

SUSTAINABILITY REPORT

2011

20



PORTUGAL TELECOM





This Report concerns the Portugal Telecom Group in Portugal. The economic, social and environmental data presented result from the consolidation of the reality of the Group's companies.

Portugal Telecom, SGPS

Public Company
Share capital Euro 26,895,375
Registered in the Conservatory
of the Commercial Registry of Lisbon
and Collective Person under nº. 503 215 058

Contacts:

Abílio Martins

Sustainability Committee

Av. Fontes Pereira de Melo, 40
1069-300 Lisboa
Portugal
Tel: + 351 21 500 16 21
E-mail: dcc@telecom.pt
Website: www.telecom.pt

METHODOLOGICAL NOTES



The presentation of this Report obeys the following criteria:

Global Reporting Initiative

Portugal Telecom's enterprise sustainability report is drawn up in accordance with the directives from the Global Reporting Initiative, G3 1, A+ level. The index referring to the GRI indicators is at the end of this Report and identifies the fulfilment of the requirements demanded by the level, relative to profile and performance indicators, including also the telecommunications sector indicators.

Period of the published information

This Report contains data pertaining to PT's profile throughout 2011. PT publishes the company Sustainability Report annually together with the Annual Report, the latest edition of which pertains to 2010.

Scope of the report

The information available pertains mostly to PT's operations in Portugal where the Group holds a stake of over 50%.

Structure and information published

The structure and information published in this Report represent PT's commitment to transparency and sharing policy to the stakeholders, evidencing the targets achieved and the policies adopted in order to guarantee long term business sustainability. This way, PT aims to respond to the issues raised by the market, especially the financial community (investors and analysts) both at national and international level. The identification of the material issues of PT's sustained management, included in this Report, was done in accordance with the GRI principles for defining the content, in particular the principle of materiality, stakeholder inclusion, sustainability context and completeness, resulting in the analysis of the information received from our stakeholders, through the respective communication channels and a sampling survey (please see pages 28-31).

Auditing and truthfulness of the presented data

This Report is subject to a verification process of all the information contained therein, aligned with the GRI directives in what pertains to contents credibility and quality and auditing guidance by an external independent entity.

Criteria used in the presentation of the economic, social and environmental data

The data presented is based on the information systems of the Group and is based on the International Financial Reporting Standards – IFRS, fiscal system, labour and environment legislation, the principles of conduct adopted by the Group, the ten principles of the Global Compact of the United Nations, the AA1000 Accountability Principles as well as the GRI directives.

Suggestions for improvement

This Report incorporates the suggestions for improvement, which are transmitted through the channel open for this purpose at www.telecom.pt. Contribute yourself as well.

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VII. INDEPENDENT EXTERNAL VERIFICATION OF REPORT INFORMATION



PORTUGAL TELECOM



TELECOMMUNICATIONS IN PORTUGAL

REVENUES (EURO MILLION)

Customer segment

Residential		682
Personal	PT Comunicações 100%	768
Enterprise	TMN 100%	982
Other		459

TELECOMMUNICATIONS IN BRAZIL (1)

REVENUES (R\$ MILLION, 100%)

Customer segment

Residential		10,501
Personal	Oi 25.6%	8,190
Enterprise		8,470
Other		746

(1) For the 12 months ended 31 December 2011.

OTHER TELECOMMUNICATIONS BUSINESSES

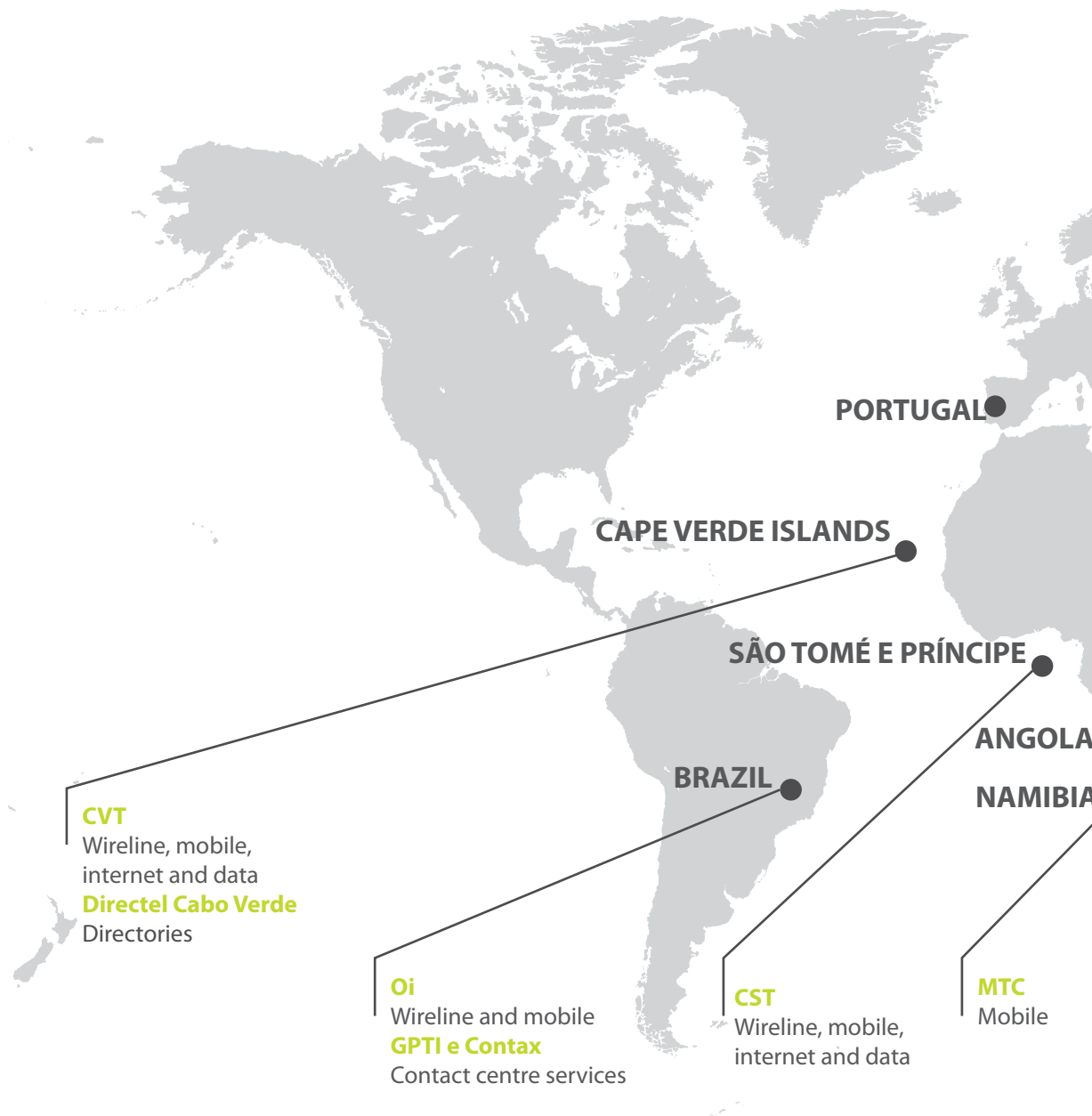
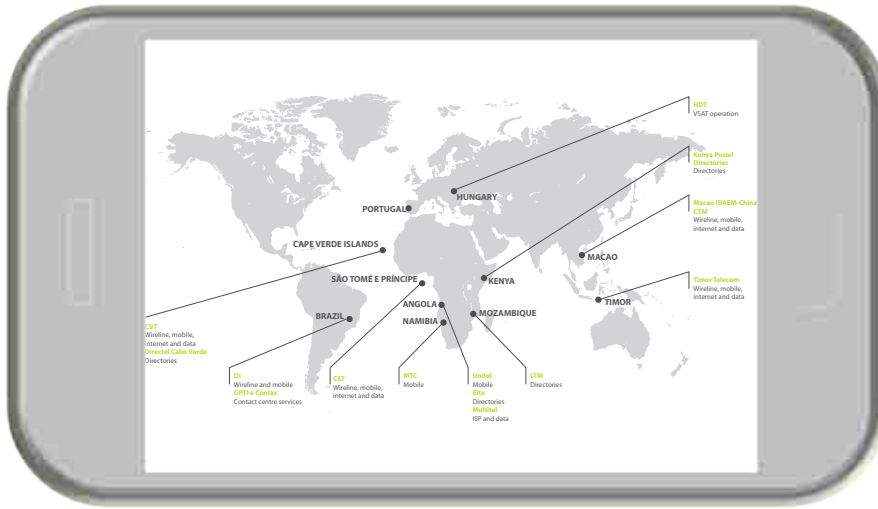
REVENUES (EURO MILLION)

