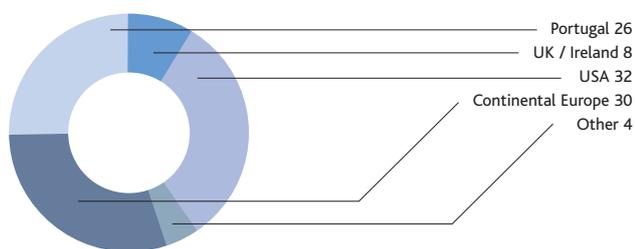


Main indicators

Shareholder structure

PT's shareholder structure is characterised by a great diffusion. No shareholder holds more than 10% of the share capital and only eight shareholders hold more than 2% of that capital, with a strong presence of institutional national and international shareholders.

Shareholder structure (%)



Participações qualificadas em 31 Dezembro 2005		
Instituições	N.º de acções	%
Telefónica	112.473.826	9,96
Brandes Investments Partners	96.096.420	8,51
Banco Espírito Santo	94.387.699	8,36
Capital Group Companies	63.193.870	5,60
Caixa Geral de Depósitos	56.909.684	5,04
Cinveste	29.080.000	2,58
Fidelity Group	23.592.185	2,09
Telexpress	23.000.000	2,04

A performance económica da PT em 2005, indicadores detalhados e sua interpretação constam do relatório e contas consolidadas.

No presente relatório serão destacados apenas os indicadores que contribuem para justificar a performance da PT relativamente aos compromissos assumidos para com os seus stakeholders, em particular, com os seus accionistas.

Anteriormente as demonstrações financeiras do Grupo eram apresentadas de acordo com os princípios de contabilidade geralmente aceites em Portugal, conforme estabelecidos no Plano Oficial de Contabilidade e demais legislação complementar (POC). Os ajustamentos efectuados às demonstrações financeiras em 1 de Janeiro de 2004 foram calculados de forma retrospectiva, tal como determinado pelo IFRS 1.

No âmbito da adopção dos IFRS e conforme estabelecido na adenda ao IAS 19, efectivo em Novembro de 2005, a PT alterou a política de reconhecimento dos ganhos e perdas actuariais, que são agora reconhecidos directamente no capital próprio.

Globalmente, em 2005, a PT apresentou um perfil de crescimento, tendo aumentado os proveitos operacionais em 7% e o resultado líquido em 4,9%, relativamente ao ano anterior.

O total do capex aumentou 23,9% face a 2004, fundamentalmente devido ao forte investimento na expansão da banda larga, em termos de cobertura e largura de banda.

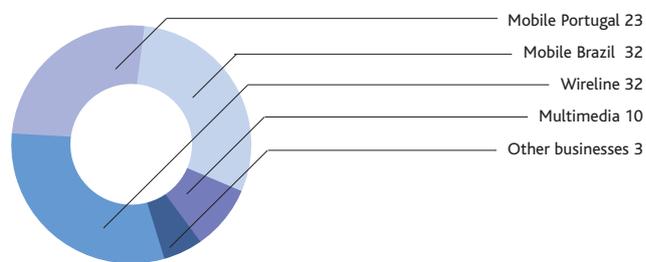
O Grupo adoptou as Normas Internacionais de Relato Financeiro (International Financial Reporting Standards) em 2005, tendo aplicado para o efeito o IFRS 1 – First Time Adoption of International Financial Reporting Standards – sendo a data de transição, para efeitos de apresentação destas demonstrações financeiras, 1 de Janeiro de 2004.

Key indicators	Euro million	
	2005	2004
Operating revenues	6,385	5,967
EBITDA	2,496	2,363
Operating revenue	1,436	1,428
Net income	654	623
Capex	943	761
Research and development*	58	41
Total assets	16,643	13,929
Shareholders equity	2,582	2,254
Share capital	1,129	1,166
Net debt	3,673	3,573
Pay out ratio (Euro)	0,475	0,35

*Operating costs of PT Inovação

Operating revenues by business	Euro million	
	2005	2004
Wireline	2,050	2,145
Mobile Portugal – TMN	1,455	1,462
Mobile Brazil – Vivo	2,037	1,599
Multimedia business – PT Multimédia	627	598
Other	215	163

Structure of operating revenues by business (%)



Indirect economic impacts resulting from our activity

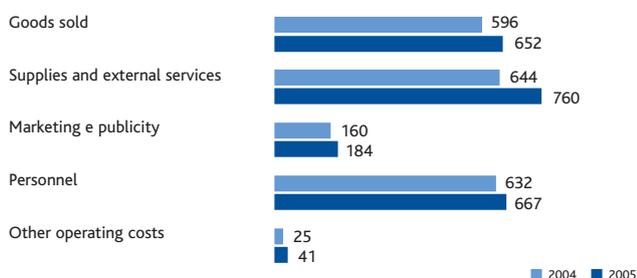
The importance of PT's activity for the Portuguese economy is measured not only by the number of jobs it provides and the direct investment it makes, but also by the economic activity generated in other sectors as a result of PT's services performance and production of goods.

The Company's cost structure can also be seen as a structure for generating revenues for others or, in other words, as the value PT's activity creates in the economy. We can therefore state that:

- > personnel costs become revenues for employees and for the State;
- > costs related to goods sold and resources spent become another company's sales;
- > supply costs and those resulting from external services are provided to PT by other companies and, as such, are presented in the section concerning revenues and earnings of those companies' financial accounts.

In 2005 the Group's cost structure had the following profile:

Operating costs (Euro million)



Taxes paid to the State

PT's performance and activity require the payment of taxes whose amount is presented below.

The cost relating to income related taxes increased in 2005, in relation to 2004, mainly as a result of the recognition (in the fiscal year 2004) of active deferred taxes regarding accountable PT Multimédia losses.

Therefore, in 2005, this item included the non-cash amount of 249 million euros, which corresponded to a reduction of the active deferred taxes regarding losses registered in previous years.

Income tax (Euro million)



Other taxes (Euro million)



Creation of PT Prestações

Considering its employees as a very important asset, and taking into account the Group's good financial performance, PT Prestações was created in 2005. This company has the mission of managing health-care for its employees as from when they retire.

Following the financing operation performed in 2005 in the international markets, PT has decided to give an initial contribution to PT Prestações of Euro 300 million euros.

The creation of this new unit is, therefore, an additional reinsurance that PT gives the employees who are covered by it, in order to ensure the fulfilment of these responsibilities.

Payments referring to costs with retirement benefits (Euro million)



Subsidies received

In the fiscal year 2005, we received subsidies totalling Euro 4,942 million. These subsidies were paid to the wireline, multimedia and innovation areas.

Evaluation of risks and opportunities susceptible of impacting on business value

PT's activity and its dimension at a national and international scale, make it vulnerable to a set of economic, social and environmental risks, that must be identified and analysed, in order to ensure the Group's long-term continuity and, consequently, the shareholders' return according to their expectations.

In a globalisation and highly dynamic scenario, business risk management is understood in PT as a responsibility of all the Group's employees. Business risk is for us the level of exposure to an environment of uncertainty that the organisation must understand and manage efficiently, in order to achieve its objectives and continue to generate value.

Therefore, PT's management has decided to evaluate risk through the definition and implementation of an internal control system, promoting the existence of a risk awareness culture, which crosses the whole organisation.

Risk management is ensured by several areas of the Corporate Centre and service areas of the Group's business units which, based on the previous identification and division of critical factors, develop management processes that allow a control which is capable of reducing or even eliminating its impacts.

Risk evaluation model

Risk evaluation obeys the following model:



Taking into account the continuous presence of the “precaution principle” in the several business areas, the risk factors for the activity are identified:

Risk factors

- Financial markets
- Strategic partnerships
- Regulation
- Inspection
- Competition
- Technological evolution
- Continuing services offer
- Hygiene and safety at work
- Attracting and retaining talents
- Environmental
- Ethical and social

Financial markets

The financial market's risk management is ensured through the corporate unit with financial responsibilities, that looks out for the necessary instruments to minimise the risks of being exposed to interest and currency exchange rates variations.

The engagement of financial investments is conducted after careful analysis of the risks and benefits inherent to this type of operations, and after consulting several entities, which play a role in this market.

These operations are subject to prior approval by the Executive Committee and will entail a constant monitoring of the evolution of financial markets and of the positions held by the company.

Strategic partnerships

The Executive Committee and the company's several business units' upper managements, are concerned with ensuring partnerships, joint ventures and any other kind of relations that will positively influence the Group's competitiveness.

Regulation

Following the regulatory changes, taking into consideration the opportunities and threats they represent for PT's competitive position in the businesses it takes part in.

Regulatory risk management is ensured by the Directorate of Regulation of Portugal Telecom, whose duties include being up to date on new applicable regulations, national or international, which may affect the Group.

Inspection

The identification of the fiscal legislation and interpretation of the application of fiscal and para-fiscal laws are ensured by the corporate unit whose duty is the reporting and consolidation.

This area follows all fiscal regulations, orientates the respective planning according to the opportunities and risks detected, and is assessed by independent bodies whenever necessary.

Competition

Identifying potential revenues reductions due to service replacements or new competition proposals, are the concerns regarding the management of this risk. The recommendations of the Portuguese Competition Authority, that frequently verifies PT's businesses are also taken into consideration.

Technological evolution

The responsibility of PT Inovação is to add value and keep up with what there is of most innovative and efficient in the market. This company is directed to the technological development of the Group's businesses, at the levels of applied investigation, engineering services and the development of innovative solutions and services, either for the national or international markets.

Continuing services offer

The security of the information systems that support the business is another risk area that has received a systematic intervention from PT Sistemas de Informação and PT's upper management.

In this domain, we have been stimulating and implementing policies and procedures that can consistently and continuously ensure the services offer from the several Group companies, namely through the disaster recovery programme.

Complementarily, PT also has mechanisms that identify and provide the security of its buildings, through the Security Centre.

In 2004, PT identified as a new risk for its decision model the ethical, social and environmental risk. However, in 2005, it concluded that this risk should have a more specific approach. Therefore, the ethical, social and environmental risks have been divided in the following way:

Hygiene and safety at work

Hygiene and safety conditions at work have been identified as a risk area. Therefore, the Healthcare Association and the Security Centre develop programmes to identify and reduce the risk's impacts.

Attracting and retaining talents

Ensuring the capacity to allocate employees with the right skills and properly motivated to the right jobs. The management of this risk factor is one of the duties of PT's Directorate of Human Assets, which will identify the Group's key elements near Portuguese universities, so that it may implement retaining strategies adequate to the segments defined by its management.

Environmental

Although the telecommunications activity does not have a high environmental impact, PT has decided to be aware of the risks regarding landscape impact. Therefore, together with the local authorities, the business areas identify solutions that do not influence the services offer and reduce the respective impacts.

Ethical and social

The identification and monitoring of ethical and social risks, as well as their impacts on PT's businesses, are ensured by the Sustainability Committee together with the support committees of the Board of Directors.

Internal control

In order to meet the regulatory demands to which it is subject, both on a national and international level, PT has been developing a project of internal control, aimed at guaranteeing the compliance with the established goals, policies and procedures, guaranteeing the reliability of the financial information, minimising the occurrence of frauds, and ensuring that critical risks identified will be monitored and lowered to an acceptable level.

The internal control, in line with the best international practices and in accordance with the Sarbanes-Oxley Act, is being implemented in the principal subsidiaries. This project foresees not only the introduction of internal control procedures, but also its reviewing, verification and continuous improvement. On a quarterly basis, the information disclosure controls and procedures are analysed with regards to their adequacy, efficiency and operation.

The Internal Audit Committee supervises the execution of the defined control policies and procedures.

Knowledge society and digital inclusion

The telecommunications have contributed to change significantly the relations between people and between them and the companies or organisations. Therefore, the information society will continue to be one of the priorities of the telecommunications' sector and of PT, in particular.

The progress in the telecommunications sector, together with the progress in the computer sector, has given society a widespread access to information and the opportunity for the promotion of citizens' digital inclusion.

PT has committed itself to increase the connectivity and the access to telecommunications and has been investing in the optimisation of the use of its services, contributing to the creation of a more informed and digital society, and for a more technologically advanced, dynamic and competitive economy.

The universal service provided by PT Comunicações, which grants any citizen access to a telephone service, regardless of their location, is a good example of the significant contribution that PT makes to the growth of digital inclusion.

Aware of the limitations of citizens with handicaps or suffering from severe illness, as well as of elderly people at risk, a number of services and products suitable to the real needs of these citizen groups is developed, promoting their social and professional integration.

Today, Portugal has one of the best broadband Internet access infrastructures in Europe. PT Group has been strongly involved in this reality, leading the several broadband Internet access platforms and making big investments in the network upgrading and the launching of new and more flexible services. Presently, the country has 100% broadband coverage.

The generalisation of the use of information and communication technologies, as well as the growing offer of broadband solutions, the implementation of programmes to support the community and citizens' groups with special needs, and the continuous effort in the innovation area, are examples of the promotion of a wider digital inclusion and the construction of a Knowledge Society.

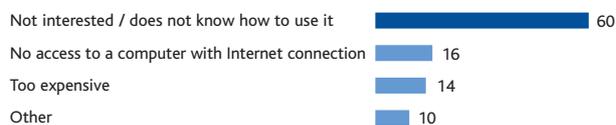
Of the countless initiatives in this area, we emphasize the widest and with most impact.

PT Escolas

PT Escolas is a project aimed at the school community, especially young students aged 12 to 18, and that wishes to contribute for the education regarding information technologies, namely the use of the Internet as a learning and knowledge tool.

The market studies carried out show that young people in these ages are unaware of the Internet potentialities and see it as a mere entertaining tool.

Why don't you use Internet at home? (%)



This is why the PT Escolas project has the following outlines:

Framework

- > Internet can be a field of learning and research
- > There is the opportunity for PT to come closer to the younger population and promote Internet as a source of knowledge
- > 2005 was the European year of citizenship through education

Objectives

- > Promoting a good a correct use of the Internet
- > Strengthening the development of information research abilities
- > Stimulating and teaching how to create quality contents on the Internet
- > Showing the multimedia capacities of broadband
- > Encouraging the production of contents in Portuguese
- > Mobilising the whole educational community for digital integration

Target group

- > School community: teachers, students and their parents
- > Shareholders
- > Governmental entities
- > Business partners
- > Journalists

Initiatives

- > On-line portal with educational contents
- > Television contest
- > Internet contest
- > Visits to all the district capitals with demonstrations on how to use the Internet

Results in 2005

- > 22,000 contestant students from 1,000 schools
- > 150 schools visited in 18 districts, Madeira and Azores
- > 18,000 participants in the events of the Tour Sapo Challenge
- > 10,000 students registered one the turma.sapo.pt
- > 1,300 teams competing in the on-line Sapo Challenge
- > 200,000 brochures distributed – A Aventura do Conhecimento
- > 1 million television viewers
- > 1,000 prizes awarded

PT Escolas was elaborated together with the Ministry of Education and involved specialists in the areas of education, pedagogy and computer science.

The winning school is being equipped by PT to become the school of the future.

Connect Portugal

Broadband is a fundamental pillar of the development of the information society. For PT, its success depends on four main points: coverage of the national territory; prices of computer services and equipment; info-education and introduction of computer equipment into Portuguese homes.

Alongside the commitment to ensure broadband coverage in the whole Portuguese territory, PT has also taken the responsibility to connect 8,200 state schools with broad band Internet, materialising once more its strategy to bet on the development of an information and knowledge society.

In an international public tender to supply broadband services for primary and secondary state schools, PT Group has won the supply of a broadband data service for state schools.

With the project's end foreseen to be in 30 March 2006, Portugal Telecom is two months ahead of this deadline. At the moment over 8200 state schools are connected through broadband. The great innovation of this project is the PICO DSLAM, which is a technology developed in Portugal, by PT Inovação. This equipment has very small dimensions and is telefedded. It was designed to allow the full coverage of the national telecommunications line with broadband, and aims to allow coverage in remote areas.

Besides this initiative, PT has also presented a project for the programme Connect Portugal of the Ministry of Science, Technology and Higher Education, which aimed to ease the purchase of Internet-connected computer equipment for the Portuguese families. Although the number of PCs doubled between 2001 and 2004 in Portugal, only 50% of homes have at least one computer.

A Christmas campaign was developed and Internet-connected computer equipment (Sapo PC) were put on sale in PT's shop network until the end of 2005 with a reduced price of 300.00 euros, 200.00 of which, according to the Connect Portugal programme, are tax deductible.

Sapo Messenger – VoIP

Continuing its strategy of broadband widespreading, during 2005 PT launched the service VoIP and video call service in Sapo Messenger.

The Sapo Messenger users have now free voice and video between PCs (PC-to-PC). One Messenger has a diverse number of functions, such as sending and receiving SMS, real time conversation, e-mail alerts, file transfers, emoticons, and now also free audio and video between PCs.

Sapo Messenger, besides being completely Portuguese, is now also one of the most complete and versatile integrated communication instruments worldwide, comprising the biggest number of functionalities in just one service.

The creation of this new audio and video version has taken over 15.000 hours of development and programming. It involved, besides the Sapo team, PT Inovação, PT Comunicações and PT Multimédia, and a set of other external companies like the American Jabber, the Canadian XTen and the Portuguese Critical Software.

This on-line communication service allows to communicate in several ways: through instant messages, sending and receiving SMS for all networks, compatibility with other Messengers (MSN, ICQ and Jabber), interconnection with email, sending files, and free voice and video calls between PCs. The first reasons for the use of the VoIP technology are related to the cost, which is lower than the traditional services (with the advantage of being able to use the same line for voice and data), and to the fact that the users are able to make free VoIP calls, even international ones.

In the end of 2005 this service had over 368 thousand registered users and 4,3 million SMS were sent.

Besides the solution available for the residential market, PT has tested the VoIP internally, with a group of 200 employees, and it is extensible, in one year and a half, to 13,000 employees in 120 buildings all over the country.

PT Contact is equally using the VoIP to ensure a contingency scenario of a line that may need high availability – emergency lines. In this case, if the telephone central that supports this service is unavailable, then the IP phones of another PT Contact central may be available and ensure the normal service.

The purpose of these operations is to internally test the solution adapted to corporate characteristics, before it is sold to the customers. This way, PT has the opportunity to improve its most fragile aspects during the ongoing test.

The advantages of the VoIP for companies are many: connection of three people simultaneously, looking up in the diary, voicemail e videoconference. Besides, it has the possibility to choose the most convenient terminal - PDA, laptop, wireline or mobile.

UZO

In the mobile service area, UZO was created as a simple mobile service with the purpose of responding to the needs of those who do not wish to be bound to long-term contracts, worry about deciphering price plans or be obliged to make pre-payments.

UZO was launched in June and became the first mobile service alternative to the existing service, responding to the customers' transparency and cost control demands, and offering a simplified service. UZO is supported by TMN's GSM network but works autonomously, having a single price of 16 cents per minute for voice calls to any mobile or wireline network, and 8 cents for each SMS.

The UZO customers can charge their cards in several places throughout the country, since the usual network also has the Payshop network and post offices.

The number of subscriptions surpassed all expectations. At the end of the year, it had 130,000 customers.

Pricing plans

The strategy behind this wireline offer is to give customers the possibility to build the pricing plan which is more adequate to their communication needs and their budget. Pricing plans combine destinations and times and their purpose is to generate economies of scale for the subscriber.

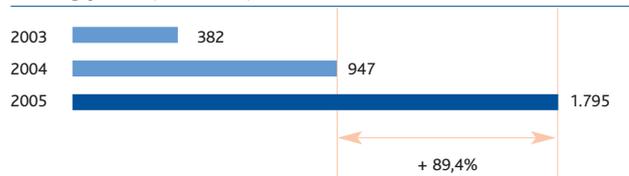
During 2005, PT Comunicações extended the pricing plans offer, in terms of destinations and times, having thus nearly doubled its subscribers from 2004 to 2005.

Subscribed pricing plans

Besides the extension of the Pricing Plans services, in July, PT Comunicações reduced the wireline calls prices, by changing the regional communications to local.

This way, the regional pricing plan was ended (from 10 to 50 km distance) and we started having only two price zones: local (up to 50 km) and national (over 50 km). Globally, local calls prices is 6% lower and the national's is 25% lower. The changing of the prices, as well as the creation of special pricing plans for customers with a low family budget, have contributed to dynamise digital inclusion into Portuguese society.

Pricing plans (thousand)



Digital inclusion for a dynamic information society

The information society lays on a social and economical development mode, where information, as a means to create knowledge, plays a fundamental role in the production of wealth and contributing to the citizens' well-being and quality of life. The condition for the information society to move forward is the possibility for everyone to have access to the information and communication technologies present in our daily lives, and which are indispensable instruments to our personal, working and entertainment communications.

Therefore, with this programme we intend to provide special conditions for partaking in the Information Society, favouring those citizens with lower income or specific needs and institutions who have proven themselves to be valuable social agents, as well as research and technological centres; promote structural actions for the modernisation of the interfaces between users and public utility services, namely in the areas of education, health, welfare, and civil protection and safety.

PT's special solutions, developed and subsidised by the Portugal Telecom Foundation, comprise a line of equipment and services destined to fight info-exclusion of handicapped, with severe illnesses, and aged people at risk, allowing them to have access to the full potential of information technologies.

Among PT's special solutions, the Portugal Telecom Foundation offers services and equipment which are more adequate to the special needs of each citizen:

- > systems' packages;
- > telecommunications' services;
- > equipment with specific characteristics, of a social or humanitarian nature, which make communications available to all, with no exceptions.