Unitel 25% (a)(b)	Angola	Mobile	1,282
CTM 28% (b)	Macao	Wireline, mobile	356
MTC 34% (a)	Namibia	Mobile	159
CVT 40% (a)	Cape Verde	Wireline, mobile	84
Timor Telecom 41%	East Timor	Wireline, mobile	48
CST 51% (a)	São Tomé e Príncipe	Wireline, mobile	12

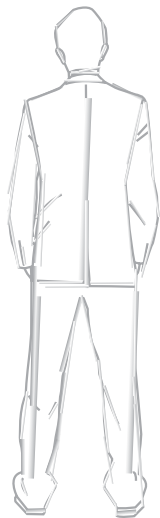
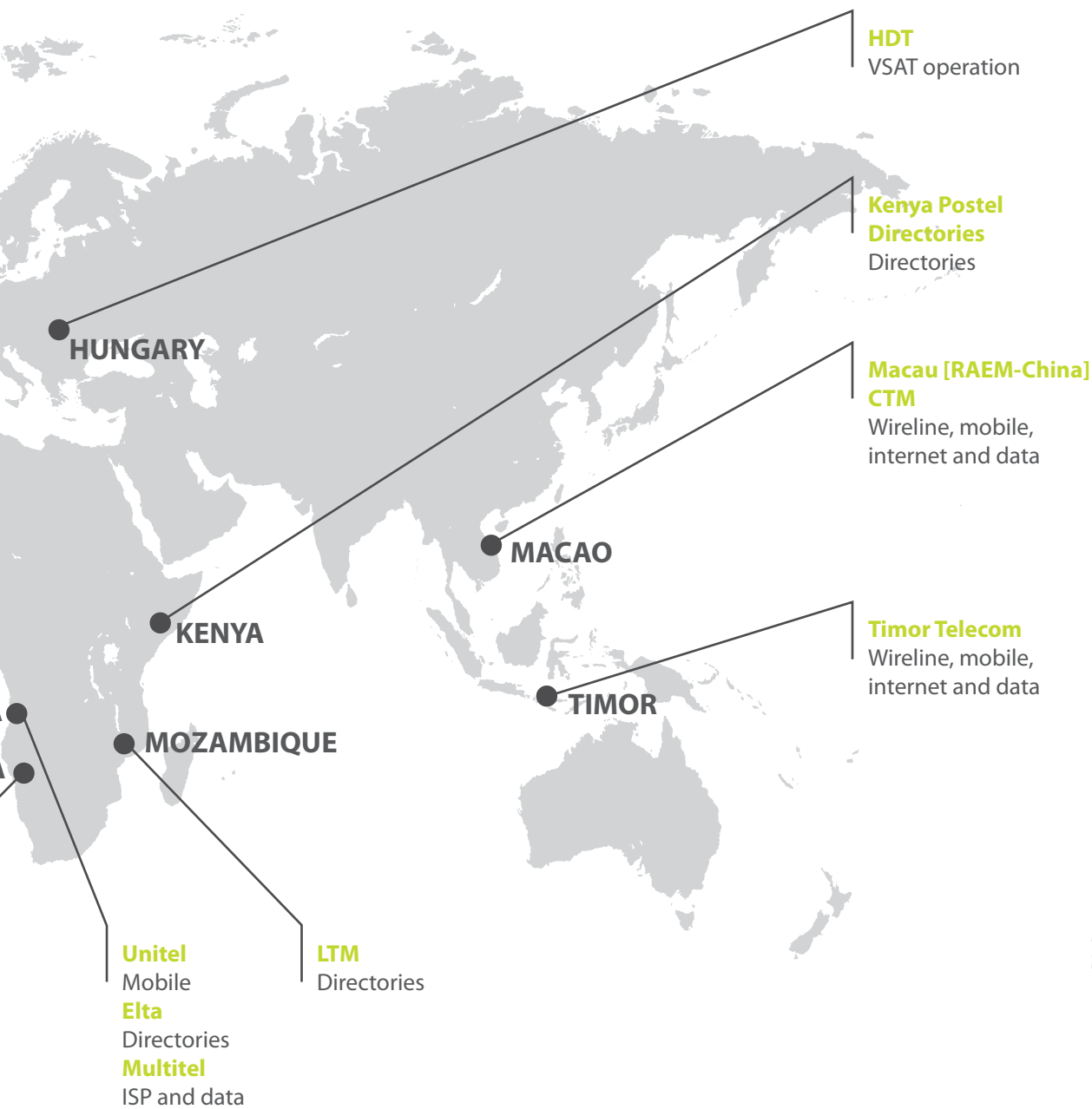
(a) These stakes are held by Africatel, which is controlled 75% by PT. (b) These stakes are consolidated by the equity method of accounting.