All these solutions have been developed taking into account the specificities inherent to the special handicapped citizens' needs, also covering the elderly at risk:

- > sight;
- > speech-communication;
- > cognition;
- > neuromotor dysfunction;
- > hearing.

Professional inclusion

The access to communication services or equipment adapted to their specific needs, allows handicapped citizens to develop a professional activity.

One of these services, developed and subsidised by the Portugal Telecom Foundation, is the PTMinha Voz – Grid, a software which allows people with severe neuromotor disability to use the computer and its programmes in an autonomous way, surf the Internet, as well as control the physical environment through virtual keyboards with sweeping system or not, adapted to the needs of whoever uses them.

For blind or visually impaired citizens, PT Voz Activa, another PT special solution, also offers a software that reads out loud, using the European Portuguese, Internet texts, mainly from the web and mail, and wordpad texts.

Educational inclusion

The Aladim Programme, one of PT's special solutions, is a fundamental instrument to support children or youngsters who are not able to go school, namely when they have severe illnesses or degenerative neuromotor diseases.

Under the Aladim Programme, the Portugal Telecom Foundation installs a tele-class system, based on basic RDIS accesses, interconnecting the house, hospital or institution where the student is staying and the classroom, allowing them to precede with their studies.

Another benefit of the Aladim Programme consists in the offer to these students of ADSL Internet accesses or RDIS connections at lower prices. Resorting to high quality Internet solutions, these children and youngsters can have, like all their school colleagues, groups of friends (chats) and access to the Internet communication universe, being easier for them to integrate in the communication society.

The three communication programmes of the PTMinha Voz line - IntelliMathics, IntelliPicsStudio and IntellitalkII also contribute actively for these students educational inclusion, particularly for those with severe neuromotor or cognitive disability. These programmes are destined to stimulate the multimedia creativity, an easy access to pedagogical activities and the learning of maths, having a speech synthesizer and several ways to access information, such as a touch screen, a mouse or other pointing device, also allowing the sweeping technique and the choice between a menu bar or a traditional keyboard.

Network support technologies

This project – Tã na rede – was developed during 2005, in the context of the POSC programme. Its main objective is to research, develop, adapt and test materials created to promote the autonomy and independence of people with special needs, namely with mental handicap, emphasising the domains of assisted and alternative communication and easy language.

Its purpose is to offer people with special needs, their families and rehabilitation professionals, information, counselling and technological experiments sites, allowing the study of the problems of the population with special needs and reevaluation of the technical solutions better adapted to each case, seeking personalised answers.

Globally, the project aims to give FENACERCI a reference resource centre in the rehabilitation area, build and operate nucleus with network managers, who can ensure in an integrated way, the information, evaluation, directing and counselling regarding rehabilitation and qualification processes of people with special needs; as well as to research, develop and adapt technologies to help access and social integration.

The PT Foundation, has a team that identifies special citizens' communication needs and, together with the remaining Group companies, tries to create, develop, test and offer telecommunications' solutions suitable to overcome each need.

The availability of these services to the community brings no profit to the company. The offer of these services is seen as another contribution to the digital inclusion of the Portuguese society.

The Internet comes to you

This project consists on the informal training of differentiated and heterogeneous publics in a classroom equipped with 12 computers, using an adapted bus with satellite communication and energy autonomy, when necessary. The bus/classroom also has a specific access for people with special needs.

The training is based on the use of IT adapted to the different target groups, teaching how to use a computer to write, navigating the Internet and searching for information, and sending e-mails through the creation of their own mailbox.

In these training sessions, we distribute manuals adapted to the age of the participants:

- > learning manual “The world in the computer” edited and produced by PT Foundation;
- > manual “Teach your computer” reedited.

In 2005, twenty local authorities throughout the country were visited and 4,000 individuals took part in this action.

One computer, one opportunity

Everytime computers are considered obsolete but are still in good conditions to be used, they are given to institutions that are interested in receiving them. Their distribution is ensured by a protocol between the PT Foundation and DHL.

400 computers were distributed in 2005 to over twenty institutions in the continent and the Azores.

Laboratory of Excellency in Mobility (LEMe)

It aims to launch, together with Instituto Superior Técnico, SUN Microsystems Portugal, Siemens, Ericsson and Taguspark Society, an excellence centre in mobility and ubiquitous computing, whose purpose is the development of capabilities and applications for the new generation services and platforms.

LEMe's mission consists in promoting the development of qualified human resources, at graduation, masters or doctorate levels, and the investigation and development in a consortium in the mobile and ubiquitous computing areas.

A protocol of intentions for the creation of an excellence laboratory in the mobility area was signed in 2005 and, already in 2006, the statutes project was initiated.

PT Foundation supports innovation

The support to innovation mainly in the areas related to the communication and information technologies is, naturally, another of the important axis of the Portugal Telecom Foundation, in line with its mission to support the development of the information society and fight info-exclusion.

During 2005, it was decided to create a big annual prize to award relevant and innovative works in the social application of the communication and information technologies, since in the several social intervention domains, from medicine to environment, the IT's influence in the definition of solutions for a sustained development is becoming greater. The dynamisation of this project will start in 2006.

Technological innovation and services development

For a long time PT has created structures which, together with international and national organisations and business partners, study solutions that are internationally compatible and more efficient than the existing ones, thus meeting the market's needs and expectations.

As an example, we highlight the development of the world's first pre-paid mobile phone, Mimo, launched by TMN in 1995, decisive in the mobile phone's democratisation, both in the national and international markets.

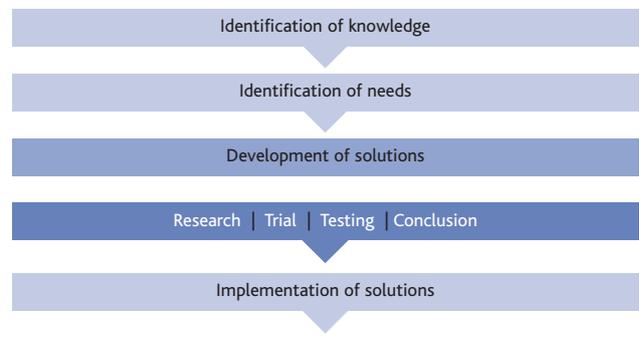
Research and development

PT Inovação is the centre that captures and incubates technical knowledge which is applied to the research and development (R&D) of advanced applications, new services and integrated solutions for all of PT's companies, always with a direct impact on the Group's businesses.

Innovation is, in itself, the attitude with which we think, transform and apply technology. To innovate is to apply knowledge in order to increase value. That knowledge involves and demands a correct management of the information received, processed and spread. For PT Inovação, the management of that knowledge is based on the implementation of the innovation cycle that articulates a contact channel, an observation platform and a reflexion phase that precedes the action. Running this cycle daily means to use the imagination to shape a given reality, by recreating it. The success of such an enterprise results from a compromise of the whole Group, which involves a systemic articulation among technology, market opportunity and profitability of products/services.

PT Inovação's technology finds itself, although not exclusively, very directed to the Group's businesses development, either at a level of applied investigation, or at a level of service providing for the engineering and development of solutions and services, both in the national and international markets.

Innovation process



Intelligent networks

PT Inovação has developed the NGIN platform (Next Generation Intelligent Network), an important convergence tool that, besides a rapid creation of advanced telecommunications' services, has also given a new impulse to the traditional use of the telephone. This platform increases the use of both the mobile line and the wireline.

Networks' intelligence is helping the convergence of the different environments (wireline, IP and mobile), opening excellent opportunities to develop new, differentiated and personalised services. This capacity is at the base of the creation of next generation's networks.

Intelligence in networks will allow for new service classes to appear, with high rates of convergence: accessibility to any service, with any type of terminal, from any network.

PT Inovação is also committed to other advances in this domain, such as the integration of the computer with the telephone (CTI), or the speech recognition technologies, which allow the IVR services. From these innovations results the creation of new customer-centred services, easily personalised, as well as integrated voice/data services, virtual private networks (VPN), advanced answering services (call-centre), or the portability of the communication services, including the unified messaging ones.

The evolution of society and knowledge are undoubtedly related to the technological process and, consequently, to the applied investigation and the development of innovative solutions.

Technologies for access network

Based on the NETB@ND network, the solutions developed by PT Inovação allow the introduction of IP traffic in the access network, and are directed at the residential and corporate markets, and at the community networks.

The xDSL technologies allow high-debit digital circuits in the spectrum frequencies not used by the analogical service in the conventional symmetrical paired cables. PT Inovação also investigates the applications of this technology in its various types: ADSL, HSDL, SDSL e VDSL.

The new optical access and the hybrid fibre-optic/coaxial networks' technologies, as well as reconfigurable WDM optic networks architectures and respective techno-economic evaluation, also take priority for PT Inovação, in the field of infrastructural solutions for the business.

Technological and services training

PT Inovação must ensure technological updating, passing the knowledge to the Group companies.

For this, it has made significant developments regarding distance learning, where we stand out the FORMARE e-learning platform, which integrates different technologies for the creation of on-line training environments.

Multimedia and IP services

The work in broadband technologies and in services and applications with high demands, whether in terms of bandwidth or service quality, allows to take advantage of the synergies resulting from years of experience in multimedia development. The integration of the already existing solutions allows the creation of interactive multi-service platforms.

In this domain, PT Inovação has played a key part in the viability of programmes like the "Cidades Digitais" (Digital Cities), namely the "Aveiro Cidade Digital" (Aveiro Digital City), together with the Aveiro City Hall and the Aveiro University. The community networks area has also counted on the participation of PT Inovação, which developed the portal "Alentejo Digital" (Digital Alentejo), together with Telepac.

Other examples of PT Inovação's commitment to the multimedia future are the development of the NET@UTARQUIA solution, already being used in several city councils, advanced teleconsulting solutions for telemedicine, like the MEDI-GRAF, or even prototypes and demonstrations of interactive television solutions done together with Microsoft.

Networks and mobile services

In this matter, PT Inovação performs services' studies and development for GSM, WAP, GPRS and UMTS (3G) technologies. The experience of the company allows it to add value to the use of emerging mobile technologies, through the creation of support services (messages, redirection and geo-localisation). The qualification and know-how in the WAP and 3G areas have consolidated our presence in strategic partnerships for developments in the ambit of wireline-mobile convergence, both in the European Commission's IST programme and in Eurescom projects.

Telecommunication networks: project, planning and management

The geo-referenced information takes on a decisive importance in the added value of a greater number of services. Through the integration of technologies like the GIS (Geographical Information Systems) and the GPS (Global Positioning System), it is possible to process information data that enrich the use (installation, operation and exploration) of the networks. PT Inovação acquired in this sector qualifications in network planning and project with SIG and GPS, digital cartography and satellite image, and data warehousing.

The quality of the developments made by PT Inovação, has given it the statute of AUTODESK's solution provider for the telecommunications' sector.

Business support

PT Inovação has proven knowledge and experience in computer tools, information systems and databases, which are instrumental in the analysis of information to support the management.

The areas worked on in this sector are client relations' management (CRM), customer care, billing, billing mediation, business intelligence, and also differentiated billing.

Also in this framework, the IP (VoIP, VPN) consultancy, quality analysis in IP networks and, still in electronic commerce, in the areas of safety and authentication.

Engineering and consultancy services

These services consist in giving direct assistance to Portugal Telecom's operations, through several services both in the laboratory and in the field. PT Inovação has created a network support centre (CARE), which permanently ensures back office functions for the solutions/systems of PT Inovação all over the world.

The support to national telecommunications' companies and electrical and electronic industry, as well as service providing, as outsourcing especially to the PALOP operators, are other sides of these services.

Another important parcel of the engineering services' activity is the one done by the company's laboratory, whose activity is properly certified.

The CETLCE does the maintenance of telecommunications' systems, as well as the testing in metallic cables and optic fibres, conformity tests, equipment tests and technical audits to telecommunications' sites.

The CETLAB, equally certified, does quality control and certification, as well as conformity testing of terminal equipment.

All the areas where PT Inovação intervenes have merited the cooperation of a vast number of partners.

Privileged partnerships

Hewlett-Packard, Microsoft, Compaq, Cisco Systems, Oracle, Autodesk

Main R&D partners

Instituto de Telecomunicações, Universidade de Aveiro, Instituto Superior Técnico, Universidade do Minho

Cooperation in national and international R&D programmes

Following the participation in programmes and projects sponsored by the Ministry of Science and Technology, European Commission and Eurescom

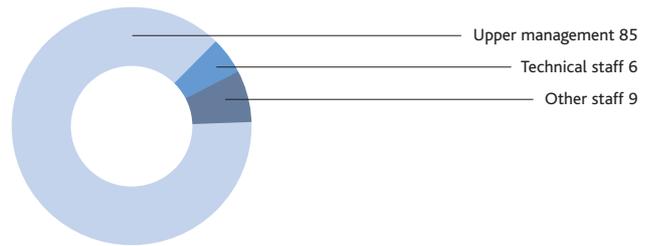
International normalisation bodies

PT Inovação has ensured the representation of the Group in the main international normalisation organisations, like the ETSI and the UIT.

The solutions spread by PT Inovação in this partnership universe have contributed in a decisive way to the progress of the Group and the information society in Portugal.

A team of 400 employees, an investment of Euro 57,9 million and revenues amounting to Euro 66 million, form this Group's business unit – PT Inovação.

Employee profile of PT Inovação (%)



Investment in research and development (Euro million)*



* PT Inovação's operating costs

Information systems

The competitiveness, efficiency and quality of the organisations and, in particular, of the PT Group, are ensured also through solutions of information systems, agile, effective and with levels of safety which ensure the continuity of service providing in crisis situations.

This mission is ensured by PT Sistemas de Informação, that must ensure long-term competitiveness by developing solutions in the areas of billing, ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), business intelligence, portals, mobility, integration, knowledge management, safety, infrastructures management and project office technology.

The development of the "Performance.pt" platform – management solution for human assets – has been considered one of the most complete and remarkable at an international level. Elaborated together with Heidrick & Struggles – an american company specialised in human assets' management – this platform, already adopted in the PT Group, will be commercialised at a national and international level, and in accordance with a protocol signed by both companies during 2005.

PT SI has also developed the electronic invoice, which allows the sending of PT Group companies invoices in electronic format to the client's e-mail address. Portugal Telecom has thus become the first Portuguese company, and one of the first in the world, to send an electronic invoice with legal validity given by the certification of the digital signature.

Given the relevance of the information systems for several of the Group's businesses, PT SI is developing a disaster recovery & business continuity programme, having already certified professionals in the Disaster Recovery Institute and prepared a data centre with the support structure for the respective systems.

The activity developed in the area of information systems has deserved public recognition.

In 2005, PT SI won the Most Innovative Industry Solution awarded by FileNet, in the ambit of the PRO UNO project development.

Also in 2005, in the "5th Conference on Telecommunications", two of the Group's employees, one from PT SI and another from PT Comunicações, were distinguished with the IEEE award (Institute of Electrical and Electronics Engineers) Best Student Paper Prize, for the designing, simulation, testing and implementation of an ultra broadband aerial.

In the ambit of the ongoing service quality policy of PT SI, namely the offer of information systems management services, applications' management and support to IT services, we highlight the actions started in 2005 and ongoing in 2006.

- > Alignment with the best ITIL practices – certification 47 professionals.
- > Internal restructuring of infrastructure qualification units with the organisational segregation between support qualifications (Service Support) and delivery qualifications (Service Delivery).
- > As part of the constant improvement of ISO 9001:2000 processes (PT SI is certified since 2002), we are reengineering the IT service management and support processes.
- > Ongoing auto-certifications ISO 20000 (Service Management) and ISO27001 (Information Safety) that replaced the BS7799. Progress is around 15%, and we foresee the auditing for certification during the last quarter of 2006.

Respect for the environment

The respect and preservation of the environment, with a view to ensuring acceptable life conditions for future generations, are greater issues for companies of the industrial sector than for those from the telecommunications sector.

However, PT has had, for several years, the preoccupation to preserve and value the environment, having therefore defined policies and mobilised resources in order to comply not only with legal demands, but also with European directives and recommendations about this subject.

PT has signed the ETNO (European Telecommunication Network Operators Association) sustainability letter, in which it is recognised that sustainability should be at the centre of businesses. In this letter, companies commit to produce products and services that are sustainable with significant social, environmental and economic benefits, committing to continuously improve the knowledge of impacts generated, the efficient use of natural resources, the support to investigation and the respect for work and human rights, among others.

Environmental impacts

Regarding its businesses, PT has identified the main environmental impacts of its activity. The environmental management policies implemented in the company have the purpose of minimising them in the mid and long-term.

Actions	Environmental impact
Waste production	Soil occupancy and contamination. Decrease on the visual appeal of landscapes. Decrease of the value of soils. Contamination of exterior and subsoil waters, due to spilling.
Noise pollution	Decline of the quality of life of the communities affected by it. Disturbance of people's daily activities, with subsequent physiological, psychological and/or social effects.
Fuels	Atmospheric pollution and diminishing density of the ozone layer. Contamination of exterior and subsoil waters, due to spillage.
Energy consumption	Decrease of natural resources available. Atmospheric pollution, with an increasing greenhouse effect.
Water	Decrease of water resources. Atmospheric pollution due to the increase of greenhouse effect; Contamination of watercourses.
Use of halons	Diminishing density of the ozone layer, with negative consequences on human health and on water and land ecosystems.
Electromagnetic fields	Negative perception of interested parties concerning potential risks for human health.
Impact on landscape	Decrease of the quality of natural and urban landscape.
Impacts related with waste elimination	Using landfills to put waste implies soil occupation and potential soil contamination; pollution of exterior and subsoil waters; waste incineration, which helps to increase global warming and air pollution by burning waste with CO ₂ , CO and NO _x emissions.

Conversion factors used in the environmental calculations

Variables	Measure	Conversion factors
Diesel density	Ton/m ³	0.85
Petrol density	Ton/m ³	0.739
Diesel PCI	CJ/ton	43.3
Petrol PCI	CJ/ton	44.8

These were the conversion factors used in the calculation of some environmental indicators. These factors do not coincide in terms of unit with the values indicated in the national inventory of greenhouse gases, but they do not alter the significance of the final results.

Main action points of the environmental responsibility policy: energetic efficiency; waste management; electromagnetic radiations control; impact on landscape; promotion of awareness action.

Environmental management policies

The environmental policy has an important role and having PT Comunicações, TMN and PT PRO already the ISO 14 001 certification. PT Inovação already has its environmental management system, which is under APCER's auditing process, with a view to obtaining the environmental certification at the beginning of 2006.

PT PRO got the certification with the NP EN ISO 14001:2004 standard in 2005. PT Inovação started the necessary procedures related to this standard during 2005 and is preparing to be certified during 2006.

As the preservation of the environment is everyone's responsibility, PT has developed awareness campaigns near its employees. In the process of suppliers' selection, one of the requisites analysed is the way the environment is respected by those companies. PT has also established partnerships with universities and research groups, in order to monitor the impacts of its activity.

PT's environmental protection includes areas related to energy, fuels, recycling, water consumption, electromagnetic radiations, impact on landscape and implementation of good practices in general, which has contributed to a total absence of fines.

Waste management

PT is associated with the Sistema Ponto Verde. This is an integrated waste management system for packages, elaborated by the Sociedade Ponto Verde, and is based on the articulation of responsibilities and processes among a number of partners. Its purpose is to value and recycle package waste, contributing to a lowering of waste volume sent to landfills.

The Sociedade Ponto Verde gathers shareholders (packagers/importers, distributors, local authorities, package and package material makers) committed to fulfilling its environmental and legal obligations, through the organisation and management of a circuit that guarantees the recovery, value and recycling of non-reusable package wastes, called integrated system of packages waste management (SIGRE).

During 2005, PT signed a protocol with AMI (humanitarian NGO) to fulfil a project that consists in ensuring the collecting of computer consumables, ink cartridges and tonners (printers, copy machines and faxes), and broken or obsolete mobile phones. The selling profits of the products collected goes to AMI.

For this action, containers were built and distributed among PT Comunicações, TV Cabo Lusomundo cinemas' shops, as well as PT Comunicações, PT Multimédia and head office's buildings. PT has made available to its employees and customers 700 collecting places, spread over 100 shops, 86 buildings and 20 cinemas all over the country.

Recycling of materials

In 2005, PT started reusing its communication materials – screens, canvas or flags – whose graphics and/or concept are obsolete and whose materials are recyclable. We are talking about PVC screens, canvases and flags which were transformed into other useful pieces, such as notepads' covers, bags, briefcases, pillows, and other solutions created by fashion designers, that use these to promote both its talent and PT.

Paper consumption

In 2005, PT also issued the electronic invoice. This project, with the purpose to facilitate customers' lives, is also a goal of the sustainability policy and respect for the environment implemented in the company.

It was the first Portuguese company, and one of first worldwide, to have an electronic invoice with legal validity through the certification of the digital signature.

The electronic invoice allows the PT Group's invoices to be sent in electronic format to the customers' chosen e-mail address and is aimed at the Group's customer universe. Once the request is made, this service replaces the paper invoice. For each ton of paper saved by this service, we avoid the cutting down of 15 to 20 medium-sized trees.

Since its launch in April 2005, PT Group has saved 137.5 tons of paper, avoiding the cutting down of 2,335 trees.

PT's activity and the impact on landscape

Most buildings used by the company are located in urban areas, although some telecommunications infrastructures, such as aerials and cable planning, are located inside natural reserves.

Although changes in natural habitats, as a consequence of the Company's business activity, are not significant, PT Comunicações does have a programme to protect and recreate ecosystems and native animal species from damaged areas. This programme uses PT Comunicações' infrastructures, for instance, to increase nesting in several areas of the country.

While planning where to install new aerials, phone cables and other necessary products in public places, PT Group's companies establish local partnerships to find the most suitable solution for each case.

PT Comunicações established a protocol with the Associação Nacional de Municípios Portugueses (national local authority association) with the purpose of adjusting procedures to be followed in its relations concerning construction and installation works, remodelling, telecommunications infrastructures maintenance and alteration, including equipment installation.

In some specific cases, air planning was replaced by underground planning, so as to decrease landscape impact in historical or preserved areas.

Rationalize, reuse and recycle are the three concepts driving PT's environmental policy.

Cascais and Sintra area

- > Several interventions in Sintra's historical area – Sintra's City Hall – transfer of the cables on the walls to pipes built by the City Hall and/or by the buildings' owners.
- > Abano Road, Guincho – Replacement of air planning by underground planning with the construction of ducts and the almost total removal of the poles.

Torres Novas area

- > Work in the Constância historical area, where the city hall installed all pipework. PT is transferring the air and supported network to the underground network, eliminating all the visual impact caused by the cables on the walls.

Coimbra

- > Transfer of cables on walls to ducts built by the City Hall.

Partnerships with city halls

Viseu city hall

- > As part of the requalification of some small arteries of the city of Viseu's historical area, the Viseu city hall has promoted the construction of a ducts' network, having PT Comunicações promoted the cables' network.
- > As part of the requalification of the Rua Formosa (ex-libris of the city of Viseu), the city hall has taken on the execution of the ducts' network. It was a significant investment by PT Comunicações on the external and internal cable network.
- > Circular SUL – It is a structuring artery of the city of Viseu, where the costs of the execution of the ditch and the accesses to the conduct network was divided by 50% between each of the organisations, having PT Comunicações the responsibility to install the pipes and do the necessary detours.

Nelas city hall

- > This local authority is doing a great duct network in Nelas, in order to remove some aerial cables.

Historical Village of Lapa

- > The Sernancelhe City Hall has already executed the duct network, having asked PT Comunicações to transfer the aerial planning to the underground planning. We await the authorisation to start the works.

Albergaria-a-Velha

- > Recovery of the historical centre. The local authority has executed the duct network. PT Comunicações has reorganised the telecommunications' network.

TMN, together with the Instituto de Conservação da Natureza, has developed initiatives to relocate the storks that have nested in the companies' telecommunications' network infrastructures.

Although the protection and the respect for the environment are part of the Groups business units' practices, in this report we will present the environmental performance figures related to the companies already certified with the standard NP EN ISO 14001:2004 – PT Comunicações, TMN, PT Inovação (in process of conclusion) and PT PRO.

These four companies integrate 80% of the Group's employees at a national level and the respective wireline and mobile line, therefore constituting a strong approximation to the Groups' total impact.

The figures will be presented by company, taking into account each business unit's specific activities already certified, and the fact that they have already started the environmental management system in different years.

PT Comunicações and the environment

PT Comunicações has got environmental certification since 2003 and has a well-defined policy in this matter.

There is an effort to control water, energy, and automobile fuels' consumption, as well as to recycle company waste. This is something simple to do and that makes all the difference in a company with 7,500 employees.

PT Comunicações' concerns towards its environmental management system have three major points:

1. The continuous improvement of the environmental performance through the revision of the system by the upper management, the redefinition and implementation of the environmental programme;
2. The extension of the geographical reach to Madeira and Azores and the preparation/training of the corresponding employees for the correct integration of those areas into the system;
3. The integration of the environmental system with the quality management system implemented in the meantime, namely to what concerns some organisational and system procedures.

Use and recycling of communication cables

Copper or other material cables are the basis of wireline communication. Every year we produce about 1000 tons of cables that travel the country.

PT Comunicações has a recycling process for the communication cables, implemented since 2002. This material may get damaged by several reasons, either by replacement or improvement of the network, flooding, fires, construction works or other type of damages. When this happens, the cable has to be removed by certified companies, an information that the company controls through a computer system.

After its removal, the cables are transported to a warehouse where they are properly analysed and separated according to their quality. Then, they are stripped and all the material for recycling is separated.

Communication of the environmental management to the employees

PT Comunicações has an environmental management manual, which is available to all employees. By reading it, employees will be able to examine thoroughly the environmental goals of the company as well as examine procedures to inspect non-measurable features, such as the different stages of internal auditing and environmental verifications. These documents are valid and applicable to PT Comunicações, its suppliers, customers or any other entities that are somehow related to the company.

PT Comunicações' environmental impact has been monitored since 1998. Data analysis led us to conclude that PT's effort to control and reduce the main negative impacts of its business was successful. Communication campaigns about environmental impacts, in which PT's employees were involved, also played a part in the consolidation of the results obtained.

Environmental impacts

Energy consumption		gíga joules	
	2005	2004	Variation
Management consumption	114,070	115,247	- 1.1 %
Technical areas consumption	1,031,825	897,685	+ 15 %
Fuels consumption	172,903	173,062	- 0.1 %
Energy consumed by suppliers in the development of activities for the company	141,977	154,605	- 8.2 %

The addition, during 2005, of equipment from other telecommunications operators, installed in spaces owned by PT Comunicações caused an increase in the energy and water consumption and, as a consequence, the increase of the resulting emissions.

Water consumption m³			
	2005	2004	Variation
Total water consumption	267,684	224,500	+ 19 %

CO ₂ emissions tons			
	2005	2004	Variation
Direct fuel emissions – petrol	1,949	2,339	- 17%
Direct fuel emissions – diesel	10,676	10,270	+ 4 %
Indirect emissions	149,796	134,522	+ 11 %

Recycled waste tons				
	2005	2004	Variation	Bound for
Batteries	116	30	+ 387 %	Reuse and recycling
Fluorescent light bulbs	3	1	+ 200 %	Recycling
Infrastructures waste	1,313	899	+ 146 %	Recycling
Paper / cardboard	144	68	+ 211 %	Recycling
Plastic	10	7	+ 42 %	Recycling
Mixed urban waste	126	n.a.	–	Landfill
Equipment waste electric and electronic	40	n.a.	–	recovery and recycling
Toners and ink cartridges	2	3	- 66 %	Reuse and recycling
Used oils (litres)	1,870 *	2,970 *	- 63 %	Recycling

Materials consumption tons	
	2005
Batteries	134
Electric and electronic equipment	164
Infrastructures of support to the activity	10,855
Fluorescent light bulbs	2.60
Paper / cardboard	39,622
Plastic	8,214
Toners / ink cartridges	4.70
Recycled paper	85
Copper	161

Costs and benefits associated with EMS		
	2005	2004

Internal workforce (activities per in hour/employee)		
Training (trainers and trainees)	1,832	1,985
Internal and external auditing	2,079	190
Environmental tests	816	616
Document elaboration and revising	770	616
EMS planning, action and control	320	
Others (warehouse works, waste cleaning, etc.)	5,760	192

External workforce (activities in hour/employee)		
External trainers and auditors	126	42

Internal costs (Euro)		
Workforce	404,848	125,843
Travel, accommodation and other materials (retention containers, absorbent dust, etc.)	13,905	13,626

External costs (Euro)		
External training and actions to maintain certificates	10,000	4,200
Waste alienation (fluorescent light-bulbs, superflat batteries, etc.)	17,115	14,352
Fixed halons alienation	83,360	98,924
Other costs (materials, analysis (PCB and water), recycling of equipment and chemical products)	100,000	

Profits (Euro)		
Waste valuing	1,074,443	253,493

Other accounted profits (Euro)		
Cost difference between recycled paper and white paper purchase	7,353	7,325
Fuel saving due to a decrease in automobile fuel consumption	198,657	18,029
Water saving due to a decrease in average consumption per employee	-37,697	52,194
Energy saving due to a decrease in average consumption per employee	-762,521	828,278
Labour saving in commuting due to videoconference	991,749	828,278

Unaccounted profits		
Valuing the Company's image		
Potential impacts on insurances premiums		
Advantage in service provider tenders		
Environmental advantages as a result of gas emission and other natural resources (iron metals) rationalization		

Final outcome (Euro)		
PT Comunicações had a positive balance, even without including unaccounted profits, which are very important. PT's balance is therefore higher than	842,810	902,374

TMN and the environment

TMN is certified for its environmental management system by the NP EN ISO 14001:2004 since 2003 and, therefore, also has a very clear policy in this matter, in accordance with the remaining Group companies.

Of the points of the environmental management policy followed by TMN we highlight the ones related to the specific characteristics of its activity:

Impacts of transmission stations: electromagnetic radiations

Within its environmental management system, TMN developed actions whose purpose was to minimise society's concerns with the impacts of transmission stations, namely impacts concerning electromagnetic radiations.

Apart from answering its stakeholders' concerns, TMN also measures radiation levels of its electromagnetic fields to meet national reference limits and to follow the European Council's 1999/519/CE recommendation.

With the objective to make systematic measures of the electromagnetic fields of transmission stations all over the national territory, TMN supports the monIT project, launched in May 2004 by the Portuguese Telecommunications Institute and the Instituto Superior Técnico. The values and its confirmation are made public through the website www.lx.it.pt/monit.

Impacts of transmission stations: landscape issues

TMN developed measures with the purpose of lessening visual impacts resulting from installing transmission stations, presenting solutions that were adapted to both rural and urban environments.

In planning the location of new transmission stations the following environmental aspects were considered: protected areas, national ecological and agricultural reserves.

The proximity to important community places, such as schools and hospitals, is analysed in detail and is part of the guidelines in planning processes.

TMN has committed itself to fulfil the GSM Association recommendations regarding mobile operators. TMN has also, with the same level of excellence, committed itself to act in accordance with Portuguese legislation.

Programmes to recycle sold goods

On the other hand, TMN has implemented an exchange programme since 2004. The process is simple. It begins with collecting the mobile phones handed in the shops by customers or potential customers, since the collecting is not restricted to TMN's mobile phones. At the time of delivery, we separate the reusable mobile phones from the recyclable ones.

In reality, during this separation, the mobile phones are put in yellow bags (reusable) or green bags (recycling), depending on the condition of their batteries, display or network.

After this first phase, the mobile phones are sent to a warehouse, from where they are transferred by a European company, licensed for mobile phone recycling and certified with the ISO 14001 standard, with which TMN has a partnership.

Once received, the process of recycling or reusing takes place. The reusable phones go through a process of cleaning and image improvement, being packed in order to allow their sale in areas where they still have commercial value. The broken phones are dismantled and their good parts are used to improve other mobile phones.

In 2005, TMN significantly increased the amount of mobile phones recovered for reuse, and continued to register relevant increases in the collection of mobile phones to recycle (121%).

In terms of landscape impact, TMN has avoided creating new infrastructures, giving preference to sharing with other operators (51 infrastructures of other operators and 24 sharing of infrastructures were solicited to TMN by other operators) and using local infrastructures.

Energy issues associated with buildings and transmission stations

An energy audit was carried out in the head-office, in accordance with the current legislation. With this audit, TMN was concerned with the identification of areas for improvement of its energy management that went beyond the legal reduction requirements.

In the transmission stations network, there was a commitment to optimise the acclimatisation management through the introduction of equipment to regulate the air-conditioners operation. It is worth pointing out that this measure allowed to reduce by 30% the electricity consumption in the stations where the equipment was installed.

Environmental impacts

Energy consumption	giga joules
Management consumption	11,112
Technical areas consumption	255,815
Fuels consumption	28,256
Energy consumed by suppliers in the development of activities for the company	6,568

Water consumption	m ³
Water consumption / management areas	15,741

CO ₂ emissions	tons
Direct fuel emissions – petrol	941
Direct fuel emissions – diesel	1,079
Indirect emissions	86,282

Recycled waste	tons	
	Bound for	
Batteries	38	Recycling and reuse
Fluorescent light bulbs	0.37	Reuse
Used oils	0.34	Recycling
Paper / cardboard	200	Recycling and reuse
Plastic	27	Recycling
Mixed urban waste	79	Incineration
Electric and electronic equipment waste	30	Recycling and reuse
Waste of infrastructures of support to the activity	67	Recycling
Tonnors / ink cartridges	2	Reuse

Mobile phones and batteries reused and recycled	tons		
	2005	2004	Variation
Reused mobile phones	20	10.97	82%
Recycled mobile phones	0.31	0.14	121%
Reused batteries	2.46	1.55	59%
Recycled batteries	1.71	1.06	61.3%

Mobile phones and batteries recovered, reused and recycled	%	
	2005	2004
Recovered mobile phones	13	6
Reused mobile phones	13	6
Recycled mobile phones	0.2	0.07
Recovered batteries	13	6
Reused batteries	8	4
Recycled batteries	5	2

Materials consumption per type	tons
Batteries	106
Electric and electronic equipment	361
Infrastructures of support to the activity	206
Paper / cardboard	159
Plastic	328,207
Tonnors / ink cartridges	1.65
Recycled paper	9.88

PT Inovação and the environment

PT Inovação taken on the concerns with the environment and has got a defined policy in line with the Group's general policies. During 2005, it concluded the implementation of the environmental management system and started its audit. At the beginning of 2006, it expects to receive the respective recognition by APCER's certification with the standard NP EN ISO 14001:2004.

Environmental impacts

Energy consumption	giga joules
Management consumption	7,600
Technical areas consumption	24

Water consumption	m ³
Total water consumption	4,659

CO ₂ emissions	tons
Direct fuel emissions – petrol	45
Direct fuel emissions – diesel	157
Indirect emissions	1,030

Recycled waste	2005	Bound for
Batteries	0.13	Recycling
Fluorescent light bulbs	n.a.	Recycling
Used oils	n.a.	Recycling
Paper / cardboard	21	Recycling
Plastic	2	Recycling
Mixed urban waste	n.a.	Landfill
Electric and electronic equipment waste	4	Recycling
Waste of infrastructures of support to the activity	n.a.	–
Tonnors / ink cartridges	n.a.	Reuse

Materials consumption per type	
White paper (Kg)	2,172
Recycled paper (Kg)	1,464
Ink cartridges (units)	318
Tonnors (unites)	214
Cardboard packages (Kg)	7,923
Plastic (Kg)	803

PT PRO and the environment

PT PRO was the first company of the PT Group to be certified in three quality norms: quality, health and safety at work, and environment.

It is a fulfilled goal that has a positive impact on the company and, consequently, on its customers, who can count on a business partner internationally recognised for its certifications.

PT PRO's quality and environmental policies, aim to continuously improve customer and employee satisfaction, through a responsible attitude in its relation with the environment.

PT PRO's exclusive customer is the PT Group, so it did not need to get these certifications for commercial reasons. However, it decided to get them, believing that PT PRO's quality system is integrated in the management system and that quality certification standards work as guidelines for a better operation and greater respect towards the stakeholders.

During 2005, together with the implementation of the environmental management system, several awareness initiatives for good environmental practices were done.

- > Placement of units to collect used batteries in the building.
- > Campaign to separate and direct waste.
- > Installation of lighting sensors in several areas of the building.
- > Campaign to reduce paper consumption.

Environmental impacts

Energy consumption	
Management consumption (giga joules)	
Technical areas consumption	6,417
Fuels consumption (litres)	182,723

Water consumption	
Total water consumption	11,509

CO ₂ emissions	
Direct fuel emissions – petrol	148
Direct fuel emissions – diesel	319
Indirect emissions	604

Recycled waste		
Batteries	n.a.	Recycling
Fluorescent light bulbs (Kg)	173	Recycling
Used oils (Kg)	78	Recycling
Paper / cardboard (litres)	316,800	Recycling
Plastic (tons)	2.8	Landfill
Mixed urban waste (litres)	1,056,000	Incineration
Electric and electronic equipment waste (Kg)	140	Recycling
Waste of infrastructures of support to the activity	–	
Tonnors / ink cartridges (Kg)	438	

Materials consumption per type	
Batteries (units)	4
Electric and electronic equipment (units)	32
Infrastructures of support to the activity (units)	2,911
Paper / cardboard (units)	212,386
Plastic (tons)	2,632
Tonnors / ink cartridges (units)	443
Recycled paper (tons)	208.14

Corporate reputation

In the telecommunications' market there are powerful tools to bring people closer and, therefore, Portugal Telecom's business is built on a solid base of relations with customers, employees, investors, regulators, suppliers, partners and the society in general, together with whom it wishes to build the future and continue to create long-term value.

The Portugal Telecom Group is the biggest Portuguese corporate group, quoted on the stock market and whose activity has direct and indirect repercussions in the country's economy. Therefore, PT dedicates more and more interest and commitment to its identity and corporate reputation, in order to develop a model which allows it to identify and anticipate solutions that may weaken its image near its stakeholders.

Corporate identity

The brand is seen by PT as a signature to which the personality of its corporate Group is associated. It is an intangible asset of the company that must be managed, in order to project the values, the attitude and the commitments of the company towards its businesses and the society in general.

PT's Code of Ethics and the attitude with which it leads its institutional and commercial relations, are strong allies in the construction and constant valuing of the brand and, as a consequence, in the consolidation of its identity.

Brand Image

The brand image is for PT the mirror of the emotional and rational relationship that the company establishes with society in its various experience exchanges.

For PT, the brand should reflect the characteristics of its personality in terms of values, attitudes and commitments common to all its businesses and, in this way, contribute for the company's correct positioning in each market and society sector.

PT has a notoriety rate of 91% in the telecommunications' sector, and considers it fundamental to know in a systematic way, the image points through which it is seen by the stakeholders.



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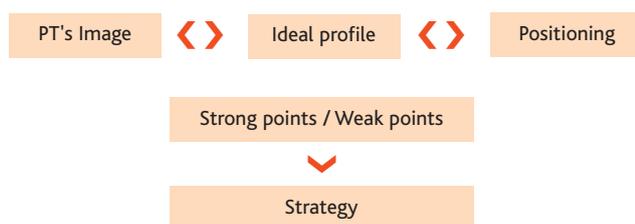
Every two years, quality and quantity studies are performed with the following objectives:

- > identify image attributes;
- > identify market positioning;
- > identify image's strong and weak points.

The survey universe, the stakeholders, is segmented in the following way:

- > general public;
- > residential market;
- > corporate market;
- > institutional market.

The results of these studies are analysed by the Group's several business units and the conclusions are presented and discussed in the Executive Committee, according to the following model.



Apart of these image studies done every two years, PT's business units perform regular Market Satisfaction studies whose results are equally object of analysis and incorporation of correction factors in the businesses strategy and in their relation with the market.

Visual identity

PT's visual identity, shown through its mark, is treated with rigour and discipline, in order to ensure the optimisation between its use in the multiple commercial and institutional situations where the company is present, and the contact experience given to each of the respective publics.

PT's mark is common to the Group's companies and is an integrating element for the company's activities, alongside the values and attitude taken in by it, in accordance with its Code of Ethics.

In order to ensure an adequate reproduction of the mark by the media, the sponsors, the suppliers, the analysts and business partners, PT makes available in its site – www.telecom.pt – an item dedicate to the image, of which are part the vision that this symbol must project and the guidelines manual for its use and application.

PT recognises that the performance of its economic activity is done through a dynamic relationship with a vast set of stakeholders. A relationship built on an interactive model that comprises PT's systematic information to its stakeholders and the incorporation of the information given by them to PT, through the various means and communication supports available.

Given the specific characteristics of the Group's activity, the main stakeholders were identified as:

- Customers
- Financial community
- Media
- Regulatory and supervisory bodies
- Employees
- Suppliers
- Community



Relationship with the stakeholders

Interested parts	Objectives	Relationship
Customers	PT has got the purpose to attract and retain customers by the value and quality of the services we offer them. By promoting a frequent and transparent relationship with our customers, it allows us to identify opportunities to satisfy their expectations in relation to our products and services.	Call centres Customer Ombudsman Shops and agents network Commercial managers Customer portal Market surveys Publicity campaigns Newsletter PT site Invoice
Financial community	We manage the companies of our Group in order to ensure its long-term value, because we believe that it is this way that we can compensate financial assets invested by our shareholders. Our management model, as well as the ethical principles that lead our companies' integrated management, are the main tools that guarantee an impartial and transparent management.	General meeting Quarterly and annual reports Road show Meetings Specialised team dedicated to dialogue PT site
Media	For PT, the media are a key communication channel with its stakeholders. In order to maximise the efficiency of that communication, PT has constantly invested in improving its relation with the media and all the professionals in the sector.	Directives issued by the companies Meetings Specialised team dedicated to dialogue
Regulatory and supervisory bodies	In its activity, it is the job of the Regulatory and supervisory bodies to define some of the rules that our companies should apply while developing its relationship with the market. The transparent and continuous communication with these bodies in this matter, is fundamental to the performance of our business, strictly complying with the rules established by them.	Directives issued by the companies Meetings Specialised team dedicated to dialogue
Employees	The human capital is one of the most important assets for the competitiveness of the companies in our Group. Therefore, our human resources policy is applied using a set of tools to promote good working conditions (HSST), the recognition and valuing of our employees, whose professional growth we continuously stimulate.	Employee portal Welcome guide Survey of organisational environment Company agreement Innovation awards Internal Magazine and Newsletter Mentoring programme Performance evaluation 360°
Suppliers	The value of our products and services is, in part, determined by the quality of our suppliers. PT has invested in the process of relationship with its suppliers, integrating in its selection criteria related to integrated management, in order to ensure the applicability of the sustainability principles along the value chain. The signing of fair agreements and the fulfilment of the contract conditions negotiated are some of the demands we have regarding the relationship with our suppliers.	Meetings PT site Specialised team dedicated to dialogue Conduct Manual
Community	PT has consolidated a pro-active attitude in its relationship with the NGOs. A dialogue that has changed into a management exercise regarding social and environmental risks, and which has enabled to know in a more profound and objective way, the expectations and needs the community has in relation to our companies.	Meetings PT site Meetings Surveys

Customers

During 2005, PT continued its orientation towards the market in general, and the customer in particular, strengthening the excellence principles in the relationship and commercial performance that characterize its attitude.