OTHER BUSINESSES

Systems and IT [PT Sistemas de Informação 100%]; Innovation, research and development [PT Inovação 100%];
 Backoffice and shared services [PT PRO 100%]; Procurement [PT Compras 100%];
 Call centres and telemarketing services [Contax in Brazil 44.4% and PT Contact 100%].



PORTUGAL TELECOM





After completing this three year period, I would like to share with you all the success and all the difficulties that we found to dignify our company and all our stakeholders in a strongly challenging environment, both nationally and internationally.

The path to sustainability is a commitment that we intend to honour and that we will be glad to walk with you showing you that, in addition to the objectivity and cold numbers that identify our economic, environmental and social performance, we also want to continue to be an active part in building a more inclusive, responsible and environmentally balanced society.

It was an exciting step,

We faced moments of strong socio-economic constraints, of great evolution in the area of the information and communication technologies and huge challenges related to reconciling these facts, with ethics in relationships, environmental preservation and social responsibility.

We updated our Code of Ethics and involved the entire value chain in the implementation of the principles advocated. The issues related to human and labour rights, including equality of opportunities and gender, were further specified in this last review, conducted between 2009 and 2010.

With the evolution of the sector and, consequently, of consumption habits, we started to look at technology not as an end but as a means to achieve it. We tried to always adjust our activity to improve quality of life for people, business for companies as well as environmental balance. We changed the organizational logic of the company to put it at the service of the interests of different customer profiles and strategic objectives to which we are committed. We made structuring investments in terms of next generation networks - Fibre-to-the-Home - and broadband, believing that we laid the foundations for a new way to interact, communicate and work over the next 100 years.

We changed the paradigm: we invested and innovated

Over these three years, we invested significantly in what we believe are the competitive advantages that will ensure sustainability in the future:

Investment

Throughout the 2009-2011, our investment was over Euro 2 billion in Portugal, which represented about 22% of our revenues, and an unequalled investment cycle in telecommunications in Portugal and in Europe.

Infrastructures

We built a fibre network to the home (FTTH) covering 1.6 million homes. This is one of the best and most advanced fibre-optic infrastructures in Europe and in the world, which was recognized in February 2011 by the FTTH Council as the best in Europe. This investment allows us to develop and deliver new services and features to the market and thus secure a commercial offering, which is both more environmentally friendly and socially responsible.

We also pioneered in Portugal the launch of LTE - Long Term Evolution - the fourth mobile generation and have an ambitious investment program, which guarantees not only the largest nationwide coverage as well as an innovative and pioneering offer that enables traffic sharing between two devices.

We are also building a new data centre that will not only become one of the largest in Europe, but also an example of sustainability. It will be located in an interior area of the country where it will create new jobs and will be air-conditioned and powered mainly by wind and photovoltaic energy. It is estimated that this new data centre, compared to the current ones, will reduce its energy dependence by about 40%.

Innovation, Research & Development

With the conviction that innovation is and will be the main factor of market differentiation and future sustainability, we reoriented our organization towards a culture of innovation and research & development. We have created a program - OPEN - in which all employees are invited to participate and provide solutions based on empirical, scientific knowledge and also the fruit of learning and sharing with all our partners - suppliers, customers and universities. This reorientation has earned the recognition by the European Commission, that PT is the company that invests most in R&D in the country.

More environmentally and socially responsible value chain

Together with our suppliers and partners, we began the development and commercialization of ICT services and solutions that induce positive impacts on the environment and society. Home automation, remote monitoring, virtual storage and management of data, pricing plans tailored to all customer profiles, less energy dependence of equipment, as well as platforms and guidelines on the proper use of the new ICT related features are the genesis of the reorientation of our commercial offering.

We paid special attention to the areas related to education, health and safety.

Safe ICT use

The issues related to data security and protection, both for persons and businesses, were also the object of special and increased attention during this three-year period. We prepared, adopted, and extended to our value chain an Information Security Policy adapted to all information and communication systems and technologies.

Additionally, the safe and proper use of information technologies by the young was also a priority. We prepared a national awareness program – Communicating Safely - which we released and implemented in the national school community, and provided guidelines for use and parental control on our websites. With these initiatives, we believe that we are contributing to the dignity of the use of services and content associated with it.

Digital inclusion and literacy

We all recognize that digital inclusion and literacy have shown to be key pillars in fostering new socio-professional opportunities, and consequently, in the progress of the economy and a more responsible citizenship.

The widespread use of information technologies, the increasing diversity of provision of broadband solutions and services and the programs of support to the community, in particular, the groups of citizens with special needs continue to be the focus of the social responsibility initiatives in which we believe and engage more and more.

International participations

This was also a three-year period marked by the acquisition of Vivo by Telefónica and the establishment of a new strategic partnership with Oi. This partnership, supported on the acquisition of a controlling stake of 25.6% achieved in March 2011, will allow PT to maintain a prominent position in the Brazilian telecommunications market and benefit from its high growth potential.

At Oi, together with our partners and the local management team, we are focused on sharing knowledge, experience and technological innovation, hoping thus to contribute positively to the challenges that we will face and to continue to leverage the sustainability of the respective activities and stakeholders who participate, directly or indirectly.

We have been recognized, we are grateful and want to strengthen our confidence

This three-year period was especially gratifying for PT. It is always with great satisfaction and a feeling of increased responsibility that we see our commitment and results being recognized by several national and international external entities.

After a detailed and thorough assessment, conducted by the SAM Group, the sustainable performance of PT was recognized, so we were included in 2010 in the most renowned sustainability index at international level, the Dow Jones Sustainability Index (DJSI). This recognition continued in 2011 so PT became one of five companies in the industry worldwide to be part of this index.

At this time, PT is the only Portuguese company in the sector included in the main international indexes and rankings of sustainable investments, which include: DJSI, FTSE4Good, ETHIBEL Excellence, Global ESG Leaders Index and ECPI Ethical Index.

We are also regarded as one of the 500 most valuable brands in the world, according to an evaluation by Brand Finance.

At national level, we ranked in the top 10 in the Engagement Rating Portugal 2011.

Also, our customers, suppliers and employees recognized the strategy followed and expressed this appreciation through assessment studies conducted by external and independent parties.

These awards, in addition to being a strong source of pride for all of us, are also an excellent incentive to reinforce our commitment to the sustainability strategy assumed and that we want to remain part of the daily management of the company.

This Report, now in its eighth edition, aims to be a space of reflection, transparency and sharing of the impacts of our activity on the economy, environment and society. We have had the ambition to do better each year and to increasingly meet the expectations of our readers.

So I would like once again to express my thanks to all those who have participated in the challenges that we face and to share the summary of the progress and results achieved over the last three years, and in particular in 2011, by publishing this Report, prepared in accordance with the most demanding level guidelines of the Global Reporting Initiative and AA1000.

We will continue to invest in the future: Portugal, the Portuguese and society in general.

Count on us, we will continue to count on you.