Client's primacy

- > Know the market's needs.
- > Personalize the relationship with the customers.
- > Innovate in the offers to the market.
- > Provide quality services.
- > Ensure transparency and honesty in the commercial relation.
- > Ensure the continuity of service providing.

Customers are for PT the foundation of its existence. Respecting them, providing solutions that are adequate to their needs and ensuring the continuity of service providing, are the points that lead the performance of the various Group's business units towards its customers.

At a national level, PT has 4.5 million customers in wireline, 5.3 million in mobile network, 1.5 million in Pay-TV and 993 thousand in broadband.

To promote the relation with this universe, it is fundamental to exceed its expectations, transform each difficulty into an experience capable of tightening bonds and opportunities, and define marketing and sales strategies, in order to satisfy the growing market demands.

Transparency and honesty are values which are always present in the construction of this relationship, which demands from PT maximum attention regarding the market's needs and an active listening of the opinions of the various customers' segments.

Following the legal framework to which the Group's activity is subject, PT is organised by business units, regarding the wireline, mobile and cable. Each one segments its offer and its customers taking into consideration its nature and communication needs:

- > residential / personal customers;
- > corporate customers (small and medium-sized companies);
- > corporate customers (large companies).

PT's offer to the market incorporates not only the identified communication needs, but also the security of the solutions provided, the rigour of the information given about its characteristics, use, and respect for the values and beliefs of the target group.

In order to safeguard the interests of the younger population, in 2005 PT signed the Code Good Practices in Commercial Communication for Minors of the Portuguese Announcers Association. This code includes a chapter about sanctions for subscribers that violate it, and includes, among others, two fundamental principles:

- > publicity must be legal, honest, decent and true, and must be seen as part of minor's sustained development process, as current and future customers;
- > publicity must undoubtedly be recognised as such, whatever the broadcast channel.

Diversity of offer

Despite being a pioneer in the development and commercialisation of market services – Mimo (pre-paid mobile service) – PT continues to commit itself to presenting innovative solutions, which simultaneously incorporate the technological side and the satisfaction of communication needs demonstrated by its current and potential customers.

The offer of products and services has grown, contemplating a greater diversity of solutions and prices, which also allows them to reach a higher number of clients and a level of satisfaction of their needs' profiles.

PT's offer of products and services is organised in the following way:

- > at home;
- > everywhere;
- > at work.

During 2005, the offer of products and services was strengthened. New solutions related to broadband and mobile services were presented to the market.

These solutions have been developed, tested and commercialized taking into account the technological advance and the knowledge applied over it, as well as responding to the expectations identified in the analysis of market surveys and customer satisfaction, that the Group companies perform on a regular basis. PT worked primarily on extending the offer of solutions and reducing prices.

Policy of respect for consumer's privacy

The progress of the information technologies eases the treatment and exchange of personal data. The PT Group, while national leader of the telecommunications' sector, has based its activity on a strict and scrupulous compliance of national, sectional and European legislation that regulates the protection of personal data.

Confidentiality and the security of consumers' data, access protection and traffic of database information, as well as the confidentiality of the telecommunications' contents, are issues safeguarded in order to respect freedom and the fundamental rights of people.

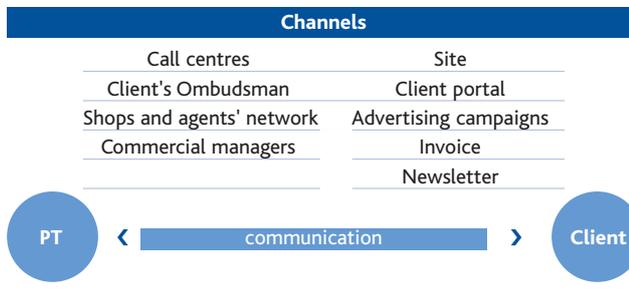
Apart from the compliance with the current legislation, there is a strong involvement of PT's legal team in the analysis of all the situations identified, which are susceptible of weakening the protection of personal data. Audits are regularly performed with the support of security experts.

PT maintains the confidentiality of all communications' data, and the detailed invoicing is only provided to the customer or through a legal request, performed by legal authorities. The detailed invoicing shows the numbers dialled, date, day, value, duration, hour and cost of the call.

Communication with the customer

Communication is seen as fundamental to continue the excellence path in terms of customer orientation. Listening to the needs, discussing solutions and satisfying the customers are PT's aims in its relation with the market.

Therefore, we have a vast set of communication channels that ensure the relationship and information exchange in query handling, in answering complaints, in subscribing services and in discussing opinions with the customers:



Customer support

All of the Group's companies have customer support centres designed to provide a permanent contact 24 hours a day, 365 days a year.

For each customer segment there is a permanent telephone contact network:

Customers' support services 24h/day, 365 days/year		
Wireline	Customer support	16200
PT Comunicações	Corporate support	16206
	Technical support	16208
Mobile	Customer support	1696
TMN	Invoicing	12033
	Pricing plans	800962021
Pay-TV	Customer support	707299499
TV Cabo	Commercial support	808200400
Sapo ADSL	Customer support	707227276
PT Wi-Fi	Customer support	800200181

For each customer' segment PT makes available a site, a virtual shop and/or a customer portal where, any day or time, customers can interact with the Group's business units, and even subscribe services, define user profiles or present a complaint. The group's site, www.telecom.pt, gives access to all business units.

As a complement to these channels, there is also a network of over 100 shops and 500 authorized agents all over the country, as well as keeping the customer ombudsman service – Serviço do Cliente PT Group – that ensures the reception and direction of customers' complaints, by letter, telephone, e-mail or fax.

For corporate customers, all the business units have a network of commercial managers, whose mission is to identify the needs of their segment, being the link between the respective business unit and each of the customers.

Customer satisfaction surveys

All PT's business units survey the market periodically, in order to measure each customer segment's satisfaction. The conclusions from these surveys are analysed and incorporated in the management of products, services and customers.

The surveys are done in the market segments that are not possible to be contacted daily and personally. In general, they obey the following criteria:

Survey target segments

- > Private
- > SoHo
- > Companies (SME)

Type of surveys

- > Welcome call
- > Fault resolution
- > Invoicing resolution
- > Global satisfaction

Because of its commitment to take the excellence path in customer support, during 2005 PT did a comprehensive market survey, in order to measure market satisfaction with the several business units using the following criteria: institutional image; offer diversity; service quality; prices; and global satisfaction.

This research is performed annually, contracted out to an external market survey company, elaborated based on a statistically significant sample for each of the market segments. The average results obtained are subject to the following analytic structure, in a scale of 1 to 10;

- Dissatisfaction area (1.0 – 4.9)
- Satisfaction area (5.0 – 7.4)
- Excellency area (7.5 – 10)

The average evaluation obtained for each business area draws the following profile:

	Wireline	Mobile	Pay-TV
Institutional image	■	■	■
Offer diversity	■	■	■
Service quality	■	■	■
Prices	■	■	■
Global satisfaction	■	■	■

Promotional campaigns

The promotional campaigns for products and services are another communication tool with each of the company's audiences.

Apart from the impact that each campaign may have with its target audience, all the campaigns have a specific e-mail, site and/or telephone number, through which the customer or potential customer can get support, ask for detailed information, or even subscribe the service or product promoted.

The campaigns launched during 2005, were based on promotional, interactive and relational marketing, having used, in part or totally, the following distribution channels:

Above the line	Below the line	Experiential
Television	E-mail	Promotion in selling-point (with demonstration)
Press	Telephone	
Radio	Pamphlets	
Internet	Direct mail	Exhibitions in fairs (with demonstration)
Outdoor		

The campaigns' messages were elaborated in a conscious and responsible way, appealing to the benefits of the brand, the product and/or service. PT avoided advertising or promotional messages that establish comparisons with the competition or show situations that are susceptible of offending Portuguese society's values and beliefs.

Some examples of institutional and product/service campaigns in 2005:



CRM

Conscious that each customer has special needs and distinct perceptions, PT invests in a corporate attitude based on knowing the customer and developing a relationship with each one in particular.

In accordance with the legal framework to which the telecommunications' activity is subject, each of PT's business units has its own CRM platform that includes the specific characteristics of each customer and each one's expectable value for their respective business unit, on the short and the long term.

CRM policy stands on four fundamental pillars:

knowing > trying to know its customers individually

sorting > sorting its customers according to their needs

interacting > investing in deepening the interaction with its customers, by collecting useful information for an effective reinforcement of the relationship

customising > treating each customer with respect for its individuality and specific needs

Forms of payment

Comfort, clarity and transparency are values that PT wishes to ensure all its customers, through the invoice and multiple forms of payment.

Therefore, PT's invoices allow the customer to know in detail its total usage and the corresponding values of the services provided.

The electronic invoice was launched at the beginning of the year, allowing PT's customers to monitor and analyse their usage in a convenient and safe way.

The electronic invoice service will allow customers to receive invoices from the Group's different companies in an electronic format, through e-mail. This way, customers will be able to replace paper invoices by going online and accessing the invoices and consumptions of the last three months.

Advantages of the electronic invoice:

- > a convenient way to access invoice information;
- > an e-mail notice whenever you receive a new invoice;
- > eliminating paper invoices;
- > access to detailed usage information.

The customer can choose from the following forms of payment: at PT shops, at the post office, in ATMs or by bank transfer. This service is made available to the customers of TV Cabo, TMN, PT Comunicações and PT.COM.

Financial community

PT has demonstrated to have one of the most solid financial positions of the European telecommunications sector. This position has been built alongside the relationship with the shareholders and market analysts, with whom PT keeps a dialogue based on rigour and transparency of the information.

As a result of this constant dialogue with the market, the Investor Relations activity was once more considered as a reference by the financial community at a national and international level. It is the recognition of a work that PT develops with rigour for market transparency.

Investor relations' awards

At an international level, PT has been distinguished by the Institutional Investor with two awards:

- > Best CFO of the Telecommunications' sector;
- > Best Investor Relations Officer of the Telecommunications' sector.

Still at an international level, PT has been distinguished in the IR Magazine Continental Europe Awards with three awards:

- > Best Investor Relations Officer in Portugal;
- > Grand Prix (Small and Medium Cap) – Honourable Mention;
- > Best Investor Relations Officer (Small and Medium Cap) – Honourable Mention.

At a national level, PT was awarded in June with two awards from the Investor Relations Awards 2005 organised by Deloitte, Diário Económico and Semanário Económico. The awards received by PT were the following:

- > Report and Accounts, non-financial – Honourable Mention
- > Best Use of Technology in Investor Relations – Honourable Mention.

Since PT is quoted in several financial indexes, there is a vast number of analysts who give opinion on PT's performance in the financial markets. These analysts are naturally associated to the main investment banks worldwide.

Investment Banks and analysts that give opinion about PT

ABN AMRO	Andrew Scotland
Ahorro	Virginia Perez
Santander	Pablo Eguiron
Banif	Teresa Martinho
BBVA	José Ignacio Lopez
Bear Stearns	Jonathan Dann
Bernstein	Mark Cardwell
BPI	Ricardo Seara
Caixa BI	Maria Summavielle
Cazenove	Brian Rusling
Cheuvreux	Francisco De Juan
Citigroup	James Rivett
CSFB	David George
Daiwa	James Enck
Deutsche Bank	Guy Peddy
Dexia	Adrian Zunzunegui
Espírito Santo	Rui Pereira
Exane BNP Paribas	Mathieu Robilliard
Execution	Claudio Alvarez
Fidentiis	James Mckenzie
Goldman Sachs	Michael Meloan
HSBC	Steve Scruton
Ibersecurities	Glen Chapman
ING	Javier Borrachero
Ixis Securities	Benoit Maynard
JP Morgan	David Wright
Lehman Brothers	Andrew Hogley
Merrill Lynch	Jesus Romero
Millennium bcp	Nuno Vieira
Morgan Stanley	Luis Prota
New Street	James Ratzler
Nomura	Christopher Alliott
Société Générale	Aude De Bretteville
Título / Finibanco	Ana Carvalho
UBS	Bosco Ojeda
WestLB	Morten Singleton

Main Indexes where PT stock is considered

Euronext Top 100 Index
 PSI 20 Index
 PSI General Index
 Dow Jones Euro Stoxx Large 200 Price Index
 Dow Jones Euro Stoxx Price Index
 Dow Jones Euro Stoxx Telecom Price Index
 Dow Jones Euro Stoxx Total Market Large Price Index
 Dow Jones Stoxx Large 200 Price Index
 Dow Jones Stoxx 600 Price Index
 Dow Jones Stoxx 600 Telecommunication Price Index
 FTSEurofirst 300 Eurobloc Index
 FTSEurofirst 300 Index
 FTSEurofirst 300 Fixed Line Telecom Services Index
 FTSEurofirst 300 Non Cyclical Index
 FTSEurofirst 80 Index
 FTSEurofirst 300 Index
 S&P Europe 350 Index
 S&P Euro Index
 S&P Europe 350 Industrial Index
 S&P Europe 350 Telecommunication Services Industry Group Index
 S&P Europe 350 Telecom Services Index
 S&P Euro Telecom Index
 MSCI Europe Index
 MSCI Pan Euro Index
 NYSE Composite Index

For more information about each of these indexes, please see annex.

Principles, duties and rules of conduct in the relations with the market

The identity and image of companies are a result, not only of their economic and financial performance, but also of the set of principles, values, behaviours and options taken.

The ethics of a company is the result of the ethics of its employees, which must follow a set of rules and principles of conduct, consolidating a faultless behaviour pattern.

The bigger the company's social importance and visibility, the more important these aspects are.

The Investor Relations are ruled by the directives in PT's Code of Ethics, of which we highlight:

Values to preserve

- > Loyalty
- > Upholding legislation

Rules of conduct

- > Honesty and responsibility
- > Confidentiality and professional confidentiality
- > Conflict of interests
- > Relations with the shareholders

PT's employees must always act in order to protect the shareholders' interests. The Group companies must ensure the protection of the minority shareholders and the duty of information towards all shareholders, so that all may have a fair and equal treatment.

Communication channels used in the dialogue with the market

Given the dimension and demands of the financial market, PT has a specific team dedicated to the relationship with the financial community. This team promotes a daily dialogue with all of these agents, identifying their information needs.

This dialogue is done through several communication channels, of which we stand out the site, the meetings, the conference calls, the conferences and road shows performed during each year.

The site www.telecom.pt has a specific channel for investors and another one for corporate sustainability, through which PT informs the financial community about the relevant data regarding its activity. These channels have a list of telephone numbers to allow the dialogue between the community and the Group's managers. PT also makes available an investor kit, adaptable to each customer's profile.

Apart from the site, in 2005 PT intensified its relations' activities with the investors, organising a vast set of events.

420 meetings were held with analysts and investors, 360 of which were in the ambit of road shows and conferences. The remaining 60 were in the ambit of meetings and conference calls held in PT's headoffice.

It is worth to point out the organisation of six road shows in Europe, including Portugal, and in the United States. The first of these road shows covered 23 cities in 10 countries and the second involved contacts with investors in 9 cities of 7 countries.

Media

The relationship between PT and the media is built daily. In 2005, 16,840 articles were published about the Portugal Telecom Group in the media, 69 of which were front-page news.

Given Portugal Telecom's dimension at a national level and the repercussion of its multiple activities in the market and society in general, the media has shown a big interest in following and publishing information about its reality.

The issues about PT that have had more interest are related to the following areas: economic, international, new products and services and of social responsibility, and intervention in the community.

PT has, with the media, a daily relation of proximity, rigour and transparency and impartiality, ensuring the collecting, processing and broadcasting of information about the Group's activities - in a proactive way and clearing the questions posed.

The interaction between PT and the media is done by e-mail, telephone, press conferences, press releases, face-to-face meetings and through the site www.telecom.pt.

In its site, PT has an area dedicated to the media where one can find all the press releases divulged by the press, the main presentations made about its activity, a bank of images, and the direct contacts of the media relations team, as well as having another specific area about the relations with the investors, that makes available all the relevant financial information releases. During 2005, PT distributed

- > 41 press releases in the investor relations' area
- > 63 press releases about the Group's businesses

and gave origin in the media to

- > 16,840 news

Operating model

The PT Group has a Media Relations team at a corporate level and representatives of this area in each of the Group's companies. In its whole, this team works to ensure the best and most focused information release, allowing a permanent contact channel to both PT's structures and the media.

Regulatory and supervisory bodies

In Portugal, the electronic communications sector has been completely liberalised since 2000. Therefore, its legal framework has been developed towards a scenario of free competition.

In 2002, a new legal framework for electronic communications networks and services was adopted, and it was composed by a set of European directives regarding the telecommunications sector. These directives were implemented into the Portuguese juridical system through Law no. 5/2004 of 10 February (Electronic Communications Law).

In Portugal, there are two bodies in charge of regulating the market and commercial relations in the area of telecommunications.

- > Autoridade Nacional de Comunicações, Anacom (national regulatory body), whose regulatory duties have two objectives: the promotion of competition in the services offered by electronic communications; contributing to the development of the European Union's internal market; and also the safeguard of the interests of citizens.
- > Autoridade da Concorrência (the national authority for competition), whose main purpose is to ensure the observance of competition rules towards the efficient operation of the markets, an effective allocation of resources and the safeguard of the interests of consumers.

At a corporate level, PT has two organic units, which, in turn, have the purpose to interpret the recommendations and deliberations, as well as promote the dialogue between the Group and Anacom and the National Authority for Competition.

For several years, PT has lead the Portuguese market for the telecommunications sector. This fact has made it subject to various scrutinies by the Autoridade da Concorrência. However, PT keeps on investing in infrastructures across the country, in order to ensure a full broadband coverage nationwide at the beginning of 2006. Furthermore, the Company is systematically committed to diversifying its offer by bringing it closer to its customers' consumption profiles.

The Company also maintains an attitude of cooperation with Anacom, participating actively in the various initiatives promoted by this entity.

Employees

The growth and evolution that characterise the history of PT over the last decade have been followed by an intense and increasing investment made by the Group in Human Assets management, using a model based on a culture of merit and the creation of value for the shareholder.

PT has elected its employees as one of the most important audiences for the company's success and competitiveness. Therefore, it has today the models, tools and qualifications necessary to be a reference example internationally.

Codes of principles and agreements signed by PT

- PT's Code of Ethics
- Company Agreement
- Principles of the United Nations Global Compact
- Code of the Union Network International
- Sustainability Letter of the European Telecommunications Network Operators

Management and evaluation tools

- Survey of organisational environment
- Employee portal
- Performance.pt

Employees' Integration and development tools

- Welcome guide
- Mentoring programme
- Mobility programmes
- Training programmes
- Advanced on-line business intelligence system
- Programmes to retain talents

Employee benefits

- Flexible schedule
- Health plans
- Risk management
- Communication channels
- Project Crescer
- Cultural, leisure and food and drink spaces
- Clube PT
- Distribution of shares
- PT's Associação Apoio Social
- End of career

During the last four decades, the companies have had several drivers: the financial assets in the 70s, strategy in the 80s, information technology in the 90s and, today the driver is management of human assets.

In 2005, a letter of commitments for strategic management of PT's human assets was signed. These commitments are related to establishing clear objectives, periodical performance analysis, information and communication of strategic decisions, implementation of programmes to help communicate with the upper management, and access to processes of evaluation of the organisational environment.

In fact, by recognising its employees as the most active and important asset (of its companies), PT has implemented a model of strategic management of human assets common to all of the Group's companies.

The policy of human assets takes into consideration both the Portuguese law and the Global Compact principles, thus promoting respect towards the employees and establishing no differences between genders (male/female), religion or race when it comes to access the Group's work opportunities.

In 2005, PT saw its human assets' strategy recognised by receiving the award - Most Family Responsible Company. This award was delivered by the AESE (School of Management and Business) and by (the) Deloitte, and aims to distinguish the best human resources' practices, in the ambit of family policies, social benefits and professional support.

Profile of the employees

Employees – Portugal



Employees – International



Average seniority (years)



Age averages in the main businesses



Employees per gender (%)



Code of Ethics

Conscious that the companies' identity and image are more and more the result not only of their economic and financial performance, but also of the set of principles, values, behaviour and options that prevail in them, PT's Board of Directors has decided to explicit and formalise the ethical principles to be followed by the Group, through the publication of the Code of Ethics since 2002.

The ethical worries are very relevant to the Group, given the social role they have and the visibility resulting from the activity, the economic dimension and the employment it creates.

The main objectives of the Code of Ethics, are:

- > formalize and explicit the behaviour patterns that are compatible and coherent with the set of principles of the Group, and which we wish to see recognised by its stakeholders;
- > promote the sharing of values and principles defined in the Code of Ethics by all of the Group's employees;
- > consolidate the attitude and the basis that support the relationship between employees, shareholders, customers, suppliers, media and regulatory bodies.