Zeinal Bava

Chief Executive Officer





HIGHLIGHTS

2011



1.1. PERFORMANCE AND IMPACTS ON SOCIETY

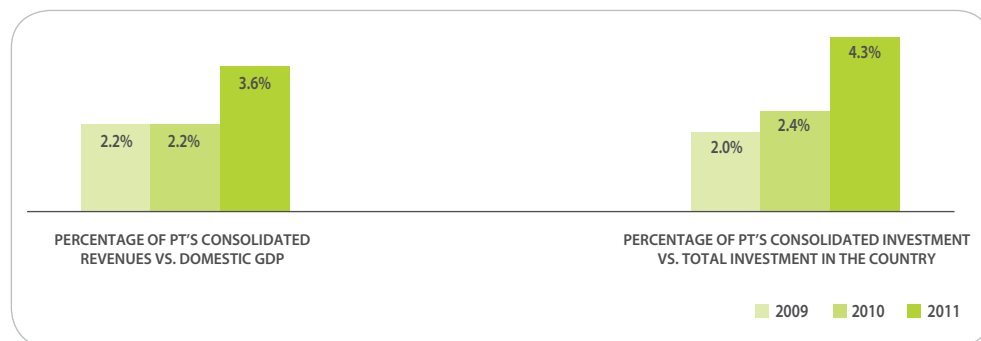
a. IMPACTS IN THE COUNTRY



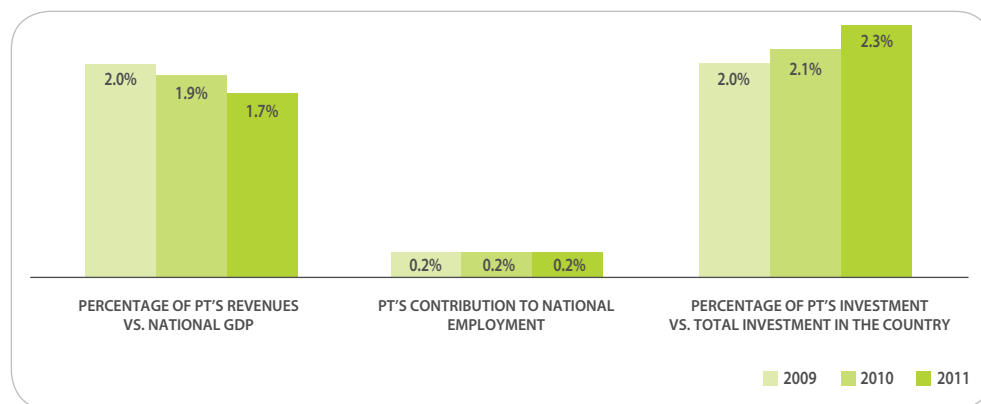
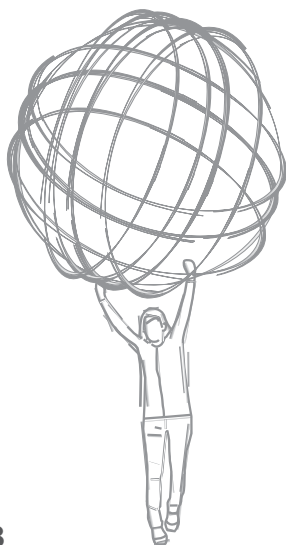
The relevance of our activity to the national economy is evidenced by examining the following indicators:

	2009	2010	2011
Consolidated revenue of PT over domestic GDP	2.2%	2.2%	3.6%
Consolidated investment of PT over total investment in the country	2.0%	2.4%	4.3%
Revenues of PT in Portugal over domestic GDP	2.0%	1.9%	1.7%
PT employees in Portugal over domestic employment	0.2%	0.2%	0.2%
Investment of PT in Portugal over total investment in the country	2.0%	2.1%	2.3%

Note: The source of data on GDP at current prices, employed population and investment/gross fixed capital formation (GFCF) of the country is INE.



Consolidated data of the Group.



PT data in Portugal.

Despite the slight decrease of the contribution to gross domestic product and domestic investment, the company has increased its importance as an employer in the Portuguese business scene.

Furthermore, countering the domestic economic and financial conjuncture during the last three years, PT assumed an aggressive investment strategy, especially in next-generation networks and continued thus to represent an important share of total investment in the country.

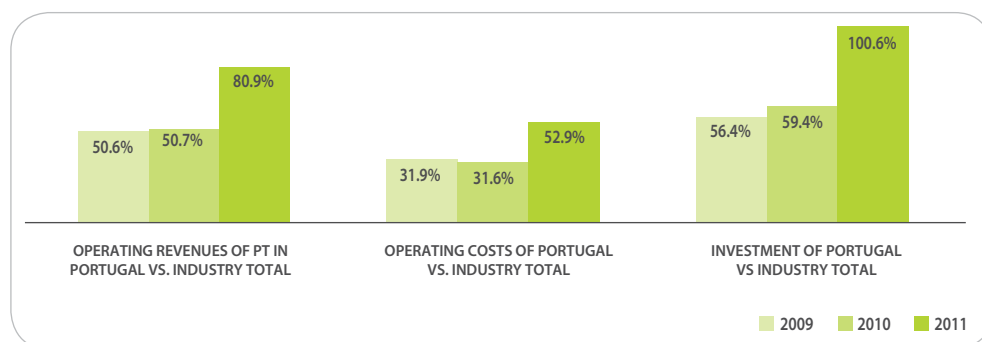
In 2011, we contributed with 1.7% to GDP, 0.2% to employability, and 2.3% to domestic investment - facts that demonstrate the contribution of the PT to the socioeconomic development of the country.

b. IMPACTS IN THE TELECOMMUNICATIONS SECTOR

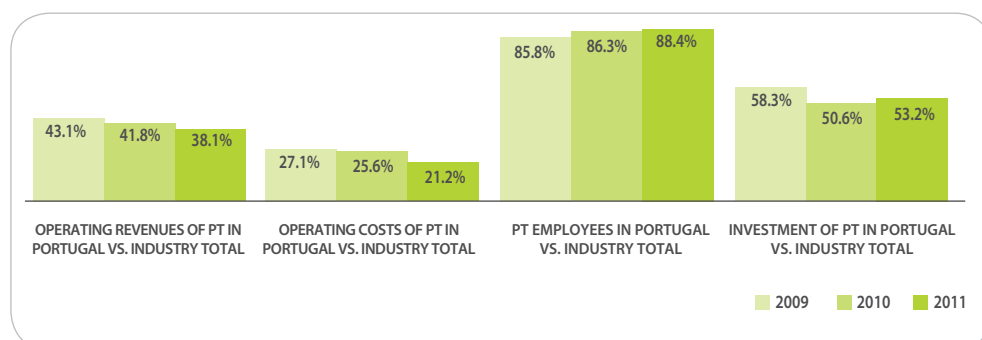
The contribution of our activities to develop the sector in Portugal may be evidenced through the following indicators:

	2009	2010	2011
Consolidated operating revenues of PT over the industry's operating revenues in the country	50.6%	50.7%	80.9%
Consolidated operating costs of PT over the industry's operational costs in the country	31.9%	31.6%	52.9%
Consolidated investment of PT over the industry's total investment in the country	56.4%	59.4%	100.6%
Operating income of PT in Portugal over the industry's revenue	43.1%	41.8%	38.1%
Operating costs of PT in Portugal over the industry's operational costs	27.1%	25.6%	21.2%
Employees of PT in Portugal over the industry's employment	85.8%	86.3%	88.4%
Investment of PT in Portugal over the industry's investment	58.3%	50.6%	53.2%

Note: The reported information is based on the division between the financial information of PT and information of the electronic communications sector from ANACOM. Since industry data is provided with a delay of one year, the industry-information on the previous year and respective corrections incorporated is considered in the calculation of the various items. Data in relation to the sector were obtained from the 2009, 2010 and 2011 editions of ANACOM's Yearbook of the Communications Sector.



Consolidated data of the Group.



PT data in Portugal.



We are the global leader in the telecommunications sector at domestic level. We are the leading sector employer, employing 90% of its employees. We also continue to be the main domestic investor in the sector of electronic communications, representing 59.4% of total investment, although its contribution decreased slightly over the last three years. Highlight should go to the investment effort made in next-generation networks, including FTTH (Fibre-to-the-Home), conducted over these three years and that already covers 1.6 million homes.

INNOVATION, RESEARCH & DEVELOPMENT

At PT we believe that Innovation, Research & Development (IR&D) are cornerstones in the rebuilding of a more solid and sustainable society. Over three years, several projects were launched with the aim to widen access to broadband internet, improve the speed and quality of customer service and provide an increasingly broader range of services that meet the expectations of each person and the balance of the environment.

	2009	2010	2011	Evolution 09/11
Investment in IR&D (Euro million)	213.6	200.0	219.0	3%
Investment in IR&D / Operating Revenue	6%	6%	8%	+2p.p.
Investment in IR&D / Income from Operations	30%	29%	27%	-3p.p.
Investment in IR&D / EBITDA	15%	13%	10%	-5p.p.

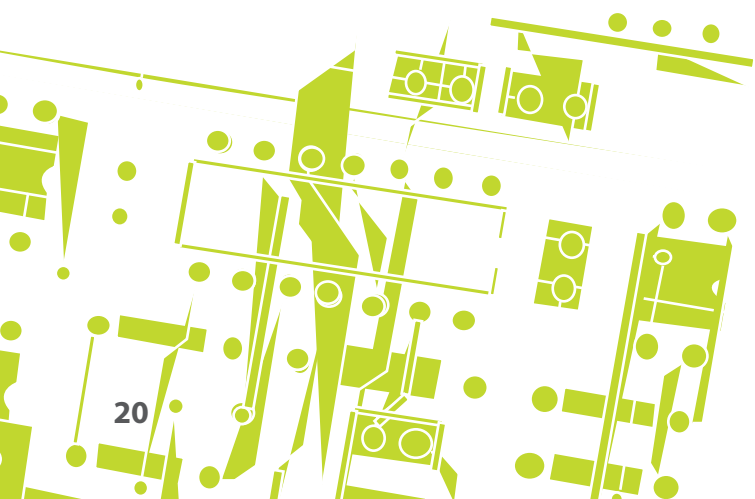
Data from PT in Portugal.

We are the Portuguese company that invested most in IR&D over the past years, according to reports by the European Commission.

C. IMPACTS ON STAKEHOLDERS

SHAREHOLDERS

PT's commitment to its shareholders is the creation of value. In 2011, operating revenues increased 65% over 2009, driven by the growth of operating revenues in these markets and the acquisition of Oi in Brazil. EBITDA (earnings before interest, taxes, depreciation and amortization) benefited from an increase of 41% compared to 2009, justified by the integration of Oi and Contax. Net income decreased 50% during the same period, due to the discontinuation of Vivo. With regard to shareholder remuneration, PT paid a total dividend of Euro 1.30 of which Euro 0.65 correspond to the year 2010, and the remaining portion Euro 0.65 is the exceptional dividend.



	2009**	2010	2011	Evolution 09/11
Operating revenue (Euro million)*	3,733.4	3,742.3	6,146.8	65.0%
% of Operating revenue from operations in Portugal (Euro million)	89.0%	83.5%	47.0%	-
Operating Costs (Euro million)*	2,176.5	2,250.6	3,958.9	82.0%
% of Operating Costs from operations in Portugal (Euro million)	85.0%	78.0%	40.0%	-
Income from operations (million)*	974.7	694.9	803.9	-17.5%
EBITDA (Euro million)*	1,556.9	1,491.7	2,188.0	41.0%
EBITDA generated by operations in Portugal (Euro million)	1,467.5	1,377.6	1,305.5	-11.0%
Earnings before taxes (Euro million)*	892.6	333.2	531.1	-40.5%
Net income (Euro million)*	684.7	5,672.2	339.1	-50.5%
Shareholder return (Euro)*	0.58	1.58	1.30	-

*Data from PT in Portugal. ** Sem VIVO.



CUSTOMERS

PT is committed to building a lasting relationship of closeness, respect and trust with each customer. The last three years were marked by significant improvements in the areas of customer care, provision / installation of services and failures, in line with the suggestions and later subsequent recognition by the market.

	2009	2010	2011	Evolution 09/11
Investment - Capex (Euro million)	770.8	657.2	647.0	-16%
Capex as % of operating revenues	23%	21%	22%	-1p.p.
Customer Satisfaction Index - Residential (1 - 10)	78	7.8	7.9	0.1
Customer Satisfaction Index - Mobile (1 - 10)	8.0	8.0	8.8	0.8
Customer Satisfaction Index - Business wireline (1 - 10)	7.4	7.9	7.6	-0.2
Customer Satisfaction Index - Business wireless (1 - 10)	7.4	7.5	7.6	0.2
Complaints received/1.000 customers (monthly average)	31.7	26.6	30.7	-3%
Time spent on treatment of each one - days (monthly average)	3.9	4.1	2.2	-44%

Data from PT in Portugal.



- In 2011, the response time to customer requests improved significantly and the respective average level of satisfaction increased.
- Customers now also benefit from the results of a study conducted by PwC, which identifies the carbon footprint of each minute of conversation on PT's mobile network.
- Customers now also benefit from a commercial offering that has become increasingly ecologically more appealing.

EMPLOYEES

It should be noted the level of employability assumed by PT, fully countering the national reality. Attracting and retaining talent is very important for us, since the quality and satisfaction of our employees has revealed to be a factor of competitiveness, crucial to business success. In this sense, the HR management process has been renovated and simplified in terms of talent attraction and retention, recognition, development, life/work conciliation, and health and safety of employees, which will yield substantial improvements from the point of view of equal opportunities and gender recognition.



	2009	2010	2011	Evolution 09/11
Employees (thousand)	10,978	10,985	11,180	2%
Retirement benefit costs - PRB (Euro million)	N/A	38.1	53.9	-
Investment in training (Euro million)	3.3	3.2	3.5	7%
Average hours of training per employee	46	41	50	8%
Employee Satisfaction Index	69%	73%	76%	+7p.p.
Beneficiaries of the Safety and Health System	51,986	51,064	50,544	-2%

Data from PT in Portugal.

N/A - Not available

ENVIRONMENT

The PT has become increasingly efficient in terms of resource utilization. Except for energy consumption and carbon emissions, for reasons explained in the chapter "Preserving the Environment", the company recorded significant decreases in the consumption of water and materials, and in waste production. **Their energy efficiency improved, since the traffic increased by 46% per joule of energy consumed.**



	2009	2010	2011	Evolution 09/11
Investment and expenditures in environmental protection (Euro million)	1.0	1.2	2.8	190%
Benefits of the Environmental Management System (Euro million)	0.2	4.4	3.1	1,257%
Carbon Emissions (tons)	177,390	165,620	217,486	23%
Energy consumption (GJ)	1,687,749	1,816,264	1,779,798	5%
Energy consumed derived from renewable sources	40%	42%	26%	-14p.p.
Water consumption (m3)	414,307	285,942	295,950	-41%
Consumption of materials (Ton)	25,393	27,147	24,066	-4%
Waste production (tons)	3,637	3,275	2,980	-18%

Data from PT in Portugal.

The energy consumption recorded over the last three years countered reduction goals that we had set, for the opportunity to invest in next-generation networks, led to lower efficiency in energy consumption. This trend began to reverse in 2011 and will continue in the next three years as the traditional networks are being discontinued.

CO₂ emissions, also varied greatly over the three years, because the energy consumed had incorporated 42% of renewables in 2010, while in 2011, no rain and no wind, caused a greater reliance on traditional, more pollutant energy sources.

SUPPLIERS

PT believes that ensuring a wide base of suppliers, in line with their values, principles and procedures is an important factor for competitiveness and sustainability of everyone's businesses. For this reason, over the last three years, it has been investing in measures that contribute to greater sustainability of its value chain, as well as greater transparency, fairness and accuracy of the purchasing process.

	2009	2010	2011	Evolution 09/11
Distribution of wealth to suppliers (Euro million)*	4,208.20	3,373.0	792.0	-81%
Distribution of wealth to domestic suppliers (Euro million)*	1,065.5	1,282.3	753.2	-29%
Suppliers registered on the Portal	1,083	1,246	1,217	12%
Percentage of domestic suppliers registered on the Portal	89%	86%	87%	-2p.p.
Average scoring of alignment of suppliers with PT	74%	71%	75%	+1p.p.



Data from PT in Portugal.

* The purchase volume decreased significantly in 2011 due to the alienation of the existing operation in Brazil -, VIVO - and the fact that the largest investments in the fibre-optic network (Fibre-to-the-Home) have already been made in previous years.

SOCIETY

The efforts of PT for the development and enhancement of society in the community are based on the commitment to contribute to improving the Information Society and the living conditions of all. This work is embodied, whether in promoting innovation and providing products and services for all audiences, as in fostering digital inclusion, social, educational and professional programs, and the inherent promotion of knowledge, health, safety of persons and property and the environment.

	2009	2010	2011	Evolution 09/11
Payment of taxes (Euro million)	185.9	77.5	108.2	-41%
Investment in promoting the information society (million)	170.7	63.2	49.1	-71%
Corporate Investment in the community (Euro million)	4.5	4.9	4.4	-2%
Hours of corporate volunteering	2,310	1,550	4,354	88%
PT volunteers	379	270	573	51%
Recipients of corporate volunteering programs	4,125	7,500	19,175	365%

Data from PT in Portugal.

MEDIA

PT is one of the Portuguese companies with greater impact on the economy and society at domestic level. The businesses in which it is involved, their contribution to GDP, the number of employees that it has, the number of customers who have shown their preference for PT, the innovation capacity that it has been demonstrating, the corporate social responsibility that characterizes it, the strategy of internationalization that it has pursued, and their exposure as publicly traded company, continue to attract great interest from the media that monitor and regularly publish information on PT's activities. PT has an attitude of relationship with the media of full cooperation and transparency.

	2009	2010	2011	Evolution 09/11
Number of news pieces originating from the media	27,850	52,538	26,430	-5%



Data from PT in Portugal.

Aware that the messages conveyed by the media significantly influence the reputation of any entity, PT has with the media, either international, national or regional, a daily relationship of proximity, rigour, transparency and impartiality, ensuring the collection, processing and dissemination of information on the Group's activities - either proactively or clarifying the issues addressed by those.

CONTRIBUTION OF THE SUBSIDIARIES TO THE ECONOMIC DEVELOPMENT OF THEIR RESPECTIVE COUNTRY

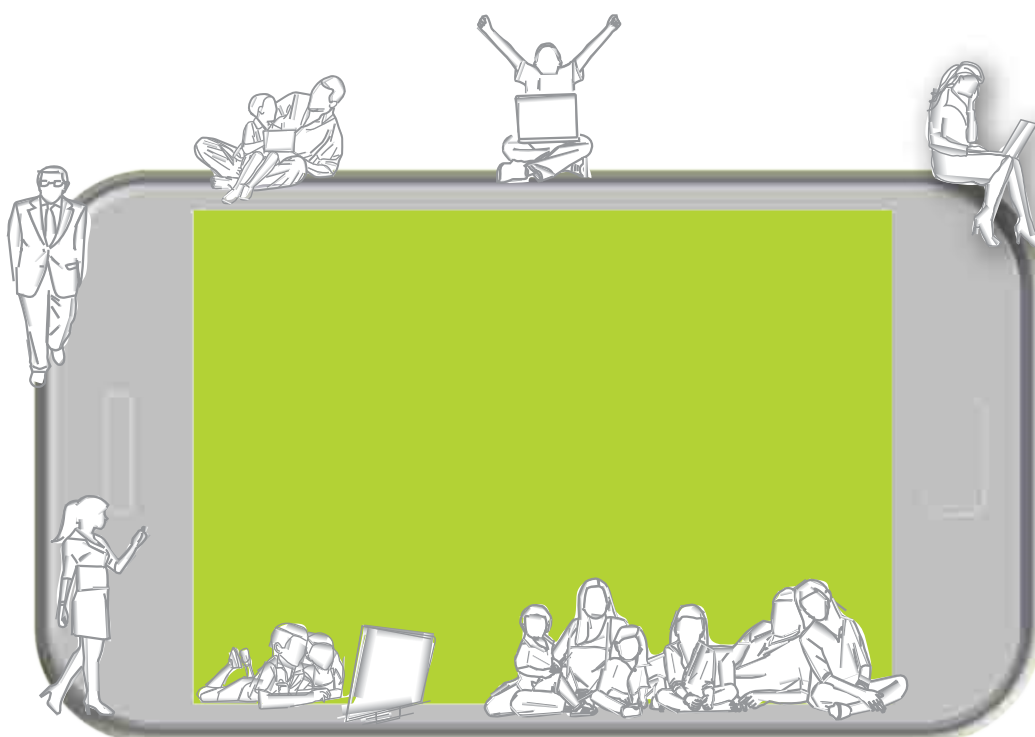
The consolidation of the international presence of PT transfers significant economic, environmental and social impacts to the sphere of responsibility for the Group. Despite the heterogeneity of the markets where the subsidiaries operate, and the respective cultural identity that PT makes a point of respecting, it is important to measure the contribution of each to sustainable development of their country of origin.