All the employees of the PT Group should act in accordance with rigorous principles of honesty, integrity, dignity, rectitude, professional diligence and integrity, and equity. The disrespect for these principles results in disciplinary procedures whose evaluation is done by the Executive Committee.

The Code of Ethics applies to all of the Group's employees, regardless of the company where they work, their work bond or hierarchical position.

United Nations Global Compact

As a complement to its own Code of Ethics, PT commits itself in following the principle of the Global Report, regarding:

Human rights

- > To support and respect international human rights protection within its sphere of action;
- > To make sure that its corporations have no part in the violation of human rights.

Work

- > To support associative freedom and recognise the effective right to collective negotiation;
- > To support the elimination of all forms of forced labour;
- > To support the complete eradication of child labour;
- > To support the end of job and position discrimination.

Environment

- > To adopt a preventive approach towards environmental challenges;
- > To take initiatives that promote a greater environmental responsibility;
- > To encourage the development and diffusion of environmentally sustainable technologies.

Anticorruption

- > Management activities must oppose all forms of corruption, including extortion and bribery.

Code of Conduct of the Union Network International

After the publication of its own Code of Ethics and the subscription of the Global Compact, PT and its most representative unions have most recently subscribed to the UNI's Code of Conduct of Corporate Social Responsibility, which includes syndical, social and work rights in all of the activities of the Group's companies, nationally and internationally.

Portugal Telecom takes on this commitment formally, which strengthens its compromise to maintain social peace within the Group, having a constant search for the development of its employees' capacities and sharing with the ILO (International Labour Organisation) the great action lines defended by this entity for social and labour rights.

Company Agreement and Parity Committee

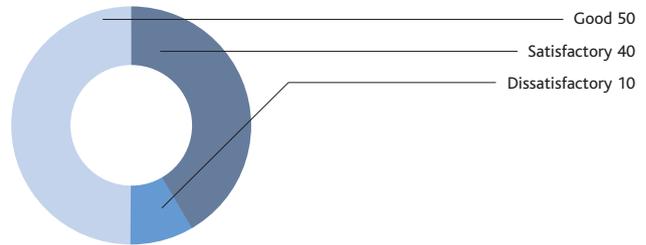
Taking into account the Portuguese work legislation, which is recognised in Europe as one of the most protective of workers' rights, PT Comunicações' Company Agreement is by itself a relevant act of transparency and promotion of equity in employee management.

Subjects such as professional mobility, training, professional categories and remuneration, admittance, progression, work schedule, extra work and night work, temporary lay off, vacations, absenteeism and retirement are some of the issues discussed in full throughout this document, which is revised annually.

In 2005, we highlight the changes regarding work schedules and holiday entitlement.

This document also refers to the policy of free association granted to the Group's employees, as well as to the added rights for employees who have union offices.

Global appreciation of the individual feedback meeting (%)



Base: Employee Universe

The communication and participation of employees in the management of the Company are also safeguarded in this document, which describes the role and operation of the Parity Commission.

This Commission has the power to interpret the clauses of the Company Agreement and carry out any assignments explicitly provided for in the present agreement or added through mutual agreement by all parties.

The Commission is composed of eight representatives of the trade unions and an equal number of Company representatives. The Commission meets on a monthly basis, unless an extraordinary meeting is requested by one of the parties.

At PT Comunicações, 50% of employees are registered in trade unions.

Employee management and evaluation

PT has a set of tools that give each of its employees a global view of their professional life in the company.

Employee portal

The employee portal has existed for a year and a half, and has grown in number of features and allows each employee to decide, choose and approve holiday periods, justify absences and request services, such as travel booking, lodging reservations, renting vehicles and maintenance requests for equipment related to each employee workstation.

The portal can be accessed through the company's intranet and, for those employees who, by the nature of their work, do not have computers in their workstation, there are kiosks in all of the company's buildings.

Performance.pt

The model for Individual Performance Analysis of PT's employees – Performance.PT – consubstantiates a system for the management of the Group's Human Assets, based on a model that is common to all the companies of this corporate universe. Its main objectives are to promote knowledge and mobility, and identify and capture talents.

The Performance.PT platform manages the integration, validation and assessment of all the Group's employees, including interfaces for all those interacting with the platform: employee, assessor and hierarchical superior.

The platform contextualises the assessment model, determining the rank held by the employee in its comparison range. It also has the benefit of storing the information obtained during evaluation process and not just the final result. Employees can also access the portal and view the goals assigned to them. The goals are structured according to the four vectors of the Business Balanced Score Card, Customer/Market, Development and Capability, Financial and Process/Project.

During 2005, this model received new features. Now, besides having self-evaluation and descending evaluation, there is also ascending evaluation.

Similar to what was done in the previous year, in 2005 we completed the process of analysis of individual performance through feedback meetings, from which we obtained the following conclusions, after the presentation of a questionnaire to a sample of the national employee universe:

- > 75% of the employees evaluated were aware of their evaluation process, prior to the feedback meeting;
- > 91% of the employees evaluated consider that the feedback meetings have been prepared in a positive way by the evaluators;
- > 88% of global appreciations regarding the feedback meetings are positive;
- > 80% of the employees evaluated agree with the results of the evaluations.

Employee satisfaction survey

In 2002, related to PT's Strategic Management of Human Assets, the Company began taking the first steps towards understanding, in a systematic way, the actual motivation of its employees, as well as the improvement factors that may keep the whole Group as a centre of excellence even more desirable to work in.

The Group's Executive Committee and its respective companies have been analysing the results of the Organisational Environment Survey and have prepared or strengthened concrete measures which, in a sustained and integrated way, correct the less positive aspects and consolidate the stronger one.

Regarding the Survey done in 2005 we positively highlight the high adoption rate of part of the employees – 63% –, unmistakable sign that the Satisfaction Survey is already a part of the culture inside the PT Group, and the rise of the average appreciation of the organisational environment – 6,9 (in a scale of 1 to 10).

Employee Adoption (%)



Organisational environment (scale of 1 to 10)



The aspects to be evaluated by the employees are related to the following areas:

- > Group;
- > company where they work;
- > communication processes;
- > fulfilment of expectations;
- > products and services;
- > work environment;
- > leadership;
- > capacity to innovate.

Welcome guide

Taking into consideration that the moment of admission of an employee is always an important moment for both the employee and the company, PT has prepared a welcome guide that helps each person to understand and integrate the fundamental information of the organisation, its businesses, its performing conduct, and also the procedures inherent to work situations.

This welcome guide is delivered to each new employee and can also be found in the company's intranet. The contents are organised in the following way:

- > message from the CEO;
- > Group's features;
- > customer guidance;
- > Group's main activities;
- > relationship;
- > respect for the community.

Mentoring programme

Pt has started in one of its companies, PT Sistemas de Informação, a Mentoring programme that aims to improve employee satisfaction, contributing for their better adaptation to the organisation and the market's demands, with the following objectives:

- > improve internal communication;
- > develop leadership capabilities;
- > attract the best resources for the company and motivate the existing ones;
- > allow the identification and promotion of potential leaders;
- > promote the company's culture and the understanding of its values and objectives;
- > promote employees' personal and professional development;
- > allow the management of expectations and problem solving;
- > improve the quality of the service rendered to the customers.

The definition of the mentoring process was based on the identification of key principles, essential to the development of the relation between mentor and mentee. The process is developed according to the following principles:

- > all the employees have a mentor, except for the elements of the Executive Committee;
- > the formal duration of the mentoring period is 3 years;
- > at least two meetings must take place each year between mentor and mentee;
- > the mentee must be proactive in the mentoring relation, asking for the mentor's support whenever necessary;
- > the mentors must have Management, Direction or Senior Management positions;
- > os mentores deverão exercer funções de administração, direcção ou sénior management;
- > if, in 6-months' time, the relation between mentor and mentee does not work, there is the option to change mentor, with no guilt or fault being attributed to any of them;
- > the relation between mentor and mentee is independent from the hierarchical relation between the latter and its direction;

All PT SI employees are involved in this project since the second semester of 2005 and results are expected during 2006. According to the results obtained, this programme may be extended to the other companies in the Group.

Mobility programmes

Taking into consideration the continuous valuing of its human assets, the company has a set of professional mobility programmes.

Move programme

It is an operating mobility programme of strategic values, whose purpose is to ensure, to all who wish to take part, a continuous professional qualification. This programme foresees the mobility inside the same company to new functions, or to another company of the Group.

Swap programme

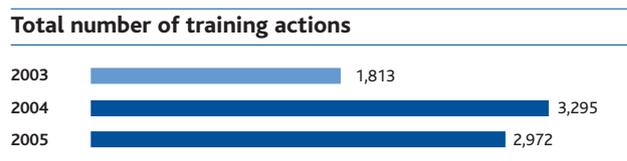
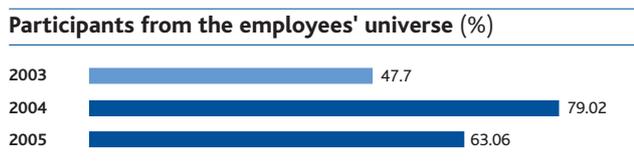
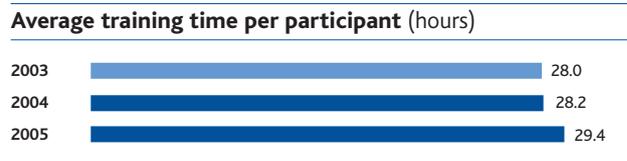
It is an international mobility programme, with a view to qualifying professional paths, through the contact with other cultural and corporate realities, for a period of time that may go from 1 to 12 months.

Click2move! programme

This programme is based on a database created in the self-evaluation of performance platform, through which employees can state their availability and preferences regarding mobility.

International consultancy programme

This programme is destined to recruit and manage resources for international projects of a given duration. The participants have guaranteed return to their previous workplace.



Training programmes

The effect of businesses' globalisation has accentuated the importance of intellectual capital as an organisation's competitive advantage. Therefore, the processes of continuous learning has a direct impact on the companies' performance.

Training is one of the strategic axis of Human Assets management at PT, and has been the subject of increasing attention, since it is perceived as one of the most effective ways of valuing company resources, contributing to a growth in performance and, as a result, to the growth of the Group's value. The purpose of the training programmes is to attract, develop and retain the best talents in the market and in the company.

Several training formats, b-learning and e-learning have been implemented, allowing for a more flexible and complete training for its employees.

The charts above demonstrate the Group's investment in training.

Committed to the dynamisation of a learning organization strategy, PT has been developing and perfecting platforms that integrate the concept of continuous development and learning space.

Sábio platform

The Sábio platform (Advanced System of business intelligence on-line), is one of the spaces created that is being improved, in order to add to the already existing subjects and authors available for all of the Group's employees, features that allow the integration of works developed inside or outside the organisation and that allow discussion forums and sharing of information.

The objectives of this project are simple and of almost immediate return:

- > optimise the preparation and development time for new actions and projects, by providing a structured accessibility of knowledge within the PT Group;
- > help identify specialists and potential sources of knowledge in different performance areas of PT;
- > contribute to the construction of a strong Group culture, regarding the development, availability and intelligent use of knowledge.

The Sábio has 26,500 titles available and registered on average, 12,500 accesses per month, during 2005.

Another development and learning space available is the Campus PT. It is a concept that comprises personal training, supported by e-learning and b-learning methodologies.

Campus PT

Campus PT has today a fundamental role in continuous and strategic training, allowing for the sharing of knowledge, information and experiences in thematic areas from hygiene and safety at work to management and leadership.

In the last year, Campus PT had about 26,000 accesses and 6,000 students enrolled.

Apart from these initiatives, in September 2005, PT signed with the Ministry of Education and the Ministry of Labour and Social Security, a protocol and a cooperation agreement called “Novas Oportunidades” (New Opportunities), whose objective is to promote a higher qualification for the Portuguese professionals.

The programme “Novas Oportunidades” has the purpose to make the end of secondary curriculum as the minimum education for all the company's employees. Therefore, for all the employees who have a education inferior to secondary education, the company will make available a RVCC system - Recognition, Validation and Certification of Qualifications - together with complementary training, so that each one may achieve this goal.

PT is still developing the ECDL (European Computer Driving Letter), a project of computer education, having committed to motivate the professional development of its employees. For this, an awareness campaign is being developed, aiming to mobilise the employees to get the ECDL certificate, which is recognised all over the UE.

Programmes to attract and retain talents

PT has promoted programmes aiming to identify, attract, develop and retain talents, in the sense of ensuring team spirit and leadership among young people who will become and will ensure the company's future.

Trainees programme

The objective of this programme is to attract recently graduated young talents from several Portuguese universities, and integrate them into the company, by promoting the alignment of their personal objectives with PT's.

The integration of this young graduates is followed in order to ensure a training that is adequate to their roles, as well as allowing to confirm the potential of the candidates selected on Job.

At the beginning of 2005, the number of applications for this programme reached 4,300. 140 candidates have been interviewed, 89 of which have been pre-selected and only 43 entered the programme.

This programme lasts for 12 months.

JEP programme

The JEP (Young of High Potential) is a programme that seeks to develop the leadership and management capacities of the PT Group's young staff, which have been recognised for having high potential.

This programme is based on the development of activities and the living of experiences that may increase learning. The JEP itself has a proactive role in the search for opportunities, thus being the main responsible for the programme's success.

The first JEP programme, that used to be called PROJEP, ended three years ago, and 90% of the JEP participants who took part today have positions of leadership or coordination of teams and projects. Most of these are strategic staff with a wider vision and knowledge of the Group. The need to invest more and more on personal development has, therefore, been recognised.

In June 2005, we started another JEP Programme, with 25 youngsters selected from 9 companies of the Group and who, according to the evaluation of their performance, demonstrate to have a high potential. These youngsters will obey a one-year intensive programme, which includes meetings to clear doubts and/or give suggestions with each of the Executive members.

One of the issues approached in this programme was PT's corporate sustainability.

Healthcare Plans

PT ACS is a non-profit-making organisation that, based on one of PT Group's reference values – corporate social responsibility –, ensures healthcare services to a universe of approximately 110 thousand beneficiaries.

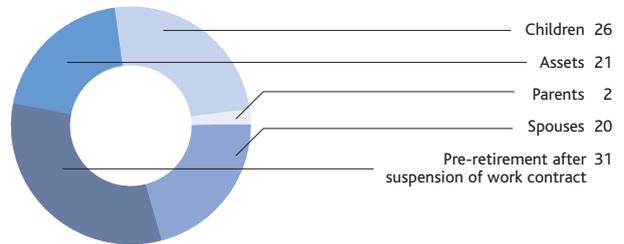
Health, seen as a undoubted right of individuals, gives PT ACS the obligation to manage and promote health care for all of the Group's workers – maintaining and increasing, whenever possible, the global quality of the services rendered - and contribute to raise its satisfaction levels, as a tool to retain and attract human assets in the PT Group.

In this context, PT ACS has the responsibility to ensure voluntary access to the majority of the Group's employees and, in certain circumstances, to their children and spouse, to a vast network of healthcare service providers, promoting integrated, continuous, effective and efficient care.

PT ACS's activity consists of:

- > management of healthcare plans of its associates and internal and external companies from the continent and islands;
- > service provision regarding safety, hygiene and health at work, fulfilling a double orientation: performance of occupational health exams and rendering safety, hygiene and ergonomics services to internal and external companies.

Beneficiaries per kind (%)



Currently, healthcare plans whose management is PT ACS's responsibility, are the following:

- > PT Comunicações Healthcare Plan;
- > Corporate Healthcare Plan – Type I;
- > Corporate Healthcare Plan – Type II;
- > Portugal Telecom – Sistemas de Information (PT SI) Healthcare Plan;
- > CTT Health Plan;
- > Healthcare Plan of the Caixa de Previdência do Pessoal da Companhia Portuguesa Rádio Marconi;
- > Healthcare Plans I and II of DCSI – Dados, Computadores e Soluções Informáticas, (DCSI);
- > Multicert Healthcare Plan – Serviços de Certificação Electrónica.

At the end of 2005, the healthcare plans whose management was PT ACS's responsibility, had 109,890 beneficiaries subscribed, with an average age of 45 years.

Evolution of the number of beneficiaries

2004	108,552
2005	109,890

Providers

The clinical body of PT ACS is distributed over 10,110 places where healthcare services are provided, covering 48 specialities in all of the national territory. In 2005, 660 new places were added, having from that moment on a provider/beneficiary ratio of 1 to 11.

Clinical centres

PT ACS has a network of Clinical Centres in the Portuguese cities: Aveiro, Braga, Coimbra, Faro, Lisboa, Porto, Almada, Castelo Branco, Funchal and Ponta Delgada.

In 2005, 130,508 consultations were performed, having increased the occupation rate from 92.5% to 93.2%.

Distribution of providers by region

Aveiro	7
Beja	1
Braga	6
Bragança	1
Castelo Branco	2
Coimbra	5
Évora	2
Faro	3
Guarda	1
Leiria	3
Lisboa	29
Portalegre	1
Porto	19
Santarém	4
Setúbal	9
Viana do Castelo	3
Vila Real	2
Viseu	3
Açores	1
Madeira	1

Providence of safety, hygiene and health at work

The rendering of SHST services by the PT ACS, comprises a universe of 38,722 workers of several companies of the PT Group and other external ones. This branch of PT ACS performed in 2005, 20,364 health exams.

The SHST services are based essentially on three issues:

Health at work – by performing health exams to all employees, in order to at least satisfy the minimum legal requirements.

Safety at work – by analysing and treating work accidents, programmes to prevent professional risks, internal security inspections, elaborating supports for the activity and training and information actions.

Hygiene at work – through audits for identification of the risks resulting from the exposure to physical and chemical agents and the evaluation of environmental work conditions.

Complementarily, PT ACS develops a relevant activity in the area of employee risk management, regarding the creation and evaluation of work places, environments and systems, in order to make them compatible with the employees' needs and qualifications.

In 2005, the SHST prepared a “Manual of Procedures of Safety and Health at Work”, integrating a set of measures to identify and control the professional risks connected to works with equipment with displays, which involve the manual displacement of cargo, with the risk of fire, and with electrical risk. The Manual also refers the activities to be developed in the ambit of first aid, security signalling and road safety.

Another “Manual of Procedures of Safety and Health at Work” was also prepared, destined to prevent risks arising from works performed in warehouses, switching central, repairing and maintenance workshops, battery rooms, rescue groups' rooms, outside the companies' buildings, with equipment and work tools, dealing with dangerous substances and processes, resorting to portable ladders and stepladders with mechanical moving of cargo and in the proximity of electric equipment.

In the area of prevention of work accidents, a collect a treatment of data was performed, with view to elaborating the “indicators of labour accidents” regarding costs, incidence indexes, frequency, seriousness, work days lost, incapacity, evolution, among others.

In conformity with the preliminary analysis of the accidents, the result was the identification of the kind of work, the kind of accident, the kind of injury and its location, the material agent and the material and personal insecurity conditions.

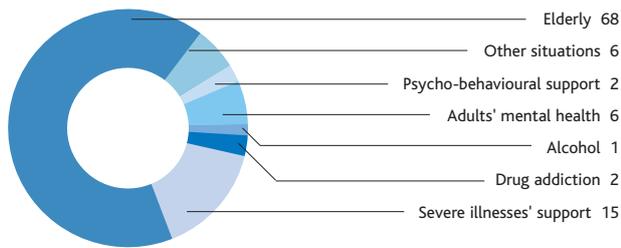
	Falls			Hits	Efforts	False movements	Driving	Bites, cuts pinches	Other	Total
	Same level	Building stairs	Different level							
Wireline	26	16	33	17	31	54	17	–	30	224
Mobile	2	1	1	–	3	7	2	1	1	18
Multimedia	1	1	–	–	1	2	1	–	5	11
Other	10	3	3	3	1	10	8	–	5	43
Total	39	21	37	20	36	73	28	1	41	296

Psychosocial support and ongoing care

The psychosocial support of the population that benefits from the PT ACS aims at the quick and qualified framing of the several situations, in order to overcome the difficulties inherent to the diagnosed pathologies. This objective is possible to fulfil through the development of integrated actions, in a widened partnership, comprising the health and social action areas.

In those areas, PT ACS' activity is centred in different areas: support to the elderly; severe illnesses; addiction illnesses; child and juvenile mental health; and adults' mental health.

Psychosocial – cases being followed (%)



Prevention and quality programmes

Conscious that many of the health problems that cause death and morbidity are related to people's lifestyle, PT ACS, namely through the Prevention and Quality area, has been implementing a strategy to promote health directed at its beneficiaries.

In this perspective and since the state of health is directly related to behaviours, we try to promote the adoption of healthy habits and the changing of harmful conducts, such as drug use (tobacco, alcohol, psychotropic drugs); sedentariness; unbalanced eating (excess of fat and carbohydrates, absence of fibres and vitamins); stress situations; sexual promiscuity; violence; dangerous driving, etc.

Thus, and under the spirit referred above, in 2006, several actions for health education were developed, regarding themes like stress, asthma, diabetes, children safety, ergonomics, nutrition, skin cancer, environment, heat waves, sedentariness and obesity. Many of these actions took place in close articulation with the Espaço Andrade Corvo, in the PT Comunicações' building.

Given osteoporosis prevalence, we thought it positive to do a screening, which took place in the Clinical Centres of Lisbon and Porto. A total of 2,659 beneficiaries responded and took the test, with ages between 50 and 70 years.