Accordingly, the following table shows the contribution of each company to the creation of wealth in the countries where they operate.

	2009	2010	2011
Unitel - Angola	2%	2%	2%
MTC - Namibia	2%	2%	2%
CVT - Cape Verde	6%	7%	6%
CST - São Tome & Príncipe	9%	9%	8%
CTM - Macao	1%	1%	1%
Timor Telecom	8%	8%	9%

Conversion rate of each currency to Euro, at the rate of December 31 of each year.

Note: The GDP information source of all these countries is the World Bank, the Bank of Portugal and the Global Finance. The calculations have been redone over the previous year, to reflect the final figures.



1.2. AWARDS AND HONOURS

1. SUSTAINABILITY

Dow Jones Sustainability World Index (DJSI)

PT remained in the DJSI World and European indexes. It is one of five telecommunications companies, globally recognized for their best practices in sustainability, included simultaneously in the two indexes of reference in the area of sustainability: FTSE4Good and DJSI.

FTSE4Good

PT maintained the recognition and remained listed in the FTSE4Good.

STOXX ESG Leaders

PT entered this index for the first time.

The STOXX Global ESG Leaders indexes are a group of global sustainability indexes based on a selection process that is fully transparent and based on clear rules, applied by Sustainalytics.

Sustainability Yearbook

PT was internationally awarded Gold Class in the Sustainability Yearbook 2011 and Silver in the Sustainability Yearbooks 2010 and 2012, according to the SAM Group (Sustainable Asset Management), thus marking their presence in the list of world leaders in sustainability.

Sustainable Development Award, Heidrick & Struggels and *Diário Económico*

PT receives Excellence Award as recognition for the excellence of their practices.

Global 1000 Sustainable Performance Leaders

PT one of the best 1000 companies in sustainable performance - (140th).

Information Society Awards

Association for the Promotion and Development of Information Society gave the award to Zeinal Bava as "Personality of the Information Society" in 2010.

Engagement Rating Portugal 2011

PT in the Top 10 ranking - 6th place

This ranking is based on the Accountability Rating, a methodology that evaluates business practices of sustainability and their impact on the economy, society and environment.

Ethibel Excellence Investment Register

PT is identified in this index, which highlights the best companies in their respective sectors in terms of sustainability and corporate responsibility, among areas and regions.

ECPI – Sense in Sustainability

PT is a constituent of the R ECPI R Indexes - Investments in ESG.

Assessment of the performance of companies in ESG.

Grand Prix APCE 2011

. Winner in the category "Sustainability Report"

. Winner in the category "Communication Campaign for Social Responsibility"

The grand prix of the Portuguese Association of Corporate Communications (APCE) aims to honour excellence in organizational communication strategy.





2. CUSTOMERS

Call Centre Award 2011

Honourable Mention in the category "Social Responsibility" in Call Centre.

International Business Awards

Honourable Mention in the category Customer Service Department of the Year.

Top Ranking Performers Awards (EMEA)

5th place in the category Best Customer Service (In-house Contact Centre).

4th place in the category Best Outbound Campaign.

6th place in the category Best Incentive Scheme.

Information Society Awards

Association for the Promotion and Development of Information Society gave the award to Zeinal Bava as "Personality of the Information Society" in 2010.

ANACOM study to assess the quality to mobile networks

TMN, as mobile operator in Portugal, is considered to have the best global coverage, both in 2G, and in the 3G network that supports the Mobile Broadband service.

3. HUMAN RESOURCES

Most family-responsible Company

Distinctive and innovative initiative carried out by AESE (Business School) and Deloitte.

World Awards 2011

Top Performers Gold for Best Recruitment Campaign.

Top Performers Bronze for Best Community Spirit.

4. BRAND

Brand Finance - Study 500 'most valuable telecom brands in the World', 2011

PT in 72nd position in the ranking of the 500 most valuable brands in the world.

Brand Valuation Forum - Ranking of the 50 most Valuable Portuguese Brands

PT in the Top 5 Most Valuable Portuguese Brands

Trusted Brands 2011

Sapo - Internet Service Providers

TMN - Mobile Networks

5. RESEARCH & DEVELOPMENT AND INNOVATION

FTTH (Fiber-to-the-Home) Innovation Awards

PT receives award for Innovation in the "Deployment and Operation of FTTH Networks", corresponding to the best and most innovative fibre network implementation

Top Ranking Performers Awards

Gold in the category of Best Technology Innovation (In-house contact centres) - EMEA

PT Customer Area wins silver in the category "Best Contact Centre Technology Innovation" at world level

Ranking of the European Commission of Portuguese Companies that invest in R&D

PT ranked as the Portuguese company that invested most in R&D in 2010.

6. SUPPLIERS

Lewis E. Spangler - Purchasing Professional Award

PT Compras winner in the area of corporate purchases in 2010.



MANAGING WITH ETHICS AND RESPONSIBILITY





MANAGING WITH ETHICS AND RESPONSIBILITY

1. SUSTAINABILITY STRATEGY

1.1. ETHICS AND RESPONSIBILITY IN CREATING VALUE

Transparency, information accuracy and responsible behaviour with mutual respect are undoubtedly the pillars of trust in brands and of their relationship with the market and society in general. These factors are also increasingly determinant factors in the decision-making of citizens, customers or investors with regard to their options in purchasing and use of their capital.

PT took over with a commitment to creating shareholder value by ensuring a sound economic and financial performance today and tomorrow. To this end, management has maintained a determined and voluntary attitude that aimed to achieve the best possible balance between the legitimate desire to generate profit and ethics and respect for environmental preservation and the community where it operates. The level of achievement of this balance has been a fundamental pillar of strength in business and worth sharing with shareholders and other stakeholders.