Also in connexion with the early prevention/detection, we point out that, since 15 October 1999, there is a breast cancer-screening programme aimed at beneficiaries between 45 and 64 years of age. The programme has a total of 3,588 participants, having been detected 37 new breast cancer cases, which have been taken to surgery. This programme promotes and ensures psychological counselling, aimed at all PT ACS beneficiaries, whether they have adhered to the programme or not.

Regarding health promotion, we have paid attention to the promotion of the rights and duties of patients and we have had a permanent interaction with the users of the health services provided, whether at PT ACS Clinical Centres, or at the health services at work, evaluating their degree of satisfaction, namely through opinion questionnaires.

Excellence awards

Quality of life involves employees and also their families and, in particular, their children, who are a priority. Taking into consideration this spirit and the sense of responsibility in the qualification and traineeships of its human assets and respective children, PT has launched Project Crescer, that awards scholarships, attributes excellence and computer equipment, benefiting those that have better results at school and, simultaneously, have lower family incomes.

During 2005, 674 applications to receive laptops with paid Internet were registered. 333 candidates from all over the country were selected and received the respective computer equipment.

For the academic year of 2004/2005, 184 scholarships have been awarded to the employee's children who have lower incomes and have had good results at school or at university.

During 2005, PT started the process of application for excellence awards for the employees' children who have had good results at school in the 2004/2005 academic year.

Projecto Crescer

Through this project we award scholarships, computers and Internet access to the children of employees with lower incomes.

These measures have the purpose to promote the development of individual qualifications and training of the children of employees with lower income, thus contributing to fight info-exclusion.

Communicate to dynamise Group culture

Knowing how to listen and communicate has been the base to create a fundamental concept to share information and projects and dynamise the Group's culture. This concept was materialised through the creation of an internal communication brand - 'éPT!' - which is a convergence point for a set of communication platforms, like the corporate intranet, the magazine distributed to all employees (which includes the Junior magazine, destined to their children), the monthly newsletter, the 'éPT!' Card and the SMS used to celebrate key moments of the Group's activity.

To add to those platforms and cover a gap previously detected, during 2005, a new support called 'éDirecto!', was launched. This is an internal communication channel with the objective is to bring (the) employees and their upper management professional closer together.

It is a channel that has a telephone number and an e-mail address, and has had a strong interest on the part of the employees. Since it was launched in July 2005 until December the same year, it received 2,250 requests, 97% of which were fully answered.

Clube PT

Clube PT is a centre for culture, sports and leisure, independent from the Group on administrative and financial levels. Its action is done all over the national territory and aims to give its associates the opportunity to better use their free time, through sports, federate or not, development of amusement activities and participation in cultural activities.

PT's social care association

On a social level, PT's Social Care Association has been playing an important role for its 9,000 associates.

Established in 1985, this association provides a wide range of services and activities in very different areas such as training, travelling, day-care centre, centre for elderly people, physiotherapy and recovery, among others.

Distribution of shares

For PT, the company's profits are the result of the commitment from all employees throughout the year. Therefore, the Executive Committee proposed, and the shareholders General Meeting approved, the distribution of a new lot of 40 shares to its employees, as a way to recognise and share the results obtained by the Group.

As a fidelity award, it was decided to give 5 more shares to the employees who had kept the lot attributed in 2004, and another 5 shares for those who had kept the 2003 lot.

End of career management

The end of career management is another area that has deserved PT's attention. Of PT's daily management diary, are part the training programmes, retirement benefits and healthcare, among others, and allow the employees to have a timely planning and time management at the end of their career in the Group.

Suppliers

PT privileges strong and professional relations with the suppliers/partners that work with the Group in the defence of their values and image's reputation and that, in a continuous and sustained way, are capable of presenting innovative solutions, new products and services, which ensure competitive and differentiated advantages.

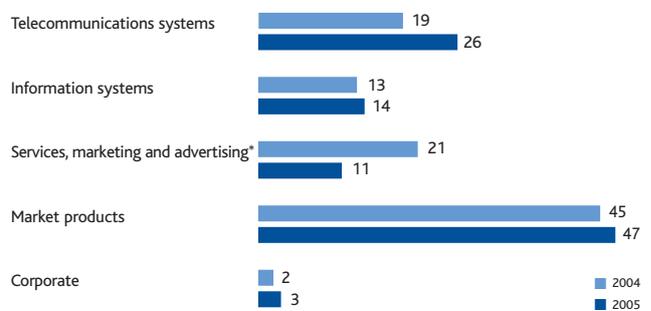
Knowing that the annual purchasing amount it makes generates wealth and economic dynamism in society, PT wants to ensure, through PT Compras, high rigour, transparency and professionalism standards, synonyms with a strong commitment with the market in the constant search for better practices and the capacity to obtain the best solutions with advantages for all those involved.

The regulation and systematisation of the purchase function constituted, for PT, a pillar for the adoption of values, attitudes and behaviour patterns, based on the compliance with strict ethical and professional criteria, creating a solid base of solidarity and trust in the relation with the exterior and promoting its identity and self-esteem inside the Group.

In 2005, the national volume of purchases made by PT Compras was Euro 624.2 million, representing an increase of 38% regarding 2004. This volume of purchases was divided by 432 suppliers and represents 908 market enquiries.

Regarding 2004, we observe the following weight variations in the several negotiation areas in PT Compras:

Purchases per area (%)



* Does not include media buying

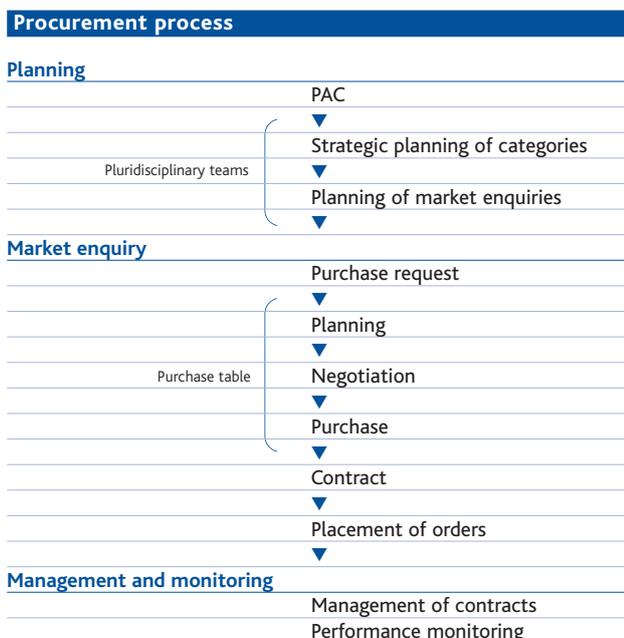
Nowadays, around 10% of suppliers are responsible for 80% of the purchases made by PT Compras, and there are two suppliers with a higher relative weight over 10% of the total national purchases.

The contracts established between the suppliers and the Group companies through PT Compras have complied with all the requisites in the purchase manual, in particular those related to environmental issues, conflicts of interests, confidentiality and keeping delivery and payment prices.

New Procurement Model

In 2005, the PT Group adopted a new procurement model, which reinforces its position as the customers' and suppliers' business partner, with greater emphasis on the creation of value - Value Sourcing Model.

This way, and with a common and collaborative functioning between the procurement area and the Group's companies' user areas, the purpose was that the procurement function could have a broader vision along the whole process, from its strategic planning to the monitoring and control of the contracts, allowing an end-to-end vision of each category.



Principles of the procurement model

- > Guidance, collaboration and team work spirit between the purchase area and the user areas, by sharing information and learning culture which allows the optimisation of this model and getting better results for the Group.
- > Continuous improvement attitude regarding the approach and systematisation of the purchase process, and the search for efficiency and effectiveness for the procurement function.
- > Compliance with the ethical and transparency principles inherent to the procurement function, along with the purchasing process.
- > Respect for the environment.

This model applies to the total amount of purchases by the several business units of the Group, except for:

- > purchases of juridical, fiscal, insurance, financial products, legal certification of accounts and auditing services;
- > purchase of consultancy services regarding the definition of corporate strategy and corporate reorganisations;
- > purchase of buildings;
- > purchase of companies;
- > purchase of audiovisual contents;
- > traffic and interconnection agreements;
- > sales networks commissions.

Additionally, suppliers and service providers are encouraged to be aligned with the ethical principles and values of the Group, namely in the issues regarding information confidentiality, conflicts of interests and respect for human rights and the environment.

In 2006, PT Compras intends to get the quality certification, thus ensuring a more effective management and monitoring of all its processes.

Relationship with suppliers

PT Compras takes on a fundamental role in the Group's strategy, for it allows the creation of value, not only by obtaining significant savings, but also by incorporating appreciations from the direct collaboration with the suppliers.

The relationship with the suppliers is built daily, based on the following principles:

Transparency

All information should be made formally available to potential suppliers in the course of a Procurement Process, ensuring a transparent access to information.

Equal opportunities

During the process of negotiation, equal opportunities are ensured for all suppliers who meet the same criteria, affording a more open relationship between the Group and all suppliers.

Access to information

Every supplier is granted access to any information and explanation pertaining to the negotiations in a clear, complete and cordial way.

Reciprocity and strictness

Both parties must detail the conditions regarding deadlines, prices, payments, purchases and accountability.

Loyalty

All parties involved in the negotiation should take into consideration the goals of the company, striving to meet its requirements in the most profitable and credible manner.

Mutual procurement

Mutual procurement must not condition or interfere with the result of any process of negotiation.

Confidentiality

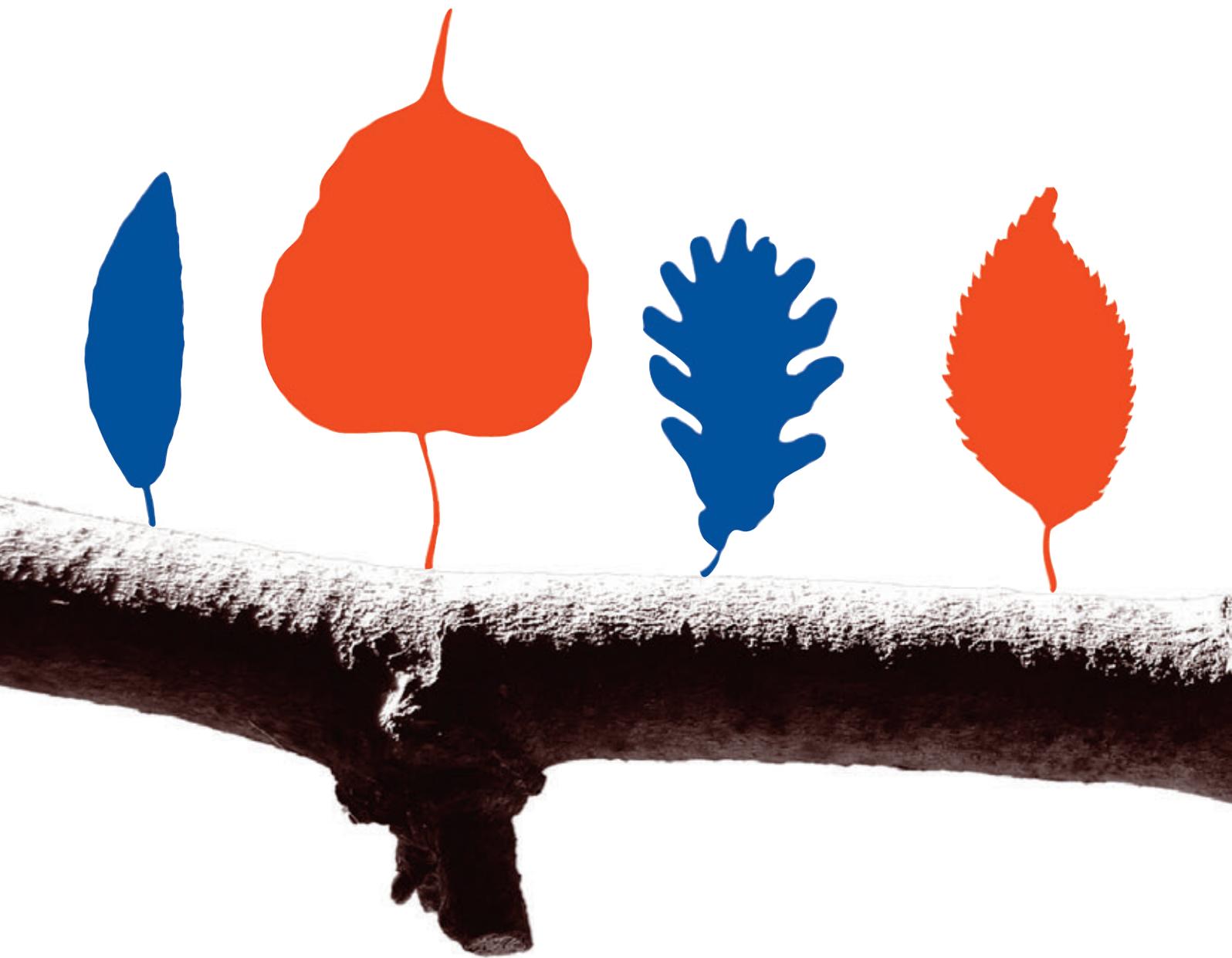
PT Group and its suppliers should maintain strict confidentiality regarding all information exchanged in the course of the procurement process.

www.ptcompras.pt

Apart from the direct contact with all business partners, PT Compras, during 2005, expanded the features in the site www.ptcompras.pt, where each supplier can see not only the information about PT Compras, its organisation and principles, but also have access to a restricted area for suppliers and register in the database. In case they are already registered, they can view and update the information about their registration.

The new site and contact database of the suppliers contribute to strengthen the connection of the PT Group to the supply market, allowing to expand the number of companies enquired for each project and contribute for the constant search for opportunities with a positive impact in the Group's position.

The site has information regarding PT Compras' action towards its suppliers, what is expected from the relation with them in terms of conduct values, proactivity and respect.



Involvement with the community



The Portugal Telecom Foundation is a privately held, non-for-profit institution of public utility. Its main objective is to implement PT Group's social intervention commitment, within the responsibility that comes from being the biggest national communications group, in Portugal, the world and in particular in Portuguese-speaking countries. It was founded by the Holding, PT Comunicações, PT Multimédia, TMN and PT Inovação. The Foundation's activity, as well as that of the Group companies, goes well beyond their core business.

Within telecommunications, there are powerful resources to bring people closer and contribute to improve everyone's life. Therefore, we consider that technology should contribute to benefit society, allowing PT to share value with the community and the environment. This is how PT sees social responsibility. The corporate citizenship policy is a sustainable way to keep an effective relation with society. Companies have noticed that their long-term existence is more and more conditioned by the respect they have for the community where they belong. Construction of an information society, access to communication and information technologies, fight against info-exclusion, support to citizens with special communication needs, art, culture, patronage and support to innovation are some of PT's performance axis through the Portugal Telecom Foundation.

solutions for customers with special needs

Recognising that telecommunications can promote quality of life for people with special needs, Portugal Telecom has taken on, since the beginning of the 80s, an active role in the community's social development, contributing for the improvement of the quality of life of the socially ill-favoured populations. For this, it has prepared a set of telecommunications' solutions adapted to the specific needs of this community.

PT's special solutions, developed and subsidised by the Portugal Telecom Foundation, are a set of equipment and services aimed at fighting info-exclusion of handicapped people, people with severe illnesses and elderly at risk, this way making available all the potential of information technologies. During 2005, PT spent 1,6 million euros in the maintenance and provision of these services.

The products and services for customers with special needs can be found in the chapter dedicated to Knowledge Society and Digital Inclusion.

Protocol with the Calouste Gulbenkian Foundation

The protocol with the Calouste Gulbenkian Foundation has the objective of establishing the basis of cooperation between both foundations this way ensuring the communication conditions needed to support for the programme of PhD in Mathematical and Computational Biology, taking place in the Gulbenkian Institute for Science (IGC) and, in particular, allowing the functioning of the respective co-laboratory.

This programme will take place in the next four years (counting) from the present one, and we anticipate its continuation for three more years.

The support of the Portugal Telecom Foundation will correspond to establishing communication conditions between the IGC and the national and international scientific network, which is the responsibility of the Foundation of National Scientific Calculation (FCCN).

Patronage

The Portugal Telecom Foundation has established patronage and social partnerships with private non-for-profit institutions of social solidarity, in order to contribute for the development of their social missions, ensuring a better support to vast groups of citizens especially needed. In accordance with its motto “Share to promote development” the Foundation has motivated and supported institutions and reference organisations an their initiatives oriented for the spreading of culture and knowledge.

PT Foundation donations	Euro
Serralves Foundation	100,000
Portuguese Communications Foundation	537,000
Foundation Arpad Szenes Vieira da Silva	30,000
Casa Cadaval	3,000
Law Faculty of the Lisbon University	100,000
Juridical Course (110,000 euros), Professorship Portugal/Brazil	43,200
Scholarships for the Cape Verde Republic	1,000
Madeira Autonomous Region	12,000
Association of Corporate Higher Studies (AESE)	25,000

Among the several commitments taken by the Portugal Telecom Foundation, we highlight the protocols of social intervention with solidarity institutions, like the Associação Novo Futuro, the Associação Florinhas da Rua, the LPDM – Liga Portuguesa de Deficientes Motores, the ACREDITAR, the CAIS, the AFID – Associação das Famílias para a Integração da Pessoa Deficiente, the ASBIHP – Associação Spina Bífida e Hidrocefalia de Portugal, the Aveiro Hospital, the Alcoitão Medical Rehabilitation Centre, the Lisbon Brain Paralysis Centre, among others.

Gil Foundation

The Gil Foundation is a charity supporting children at risk. The patronage support of Portugal Telecom Foundation to the action of the Gil Foundation allows this institution to create a reserve bank of multimedia systems, in order to ensure the needs of support to students with severe illnesses in the tele-teaching schools.

National Federation for Handicapped – Paralympics Mission

The support given to the National Federation of Sports for Handicapped, part of the Paralympics Movement, allows this entity to fulfil its goals of mobilising the country for the Movement's general causes, in order to get all the necessary conditions to prepare the Portuguese athletes.

With the participation in this plan, it was possible for these and other entities to fulfil many projects and aspirations, from which the benefits reverted in favour of social development and improvement of the quality of life of citizens with special needs or socially vulnerable.

Institutions that benefited from the support of the PT Foundation

Opposite there is a list of the institutions that received support through the donation of goods, services or financial support during 2005. These supports have as a purpose, the development and sustainability of social intervention programmes and projects done by the institutions regarding its regular activity of supporting people with special needs or in social risk.

Institutions supported by the PT Foundation	Euro
Acapo	1,500
ADVITA	50,000
Ajuda de Mãe	2,900
Ajuda ao recém-nascido	10,000
AMI	10,000
APPACDM	25,000
APAV – Associação Portuguesa de Apoio à Vítima	12,500
Associação dos Bombeiros Voluntários da Ajuda	10,000
Associação Abraço	9,000
Associação Novo Futuro	15,000
CADIN	32,570
Cais	7,700
Centro de Promoção Social de Carvalhais	25,000
Coração Amarelo	15,000
FENACERCI	60,000
Fundação Portuguesa A Comunidade Contra a Sida	6,700
Liga Portuguesa Contra o Cancro	12,900
Liga Portuguesa Higiene Mental	1,700
Narcóticos Anónimos	2,300
Obra Frei Gil	50,000
Ponto de Apoio à Vida	1,800
Raríssimas	10,000
Portuguese society de Esclerose Múltipla	10,000

In order to promote practices and projects of social support, and to motivate the debate, the following events have been supported:

	Euro
Feira Social Lisboa	6,300
Feira da Moita	1,600
Cercilei	1,600

History and patrimony

The programme “Study, preservation and divulgence of historical, technological and documental patrimony of the Portugal Telecom Group”, consists mainly in the studying and preservation of the historical, technological and documental patrimony of the PT Group, its divulgence, and also the elaboration and publication of the “History of Portugal Telecom Group”, as an essential contribution for the history of communications in our country.

With the operating and scientific support of the Universidade Nova de Lisboa – Institute of Contemporary History – with which was signed a cooperation protocol, the PT Foundation has the purpose to deal with all the historical, technological and documental archive of the PT Group, elaborate and implement a policy of divulgence and entertainment in multisupport, including a book about the Group's history, and ensure future accompaniment and updating. The project is foreseen to last for three to four years and involves the continuous participation of a group of investors/treasurers of the Institute of Contemporary History of that university.

During 2005, the following initiatives were taken to develop this project:

Vertente história

- > 40 archives and libraries were consulted;
- > documents were summarised and classified;
- > primary sources and archives, and libraries of the PT Group were investigated;
- > the documentation of the sovereignty organs and Central Government, and iconography, were equally summarised and classified;
- > 30 “working papers” were produced;
- > the Rotary of the Historical Archive of the Documentation Centre of the Portuguese Communications' Foundation was published.

Patrimony area

- > it was given continuity to the record and inventory of pieces belonging to the PT Foundation and deposited in the Portuguese Communications Foundation;
- > started the checking of the patrimony deposited in the Portuguese Communications' Foundations.

Art and culture

The Portugal Telecom Foundation has a collection of contemporary art with around 160 pieces, such as paintings, sculptures, drawings, photographs, installations and videos.

The formation of the collection obeyed a selection criteria related to the aesthetic and historical quality of the works, apart from the artists' curricula.

Taking the 60s through to nowadays as a time frame, the Portugal Telecom Foundation's collection intends to give a wide and continuous vision of the Portuguese plastic contemporary art, through many of the most significant authors in that time interval.

Authors with a connection to movements of the 60s and 70s, like Lourdes Castro, Paula Rego, Alberto Carneiro, Álvaro Lapa, Joaquim Bravo, Helena Almeida, Eduardo Batarida or Jorge Martins, follow artists of the generation born in the 80s with work developed in the following decade, like Júlio Ventura, Pedro Proença, Pedro Calapez, Xana, Rui Sanches, Fernando Brito, Manuel Vieira or Marta Wengorovius, among others.

The presence of some more recent artists, some already consecrated in the 90s, is significant. These are artists like João Tabarra, Rosa Almeida, Cristina Mateus, Miguel Soares or Luís Palma. It is equally important the presence of other artists who will certainly be a reference in this decade, like João Pedro Vale, Sancho Silva, Inês Botelho or Alexandre Estrela.

In the case of consecrated artists, several works of the Portugal Telecom Foundation's Collection have been shared with the community in exhibitions held at Museums and prestigious Foundations (Retrospectives of Eduardo Batarida and Joaquim Bravo in the Centre of Modern Art José de Azeredo Perdigão of the Calouste Gulbenkian Foundation, Joaquim Rodrigo at the Chiado Museum, and Helena Almeida at the Belém Cultural Centre).

The management costs of this patrimony – conservation, restoration, keeping, transport, photographs and preparation of exhibitions – and its artistic consultancy amounted to around Euro 50 thousand during 2005.

Volunteering

Aurora Programme

The Aurora Programme, coordinated by the PT Foundation, is a bank of hours of corporate voluntary work approved in an Executive Committee meeting in October 2002. With the Aurora Programme, the Group's employees have up to 5 days per year, during the normal working hours, to participate in social development projects. These projects, besides being developed by the Portugal Telecom Foundation, may also be presented individually by the Group's employees, being subject to analysis and possible approval. The participation in the volunteering actions does not affect remuneration or the attendance of the worker involved.

Of the 12 volunteering actions done in 2005, we highlight the Christmas supper for the homeless, the visit, with social gathering and entertainment, to the Santa Casa da Misericórdia of Castelo Branco, the visit to the Costume Museum with a group of young adults with mental and/or motor handicap of the Casa de São Vicente, the visits to the Oceanarium with children and youngsters who are in hospitals and solidarity institutions, the Feira das Estrelinhas 2005, which is a social solidarity fair, and the Campaign to Collect Clothes PT Group/CAIS to be distributed by the homeless.

For this programme, in the actions developed in 2005, 330 volunteers were involved, donating a total of 1,612 working hours.

Project Mão-na-Mão (hand in hand)

Promoted by PT, this corporate volunteering movement was the first of its kind in Portugal and was formalised in September 2001. It was born from the availability and commitment of the companies that integrate it to participate in social solidarity actions.

Today, it counts with the participation of PT Comunicações, S.A; Siemens, S.A; Companhia IBM Portuguesa, S.A; INOV INESC Inovação – Instituto de Novas Tecnologias; PT Multimédia; BP Portugal; TMN; Xerox Portugal; Portugal Telecom Inovação; MSFT – Software para Microcomputadores, Lda; Sacentro, S.A.; Novadelta; Sopol; Páginas Amarelas; DHL; Companhia de Seguros Allianz, and is coordinated by the Portugal Telecom Foundation.

The Project Mão-na-Mão is intended for private social solidarity and non-governmental organisations that act mainly in the area of citizens that are victims of social exclusion.

The development of the Project Mão-na-Mão follows the execution of specific tasks, and the signatory companies commit themselves to making available voluntary employees during their normal working hours.

In 2005, 4 actions were developed, in which 55 volunteers participated, offering 790 working hours.

Actions developed in 2005 related to the Project Mão-na-Mão:

- > summer action in the Tamariz beach, with children and youngsters who are in the Alcoitão Rehabilitation Centre, aged between 4 and 18;
- > campaign of the Gil Foundation to collect toys in the Continente supermarkets all over the country, with the purpose to distribute these toys to children integrated in social solidarity institutions;
- > Playful Carnival at Siemens' Canteen, in Alfragide, with children from the Casa do Parque, Casa da Encosta, Casa do Infantado and Associação Protectora das Florinhas da Rua, and elderly from the Santa Casa da Misericórdia of Sintra, with the purpose to give the children/elderly an afternoon of fun, games, painting, dancing and laughing;
- > Easter of the Homeless, with 40 homeless men, lunch and social gathering, which included IBM musical entertainment.

Initiatives 2005

Digital inclusion programmes

The digital inclusion programmes were aimed at young, elderly and individuals with economic or other difficulties. The programmes take place in the national territory and are related to training in the areas of new information technologies, with support in accessing computer and communication equipment. These programmes comprise schools, hospitals, organisations that support children and elderly, and people with special needs (deaf, mute, blind and others).

Centre of Recognition, Validation and Certification of Qualifications

Qualification is a key-factor for more economic growth, more employment and more social cohesion. Therefore, Portugal Telecom, the Ministry of Education and the Ministry of Labour and Social Solidarity signed an agreement to create a Centre for Recognition, Validation and Certification of Qualifications.

The objective is to promote the certification of the qualifications obtained by the employees, regarding the training done within the PT Group. As a complement, it will be ensured an additional training effort, oriented for the purpose to allow the certification of academic and professional qualifications.

In the first year, 500 employees will be comprised.

ECDL

It is a project of computer education in which PT commits itself to motivate the professional development of its employees, through the uniform acquisition of knowledge and continuous training, dynamising a "Learning Organisation".

For that, a new awareness campaign is being developed, with the purpose of mobilising the employees to get the ECDL certificate, which is recognised in all of the EU.

Project Crescer

Through this project, PT awards scholarships, computers and Internet access to the children of employees with lower income.

With these measures, PT aims to promote the development of individual qualifications and the training of the children of employees with lower income, thus contributing to the fight against info-exclusion.

Project Estrela

The Project Estrela establishes the conditions to install a resource centre for education and training at the APPCs all over the country.

In these spaces of the Portugal Telecom Foundation, in each regional nucleus, Special PT Solutions will be made available for people with handicaps, namely with brain paralysis.

PT Minha Voz, in its Grid, IntelliTalk, IntellPics Studio and IntelliMathics versions, is aimed at citizens with neuromotor or dysfunctions, and cognitive deficiencies.

The Project Estrela will benefit a universe of 6,000 children and young.

Internet comes to you

The Portugal Telecom Foundation supports the access to communication and information technologies by taking around the country a bus equipped with computers, that will work as a classroom for those who would like to familiarise themselves with the use of computers and the Internet, without any limit of age or basic knowledge.

With this project, we intend to divulge throughout the country, particularly in less favoured areas, the modern means of communication technologies and, with this contact, stimulate the regular use of the public interest applications with the citizen portal, municipality portal, job search and others.

Computer Connect 2K5

PT supported the new technologies party that took place in the Estádio do Dragão, by making available the widest broadband ever supplied in Portugal.

The event had a Lan Party, where 500 participants were able to take advantage of all the technological capacities, environment and exchange of information inherent to this type of events.

Another activity that took place in the stadium, regarding the Connet2k5, was the national finals of the World Cyber Games Portugal 2005, which will choose 9 national cyber Athletes to be present at the great world finals of this event, known as the e-sports Olympics, in which around 70 countries participate.

Mobile phones for blind people

In response to the challenge launched by the Acapo (Association of Portuguese Blind and Visually Impaired), TMN created a new product oriented for the specific needs of blind and visually impaired citizens. The DIX is a mobile phone much like any other but with a particular aspect that makes all the difference. With a voice synthesis application, the DIX "reads out loud" all the text in the display. It is what we usually call a "display reader".

There are around 140 thousand visually impaired and 20 thousand blind people in Portugal. In this community, the mobile phone is considered to be a very important help and there is an obvious interest in the technologies that allow to them to gain from all its services and potentialities, namely regarding written messages.

With this new TMN mobile phone, everyone can receive and send SMS, thus taking advantage of the several inherent benefits. They can also take advantage of many other useful features, which were not very accessible until now, like the diary, the notebook, the calculator and the clock. The navigation through the menus was also made easier.

PT Escolas

Educate, by inspiring change is the challenge launched by PT to all the students and teachers when promoting the PT Escolas, an ambitious and original project that aims at fighting info-exclusion and contributing for the education regarding information technologies of a whole generation.

With this programme, the PT Group intends to help the educational community and take advantage of all the Internet's potential, promoting its better use, from a merely amusement purpose to an experience of learning and investigation of contents.

In less than 6 months, the Tour PT Escolas mobilised around 30 thousand students from the 7th to the 12th year, integrated in teams from 1,200 national schools. In parallel, in the on-line competition, 20 thousand students from 1,300 teams were involved.

The winning team was from the Colégio Conciliar de Maria Imaculada in Leiria and will become the first School of the Future in Portugal.

Programmes to promote respect for the environment

The programmes in the environment area comprise three types of distinct initiatives.

- > One in the area of collection and recycling: with AMI, in the collecting and sorting of computer waste. And in the reuse of obsolete communication supports.
- > Another in the area of cleaning and education for the preservation of the beaches in the Portuguese coast, directed at children and their families.
- > And another in the preservation of the forest, through the issuing of the electronic invoice.

Electronic invoice

The electronic invoice was a project launched successfully this year, as a result of the intensive work of highly specialised teams.

The subscription of the electronic invoice inhibits the issuing of the paper invoice, allows for the download and local archive and has the same legal value as the traditional invoice.

It is made available to the customers of TV Cabo, TMN, PT Comunicações, PT Prime and PT.COM.

AMI

PT, together with AMI, has prepared an action in defence of the environment, ensuring the collection and recycling of computer accessory equipment. The funds resulting from reselling these products go to national and international solidarity actions.

Portugal Telecom has made available 700 collection points, spread over 100 shops, 86 buildings and 20 cinemas around the country.

This collection includes computer consumables, ink cartridges and tonners (from printers, copiers and faxes) and mobile phones broken or unused.

Clean beach, Safe beach

This is a project of education and environmental awareness for the younger, that promotes the cleaning of beaches through games and didactic actions. Soldadinhos da Areia (collection of garbage and putting it in the right containers); Pesca Fixe (educational game with ecological messages); and the Escolinha Oceânica (education about the preservation of marine fauna and flora).

We highlight the involvement of the children's family, present throughout the whole activity of garbage collection, which insisted on participating actively in the action with the Soldadinhos de Chumbo.

This action took place all over the coast, from the north to the south of Portugal, and involved more than 50 beaches during the summer.

Recycling

Following its concerns at the level of corporate social and environmental responsibility, PT is reusing its communication materials – screens, canvas or flags – non-reusable, in order to place communication at the service of a pedagogical conscience.

Since the PVC screens, canvas and flags cannot be used in future campaigns, they can be transformed in utilitarian design pieces, like puffs, bags, briefcases and notebooks.

Support to sports

In sports, PT makes efforts in the most important sports areas in the national scene.

The three main football clubs, the Volta a Portugal in Bicycle, the Rally of Portugal, the Estoril Open and Match Cup were the activities supported by PT and where the potential of approximation and diffusion of information of the telecommunications' services stood out.

Estoril Open

PT was present in one of the greatest sports events that takes place annually in Portugal, through TMN, TV Cabo, PT Wi-Fi, Lusomundo cinemas and PT Comunicações.

Internet was made available in the whole area through wireless Internet PT Wi-Fi.

Naval Club of Cascais

All the competitions organised by the Naval Club of Cascais:

- > XII Trophy Príncipe D. Henrique "O Navegador"
- > X Trophy S. M. El Rey Juan Carlos Club Races
- > International Sailing Week of Cascais

PT Rally of Portugal

For three days PT was connected to one of the most important car racing competitions.

This connection was made through the technological show of the several Group companies. Situated in the Sponsor's Village, the affluence was great and it provoked a visual show inside the event itself.

The Sapo was also present at the competition. All the credentials of the PT Rally of Portugal had a ribbon with the identification Sapo/ADSL.

Portugal Bicycle Tour

PT Comunicações was once more the technological partner of one of the main sports events, the chief-event of cycling in Portugal.

As the technological partner of the competition, PT Comunicações had the responsibility to install telecommunications' means in the offices and press conference rooms throughout all stages.

In all the press conference rooms there were laptop computers with ADSL access, available to be used by the journalists that covered this sporting event.

PT Portugal Match Cup

The PT Portugal Match Cup is one of the most important regattas in the world of nautical sports.

It is a competition of the match-racing category "the best of five", performed in identical sailing boats supplied by the organisation. It takes place near the coast and the audience, focusing on teamwork and strategy.

It counted on the presence of the best sailors in the world.

Futebol Clube do Porto Sport Lisboa e Benfica and Sporting Clube de Portugal

The PT Group supports these three great Portuguese football clubs.

Having taken on a greater and greater importance in Portugal and in the world, football is a phenomenon that causes impact on several social classes, different ages, on both genders and on all the demographic regions in the planet.

Associated to football are some values of the PT Group: innovation, leadership, quality and passion. It allows the closer relations with the customers, through loyalty actions and attraction of new customers in all the areas of the world. It is an unmatched event that creates empathy and affection, for it "touches the emotions" of our usual or potential customers.

Programmes of intervention in the community

PT's social intervention during 2005 focused on:

- > programmes and events to promote excellence, namely of young talents in the areas of science, music and alternative arts;
- > initiatives to help the calamity caused by fires during the summer all over the country;
- > initiatives of support to the economically ill-favoured, during the Christmas season.

Volunteering

The Aurora is a programme of corporate volunteering promoted by PT.

So, each of the 20 thousand employees of the company is a potential volunteer for actions in this programme.

The functioning of the Aurora programme is based on a bank of hours with an annual credit for each employee, which may vary between 1 and 5 working days.

These days are used for voluntary actions and intervention in the community, during working hours, without loss of income or attendance.

This year 330 employees participated in these initiatives, totalling 1,600 hours of work.

Christmas Supper for the homeless

With the purpose to give more dignity and warmth to people in need of affection, at Christmas, the Comunidade Vida e Paz requests volunteers to help prepare the Christmas Supper.

This action is related to the Programme PT Aurora and counts with the collaboration of 25 employees.

Cais' campaign to collect clothes

This campaign is a result of the partnership established between the PT Group and CAIS, with the profits going towards a set of associations and institutions identified by both entities.

The collection of clothes counts with the participation of the volunteers of the PT Group who, under the Aurora Programme, are available to take part in this action.

Around 200 employees participate and seven tons of clothes are collected.

Food bank against hunger

TMN offered the food bank the possibility to communicate via SMS with the database with no costs, thus promoting the promotion of the campaign to collect food, which took place during the weekend of 26 and 27 November in the Portuguese supermarkets and hypermarkets;

TMN supports the food bank against hunger. "Cooperate in the food collection – 26 and 27 November in malls. More 200,000 people say thank you." This was the SMS sent to thousands of mobile phones.

Project Mão-na-Mão

Created in 2001, by initiative of PT Comunicações, the Project Mão-na-Mão was a pioneering initiative because it gathered in one project with corporate characteristics different entities committed to fulfilling the common goal of taking solidarity and support to more ill-favoured segments of the population.

In April 2005, four new partners, Sopol, Páginas Amarelas, DHL and Allianz Portugal, joined PT Comunicações, Siemens, IBM, INOV, PT Multimédia, BP, TMN, Xerox, PT Inovação, Microsoft, Sacoer Brothers and Novadelta.

This project establishes the necessary conditions in order that the signatory companies may make their employees available for volunteering initiatives to be developed during working hours, with no loss of benefits inherent to retribution and attendance, each company assuming the logistics necessary to fulfil the actions developed.

Ciência viva

This programme is a national initiative to promote scientific and technological culture, and has as guiding principles the involvement of the scientific and academic community in the improvement of the citizens' basic education.

The exhibitions and activities proposed allow the visitor, through interactive modules, to acquire scientific, cultural and economic knowledge.

The emission centres of Monte da Virgem, in Lousã and Monsanto, and the stations in Sintra and Sesimbra will be on the visits route organised in the Pavilhão do Conhecimento, regarding this programme.

Thematic SigMa

To develop the capacities of people and go against the bad reputation of the study of maths, is the purpose of this programme, which was developed by the Science Faculty of Oporto, with the support of the Portugal Telecom Foundation.

It is aimed at to maths students in the 11th year, and ended its first phase on 21 March. The best four students will receive scholarships from the Portugal Telecom and Calouste Gulbenkian Foundations.

The programme involved 42 teachers, 28 schools and 23 young.

Cercilei Congress

Humanise to integrate. The importance of difference in the Ser Pessoa Project was the main theme of this congress, that changed into an ample forum of debate, reflexion and investigation about the issue of child, young and adult deficiency.

With the support of the Portugal Telecom Foundation it was possible to do an on-line transmission of the opening and closing sessions.

Summer fires

As soon as firemen leave the sites, PT's technicians start working. This year, around 400 employees, coordinated by a Crisis Office created for that purpose, worked almost 24 hours a day, committed to ensuring that customers would not be without communications.

Over 144 thousand kilometres of copper wire were replaced, the equivalent to 240 times the length of Portugal; more than 10 thousand poles were burnt; around 150 thousand customers and 204 mobile operators' aerials were affected.

At a time when flames were not yet extinct, the average speed of customer recovery was 2 thousand a day. Regarding the stations burnt, over 93% were recovered in less than 24 hours.

Tsunami

Closer to the important people and helping those who need the most, TMN's customers contributed with Euro 207,709 to help the victims of the tragedy that happened on 26 December in southeast Asia and in some countries in the east-african coast.

This donation and more 5 thousand euros with which TMN launched the initiative, were delivered to AMI, Red Cross and Doctors of the World, three associations with humanitarian missions in the affected territories, during a ceremony that took place in TMN's facilities.

Each of the associations received a cheque of 70.903 euros, having TMN taken the responsibility for the amount related to VAT, in order to deliver the gross amount of the contributions made by the customers.

This initiative by TMN, which took place during the 30th December 2004 and 31st January 2005, consisted in making available the phone number 12,700, for which the customers were able to call or send SMS through their mobile phones, thus supporting this cause in a quick and easy way. The cost of each call or SMS sent was 1 euro.

Offer of 20 dwellings

To face fires or any crisis situation, PT has offered to the National Fire Fighting and Civil Protection Service, 20 houses fully equipped with infrastructures of telecommunications, water, electricity, plumbing and security.

The modular structures may be adapted to different needs, dismantled after its use, being available to be used in other situations.

This initiative is based on a strong sustainability social responsibility policy.

CD – Composto de Mudança

The CD - Composto de Mudança associates the great Portuguese poets to the new composers, actors and singers.

It is a tribute to Portuguese culture in the world, and intends to divulge consecrated Portuguese poets near the young generations. It was produced with an innovative approach, integrating poems by Luís de Camões, Florbela Espanca, Almeida Garrett, Alexandre O'Neil or Ary dos Santos, set to music with pieces of lounge, house, hip-hop e bossa nova.

With this CD, we reaffirm the purpose to innovate, change and improve in favour of the customers and Portuguese society, having attained sales superior to 40,000 units (double platinum).

TMN Garage Sessions

The Project TMN Garage Sessions is intended to give voice to the new talents of Portuguese music, through a contest in which bands or artists that do not have a contract with any record company can participate.

The applications were done at TMN's site and, during the several stages, the twenty best bands were selected by a jury comprised of journalists, radio professionals and record editors.

The winner will have assured the recording of a CD, the presence in one of TMN's campaigns and the performance at the Southeast Festival.

Gil Foundation

This campaign aims to collect new toys, which are then given to children from several social solidarity institutions.

This campaign had the participation of 300 volunteers from the movement Mão-na-Mão and 60,000 new toys were collected.

Promotion of new talents

It is a programme to attract young talents with innovative ideas, which consists in having a case study by finalists in the areas of engineering, computer science and networks.

The best will have access to the "Trainees" recruiting programme and will be able to integrate PT's team.

The aim is that students are champions of change and bring new approaches and innovative solutions into the organisation.

Mix PT World

The Mix PT World is an alternative fair, with the purpose to create commercial platforms for young creators, offering the guidance and logistic support for the commercialisation and exhibition of their products.

The high prices of commercial areas determine the purpose to fill this gap in the "young national commerce", by offering a space for all those who, otherwise, would not have access to it.

A multidisciplinary space that opens to new ideas, products and brands, spreading the new behaviour of a new generation and contributing for the promotion of works by young creators, designers and artists.

ANNEX



Participation in national and international organisations

Information Society

International Associations	Aim
ETNO – European Telecommunication Network Operator's Association	To establish a constructive dialogue between the associated companies and other economic agents involved in the development of information society. It also aims to contribute to the development of policies that may lead to an efficient regulating environment for the European telecommunications market, promoting the development and implementation of the information society.
ETSI – European Telecommunications Standards Institute	A non-for-profit and independent organisation, whose mission is to produce telecommunications standards. It is officially responsible for the development of a set of norms and technical documentation, which constitute a European contribution for ICT's world norms. It is officially recognised by the European Commission and by the ETTA's secretariat.
EUROTEAM – Telefonica Euroteam	Promotion of international cooperation regarding management training with emphasis on telecommunications.
EUSIDIC – The European Association of Information Services	Forum for the study, debate and sharing of knowledge between professionals of the information industry business.
FORINO – Associação para a Escola de Novas Tecnologias	Training in the network telecommunications area, industrial organisation, energy and automation, electricity/electronics, and administration and management.
ICANN – Internet Corporation for Assigned Names and Numbers	World body responsible for establishing the rules of Internet use. With international remit, it is a non-for-profit entity responsible for the distribution of the "Internet Protocol" (IP) numbers, naming protocol identification, control of the system that names first level domains with generic codes (gTLD) and countries (ccTLD). Since it is a mixed capital society, the ICANN is dedicated to the maintenance of Internet's operating stability, the promotion of competition, having a wide representation from the global communities congregated on the Internet.
IEP – Instituto Electrotécnico Português	Organism that acts in the areas of standardisation, quality control, certification, metrology, scientific and technological development and investigation.
IT – Instituto de Telecomunicações	To create and spread scientific knowledge in the area of telecommunications, which implies the development of fundamental and applied investigation activities applied to an international context, in order to raise the level in teaching and training, graduate and post-graduate, and to increase the competitiveness of the Portuguese industry and the telecommunications' operators.
Telemanagement Forum	Identification, development and implementation of practical solutions oriented for the automation and coherence of the operating activities of the telecommunications' operators, particularly in the area on network and telecommunications' services management.
ITU – International Telecommunications Union	Independent and international organisation that promotes joint work between governments and the private sector for the exploration of networks and telecommunications' sectors, and the development of communication technologies. The UIT's objectives are: maintain and expand international cooperation between member-states and improve the rational use of all telecommunications' classes; promote technical support to the developing countries in the telecommunications' area and encourage the development of technical means, in order to increase telecommunications services' profitability and promote the extension of telecommunications' benefits to all the inhabitants in the planet.
WWRF – Wireless World Research Forum	Contribute for the development of an integrated vision of a wireless world, concentrate efforts in the definition of investigation relevant for the future of wireless mobile communications.

National	Aim
Associação Aveiro Digital	Promote the creation of a digital community, congregating all the agents, aiming at sustained development in social, economic and cultural axis, and contributing for the improvement of the citizen's quality of life and well being.
ADSI – Associação Distrital para a Sociedade de Informação (Guarda Digital)	Promotion and demonstration of the benefits of new technologies near the companies and institutions in the region; promotion and support to the launching of projects regarding information society.
ADT – Associação Portuguesa de Desenvolvimento da Telemedicina	Promote the TIO and the communications' perspectives and divulge the problems and techniques regarding telemedicine and telematics applied to health.
AFCEA PORTUGAL – Associação para as Comunicações e Electrónica nas Forças Armadas	Ensures connections to NATO's headquarters, as well as the respective commands and agencies; ensures the connections to telecommunication community's organisations.
AICEP – Associação dos Operadores de Correios e Telecomunicações dos Países de Língua Oficial Portuguesa	Promote close relations between associates, in order to contribute to the harmonisation, development and modernisation of communications regarding the respective organisations.
ANETIE – Associação Nacional das Empresas das Tecnologias de Informação e Electrónica	Defend the interests of the corporate sector of information and electronic technologies and promote its sustained growth.
APCT-P – Associação para o Parque de Ciência e Tecnologia do Porto	Promotion, installation and development of a park for science and technology in the Oporto region, that contributes for scientific investigation and development of the country, with special focus on the area in which it is inserted.
APDC – Associação Portuguesa para o Desenvolvimento das Comunicações	Promote and contribute to the promotion of the reality and perspectives of the communications' sector, for study, debate and divulgence of problems and techniques regarding communication and other such sciences and techniques, for the professional a scientific perfecting of the associates, social gathering and exchange of experiences between the associates and, finally, establish the exchange of activities and services with similar associations.
APDSI – Associação para a Promoção e Desenvolvimento da Sociedade da Informação	Promotion and development of knowledge and information society in Portugal
APDT – Associação Portuguesa para o Desenvolvimento do Tele-trabalho	Promote tele-work in a balanced and socially sustainable way, regarding economy growth and job creation.
APCC – Associação Portuguesa das Empresas de Contact Center	Sponsoring association aimed at promoting the sustainable development of the contact centres' market.
APGC – Associação Portuguesa de Gestão do Conhecimento	Study and promotion of knowledge management, contributing for the improvement of organisation's performance, the country's competitiveness and people's quality of life.
APIDEA	Association of companies and laboratories participating in the PIDEA Programme and give a "label" to the R&D projects that apply for national or community funds.
APRITEL – Associação dos Operadores de Telecomunicações	Promote the dialogue and exchange of experiences between the several telecommunications' operators and between these and public bodies, namely Anacom and DGCC; promote the creation of conditions that help to have an efficient connection between operators and a fair competition.
ASSOFT – Associação Portuguesa de Software	Promotion, defence and divulgence of legality, quality and integrity of software in Portugal.
CITMA – Centro de Ciência e Tecnologia da Madeira	Support to the activities of technological research and development, at a regional level.
EGIDE – Economia e Gestão, Associação para a Investigação e Desenvolvimento do Ensino da Electrotécnica, Electrónica e dos Computadores	Research and development in teaching economy and development.

National corporate associations	Aim
AIP – Associação Industrial Portuguesa	Development of Portuguese economic activities and, in particular, of its associates, in the technical, economic, commercial, associative and cultural domains.
AEP – Associação Empresarial de Portugal	Promotion, development and defence of the corporate and associative activities.
APQ – Associação Portuguesa para a Qualidade	Promote and divulge theoretical knowledge and the experience in the quality area, in order to sensitize all the agents for a continuous improvement of the Portuguese economy's competitiveness.
BCSD PORTUGAL – Conselho Empresarial para o Desenvolvimento Sustentável	Divulge the principles that characterise sustainable development; articulate the cooperation between the corporate community, the managements and civil society, with a view to promoting a sustainable development; promote educational and training actions to divulge the principles of sustainable development; participate in or promote other initiatives that contribute for the sustainable development of the Portuguese corporate universe.
COTEC PORTUGAL – Associação Empresarial para a Inovação	Dynamise the relation between any entities that take part in the National Innovation System, determine innovation policies, stimulate and sensitize companies to invest in research and development, as well as take all the necessary steps that are legally possible, to achieve this associative objective.
ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação	Promote and develop economic, social, scientific and cultural exchange between Portugal and developing countries, especially the Portuguese-speaking ones.
ICAP – Instituto Civil da Autodisciplina da Publicidade	Defence of its associates' interests; support in the for of juridical, economic and financial consultancy; establishment of protocols to obtain special conditions for its associates.

Other associations

National Foundations	Aim
Associação Portuguesa contra a Leucemia	Contribute, nationally, to increase efficiency for the treatment of leukaemia and other such haematological neoplasms, support patients and their families, and promote the progress of scientific knowledge over nature, prevention and treatment of these diseases.
Liga Portuguesa Contra a Sida	Perform studies, screenings and prophylaxis of Aids; dynamise actions to fight Aids; general support to people affected by Aids.
AMTC – Associação para o Museu dos Transportes e Comunicações	Creation and maintenance of a museum for transport and communication, preservation of infrastructures of proven historical interest, creation of a documentation centre and development of public interest in those areas.
Fundação do Desporto	Support the encouragement and the development of sports, particularly regarding high competition.
Fundação Económicas	Carry out, promote and sponsor actions of scientific research, innovation and development of studies related to economic, financial or corporate themes.
Fundação Luso-Brasileira	Promote or support cultural, educational, scientific, corporate and helping initiatives, taking place in Portugal, Brazil and remaining Portuguese-speaking countries and territories.
Fundação Luso-Espanhola	Increase cooperation between the Portuguese and Spanish peoples, contributing for their development through the support, promotion or valuing of actions in cultural, economic, technical, scientific and sports domains.
Fundação Portugal-África	Contribute for the increase of cultural, scientific and educational actions, to be developed in Portugal and Africa, namely close to African Portuguese-speaking countries, aiming at valuing and perpetuating historical and civilisational bonds kept between Portugal and the African countries, with a perspective of progress and projection for the future.
Fundação Portuguesa das Comunicações	Promote the study, conservation and divulgence of historical, scientific and technological patrimony in the communications area.
Fundação Serralves	Promotion of cultural activities regarding all the arts.

Main Indexes where PT stock is considered

Euronext Top 100 Index

The Euronext 100 Index is a market capitalization weighted index of the 100 largest and most liquid stocks traded on Euronext. It represents the blue chip segment of listed stocks on Euronext. The base value of the Euronext 100 index is 1000 as of December 31, 1999. The index was launched on October 2, 2000.

PSI 20 Index

The Portugal PSI-20 Index is a capitalization weighted index of the top 20 stocks listed on the Lisbon Stock Exchange. The index was developed with a base value of 3,000 as of December 31, 1992.

PSI General Index

The PSI General Index is a capitalization-weighted index of all stocks traded on the official market of the Lisbon Stock Exchange (BVL). The index has a base value of 1,000 as of January 5, 1988.

Dow Jones Euro Stoxx Large 200 Price Index

The Dow Jones Euro STOXX Large (Price) Index is a capitalization-weighted index of the large capitalization stocks within the STOXX family and only includes countries participating in the EMU. The index was developed with a base value of 100 as of December 31, 1991.

Dow Jones Euro Stoxx Price Index

The Dow Jones EURO STOXX (Price) Index is a capitalization-weighted index which includes countries that are participating in the EMU. The equities use free float shares in the index calculation. The index was developed with a base value of 100 as of December 31, 1991. This index uses float shares.

Dow Jones Euro Stoxx Telecom Price Index

The Dow Jones EURO STOXX Telecom (Price) Index is a capitalization weighted index which includes countries that are participating in the EMU that are involved in the telecom sector. The index was developed with a base value of 100 as of December 31, 1991.

Dow Jones Euro Stoxx Total Market Large Price Index

The Dow Jones Euro STOXX Total Market Large (Price) Index is a capitalization weighted index.

Dow Jones Stoxx Large 200 Price Index

The Dow Jones STOXX Large (Price) Index is a capitalization-weighted index of the large capitalization stocks within the STOXX family. The index was developed with a base value of 100 as of December 31, 1991.

Dow Jones Euro Stoxx Total Market Large Price Index

The Dow Jones Euro STOXX Total Market Large (Price) Index is a capitalization weighted index.

Dow Jones Stoxx Large 200 Price Index

The Dow Jones STOXX Large (Price) Index is a capitalization-weighted index of the large capitalization stocks within the STOXX family. The index was developed with a base value of 100 as of December 31, 1991.

Dow Jones Stoxx 600 Price Index

The Dow Jones STOXX (Price) Index is a broad based capitalization-weighted index of European stocks which duplicates the Dow Jones Global Indexes Europe Index. The equities use free float shares in the index calculation. The index was developed with a base value of 100 as of December 31, 1991. This index uses float shares.

Dow Jones Stoxx 600 Telecommunication Price Index

The Dow Jones EUROPE STOXX Telecommunication (Price) Index is a capitalization-weighted index which includes European companies that are involved in the telecommunication sector. The index was developed with a base value of 100 as of December 31, 1991.

FTSEurofirst 300 Eurobloc Index

The FTSEurofirst 300 Eurobloc is a capitalization-weighted index of all stocks participating in the EMU that are members of the FTSE Eurotop 300 Index.

FTSEurofirst 300 Index

The FTSE EUROTOP 300 Index is a capitalization-weighted price index which uses free-float. It measures the performance of Europe's largest 300 companies by market capitalization. It closely tracks the benchmark index, FT/S&P-AWI Europe and covers 70% of Europe's market cap. The index was developed with a base date of December 31, 1985.

FTSEurofirst 300 Fixed Line Telecom Services Index

The FTSEurofirst 300 Fixed Line Telecom Index is a capitalization-weighted index that measures the performance of the fixed line telecom industry sector of the FTSE Index.

FTSEurofirst 300 Non Cyclical Index

The FTSE E300 Non-Cyclical Index is a capitalization-weighted index that measures the performance of the non-cyclical services sector of the FTSE Index.

FTSEurofirst 80 Index

The FTSEurofirst 80 Index is designated to represent the performance of the companies resident and incorporated in the European countries which are included in European Monetary Union. It provides investors with an index that measures the performance of the 80 largest capitalised Eurozone companies. The index is calculated in Euros and published in Euros and other currencies.

FTSEurofirst 300 Index

The FTSEurofirst 300 Index is designated to represent the performance of the companies resident and incorporated in Europe. It provides investors with an index that measures the performance of the 300 largest capitalised European companies. The index is calculated in Euros and published in Euros and other currencies.

S&P Europe 350 Index

The S&P Europe 350 Index is a free float market cap weighted index that measures the performance of equities in 17 Pan-European markets, covering approximately 70% of the total market cap. It offers an effective balance between broad market representation and liquidity. The S&P Europe 350 is part of the S&P Global 1200. It has a base date of Dec. 31, 1997 with a base value of 1000.

S&P Euro Index

The S&P Euro Index is a free float market cap weighted index that measures the performance of equities in the Euro Bloc markets, covering approximately 70% of the total market cap. It is a subset of the S&P Europe 350 and provides geographic and economic diversity. The S&P Europe is part of the S&P family of Global Indices. It has a base date of Dec. 1, 1997 with a base value of 100.

S&P Europe 350 Industrial Index

The S&P Europe 350 Index is a free float market cap weighted index that measures the performance of equities in 17 Pan-European markets, covering approximately 70% of the total market cap. It offers an effective balance between broad market representation and liquidity. It has a base date of Dec. 31, 1997 with a base value of 1000. This index is set up to display the 23 GICS Industry Groups.

S&P Europe 350 Telecommunication Services Industry Group Index

The S&P Europe 350 Telecommunication Services Industry Group Index is a free float market cap weighted index. Standard and Poor's offers sector indices based upon Global Industry Classification Standard (GICS). This standard is jointly maintained by S&P and MSCI. It has a base date of Dec. 31, 1997 with a base value of 1000.

S&P Europe 350 Telecom Services Index

The S&P Europe 350 Telecom Services Index is a free float market cap weighted index. Standard and Poor's offers sector indices based upon Global Industry Classification Standard (GICS). This standard is jointly maintained by S&P and MSCI. It has a base date of Dec. 31, 1997 with a base value of 1000.

S&P Euro Telecom Index

The S&P Euro Telecommunications Services GICS Sector Index is a free float market cap weighted index that measures the performance of equities in the Euro Bloc markets. It is a subset of the S&P Europe 350 and provides geographic and economic diversity. It has a base date of Dec. 1, 1997 with a base value of 1000.

MSCI Europe Index

The MSCI Euro Index is a subset of the broader MSCI EMU Index. It was created to serve as the basis for derivative contracts, exchange traded funds and other passive investment products. The index comprises large and liquid securities with the goal of capturing 90% of the capitalization of the broader benchmark. It was developed with a base value of 1000 as of December 31, 1998.

MSCI Pan Euro Index

The MSCI Pan-Euro Index is a subset of the broader MSCI Europe Index. It was created to serve as the basis for derivative contracts, exchange traded funds and other passive investment products. The index comprises large and liquid securities with the goal of capturing 90% of the capitalization of the broader benchmark. It was developed with a base value of 1000 as of December 31, 1998.

NYSE Composite Index

The NYSE Composite Index is a float-adjusted market cap weighted index which includes all common stocks listed on the New York Stock Exchange. The index was recalculated to reflect ptc pl a base value of 5,000 as of December 31, 2002.

Verification statement

SGS ICS

To the Board of Directors of Portugal Telecom, SGPS, SA

Nature and Scope of the Verification

By request of Portugal Telecom, SGPS, SA, SGS ICS performed an independent verification of the Sustainability Report 2005. The scope of the verification, based on SGS's methodology for Sustainability Reports Verification, included the text, the data, the charts and the declarations contained herein. Data from the legally certified financial reports of PT Group's various organisations were not verified at the source.

Responsibility

The Board of Directors of Portugal Telecom Group is responsible for the information disclosed and for setting evaluation criteria. The Board is also responsible for establishing the systems for gathering, classifying, validating and reporting the information. SGS ICS did not participate in the treatment of any information comprised in the Sustainability Report 2005. It is the responsibility of SGS ICS to issue an opinion regarding the suitability of the aforementioned information, based on the independent verification protocol, which was carried out with regards to the scope and the purpose of the verification commitment.

Independence and Competence Statement

SGS Group is a world leader in inspection, assessment and verification services, operating in over 140 countries, with an offer that includes the certification of services, quality, environmental and social management systems, auditing procedures concerning ethical issues, as well as the verification of environmental, social and sustainability reports. SGS ICS asserts its independence before favours, outside influence and conflicts of interests related to PT Group, its subsidiaries and interested parties. The members of the verification team were selected according to their knowledge, experience and qualifications regarding the proposed verification. The team included auditors registered with the Institute of Environmental Management and Assessment (IEMA), the International Register of Certified Auditors (IRCA), Social Accountability International (SAI) and also EMAS Verifiers. The participating verifiers have coordinating auditor qualifications for the performance of certification audits to ISO 9001 quality management systems, ISO 14001 environmental management systems, OSHAS 18001 systems for safety and health management at work, and SA8000 social responsibility management systems.

Verification Criteria and Methodologies

SGS Group developed a set of protocols for the verification of sustainability reports (Sustainability Report Assurance) based on the best practices established by the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the AA1000 Assurance Standard (2003). These protocols are classified into different verification levels, according to the reporting history and the organisational capacity of the reporting company.

The Sustainability Report 2005 was verified in accordance with the level 2 protocol, consisting of (i) the identification of the existence of management control systems supported by organisational policies and resources, (ii) the assessment of the efficiency of the procedures and systems for gathering, classifying, validating and reporting information contained herein, including, whenever necessary, corroborative statements and/or evidence from external interested parties, (iii) carrying out a sample of certain procedures for consolidating the information concerning the reported environmental and social performance, (iv) comparing the included financial information with the information contained in the financial reports from where it was retrieved, (v) interviewing the managers responsible for preparing the information (vi) providing evidence that the fundamental principles of the GRI reporting guidelines (2002) have been considered and applied, and (vii) verifying the fulfilment of the terms required for stating that this report was prepared "in accordance with" GRI guidelines (2002).

Conclusions

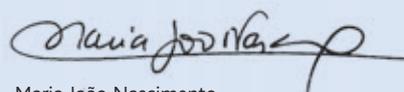
Based on the methodology described above and the work carried out, it is the opinion of SGS ICS that the information and the data included in the verified report are accurate, comprehensive, reliable and provide an adequate representation of the activities of Portugal Telecom Group, in Portugal, throughout a period of twelve months ended in 31 December 2005. SGS ICS states that the Sustainability Report 2005, the object of this verification, was prepared in accordance with GRI Guidelines (2002), fulfilling the 5 requirements necessary for that purpose.

Recommendations

Based on the verification carried out, we identified areas of progress in relation to previous reports, as well as areas for improvement that allow for the strengthening of the context of Portugal Telecom Group's Social Responsibility. The observations identified will be object of the Internal Management Report directed at the Board of Directors of the Portugal Telecom Group.

Let us point out, however, the adoption of the GRI Telecommunications Sector Supplement, dated July 2003, in the 2005 report. Nevertheless, the Portugal Telecom Group should make efforts to progress regarding the adoption of the mentioned supplement, to what concerns the specific indicators included in it.

In representation of SGS ICS



Maria João Nascimento
Executive Officer
Lisbon, 29 June 2006

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n.r. Indicator considered irrelevant.

n.a. Indicator for which information is not available.

GRI Indicators: explanation regarding undisclosed information**EC 4 – Percentage of paid contracts according to the established (n.a)**

Contrary to the compromise made in the previous sustainability report, PT does not yet have elements to report this information, since the implementation of our group's purchasing model, which took place in 2005, still does not allow to get the information required by this indicator.

EN 4 – Indirect energy consumption (n.r.)

PT has chosen not to determine the value of indirect consumption related to its overall energy consumption, as this is already calculated by the power company.

EN 6 – Location of areas with a habitat rich in biodiversity (n.a)

PT does not hold large areas with habitats rich in biodiversity, but our presence is nevertheless noticeable throughout the country. This presence is felt mainly through the aerials and cables installed. However, PT has been implementing a number of policies concerning this matter, as described in the EN 7 indicator.

EN 9 – Use and emission of ozone depletive substances (n.r.);**EN 10 – NOx, SOx and other significant atmospheric emissions (n.r.)**

The information pertaining to EN 9 is already disclosed in EN 8, since primary atmospheric emissions resulting from PT's activity are related to CO₂ emissions. With regards to EN 10, several conversions would be required. However, given the specific requirements of such conversions – concerning the type of fuel and related emissions – PT has chosen not to determine the values for this indicator.

EN 11 – Total amount of waste by type and destination

The values on page 53 regard the amount of alienated waste registered and delivered to certified entities for proper treatment. The total waste produced by the company may be superior to those that have actually reached the specific agents for its collection.

EN 12 – Significant water discharges (n.r)

The water discharges made by the PT Group are associated to sewage conducts that exist in its several buildings. The water used in this way by the PT Group enters the urban sewage system. The PT Group does not count this type of water, nor knows how it is later treated or discharged. Since the Group's main activity does not have direct implications at discharging level, this indicator was considered irrelevant.

EN 13 – Significant spills (n.r)

This indicator is not considered relevant in view of the companies' main activity, despite existing emergency generators in the Groups buildings and, eventually, these may register a spill.

EN 14 – Significant environmental impacts of the main products and services

The use of halons is not quantified in this report.