Business ethics and the creation of shareholder value incorporate the following pillars:



The information and communication technologies are increasingly a powerful resource to bring people closer together, to dematerialise the everyday, and help improve the lives of everyone. Therefore, PT believes that its activity contributes to benefit society allowing sharing value with the community, the environment and shareholders.

1.2. DIALOGUE WITH STAKEHOLDERS AND IDENTIFICATION OF NON-FINANCIAL ISSUES WITH IMPACT ON THE COMPANY

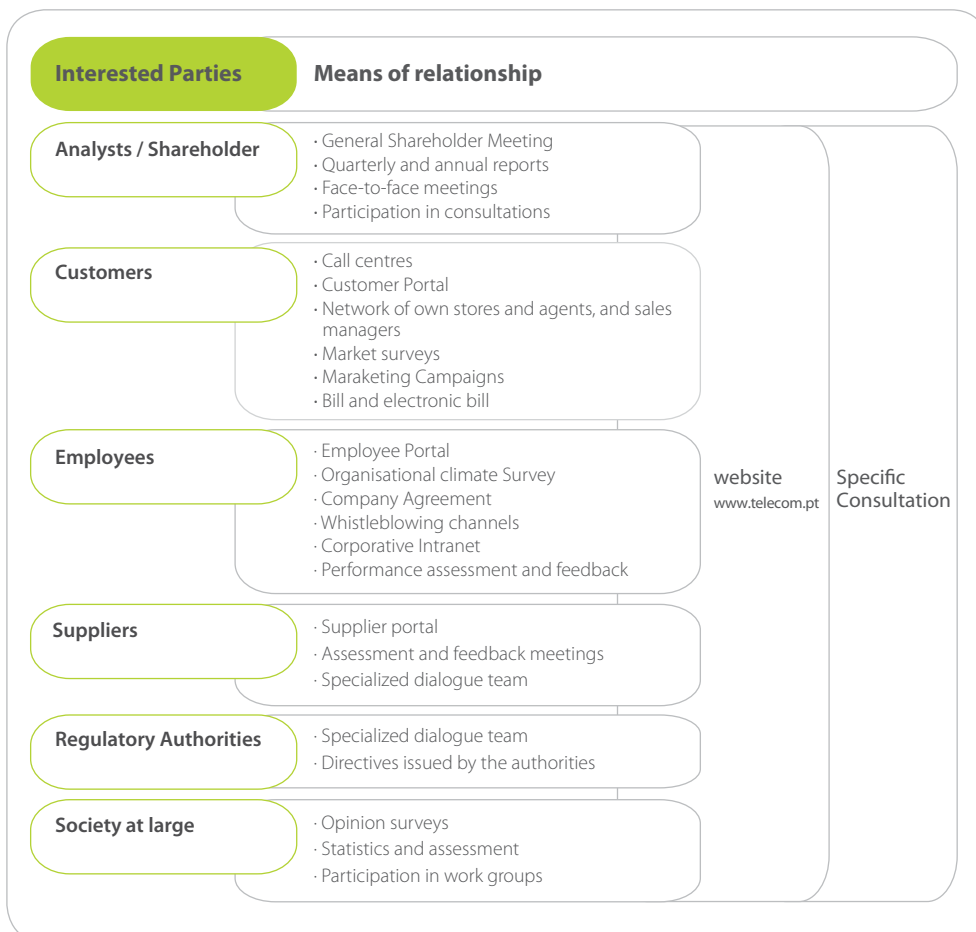
Aware that the options of the stakeholders strongly influence the performance of the Group, PT has promoted dialogue mechanisms with each one, enhancing the exchange of information necessary for the adoption of management methods suited to the expectations of all interested parties.

The identification of the stakeholders with a potential impact on PT's activity is made taking into account the following set of assumptions:



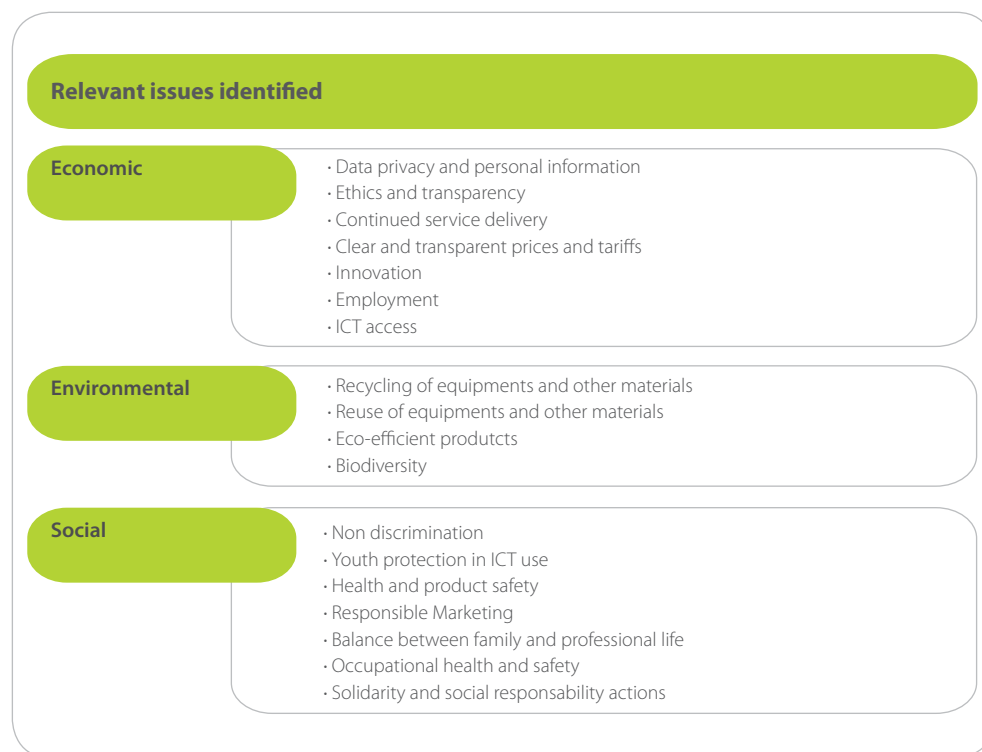
The process of involvement with the stakeholders and identification of relevant issues in their relationship with PT uses complementary resources and approaches that aim to incorporate perceptions and market trends and their likely impact on the activity of the company.

The communication channels provided by the company are and will continue to be the preferred means of dialogue and engagement with each audience. The close relationship that PT has built through these channels has allowed to anticipate solutions, as it contributes to, every time, generate ideas, identify weaknesses and define improvement plans that integrate the interests of all parties. The communication channels available are described below and most of which are available 24 hours a day, 365 days a year.





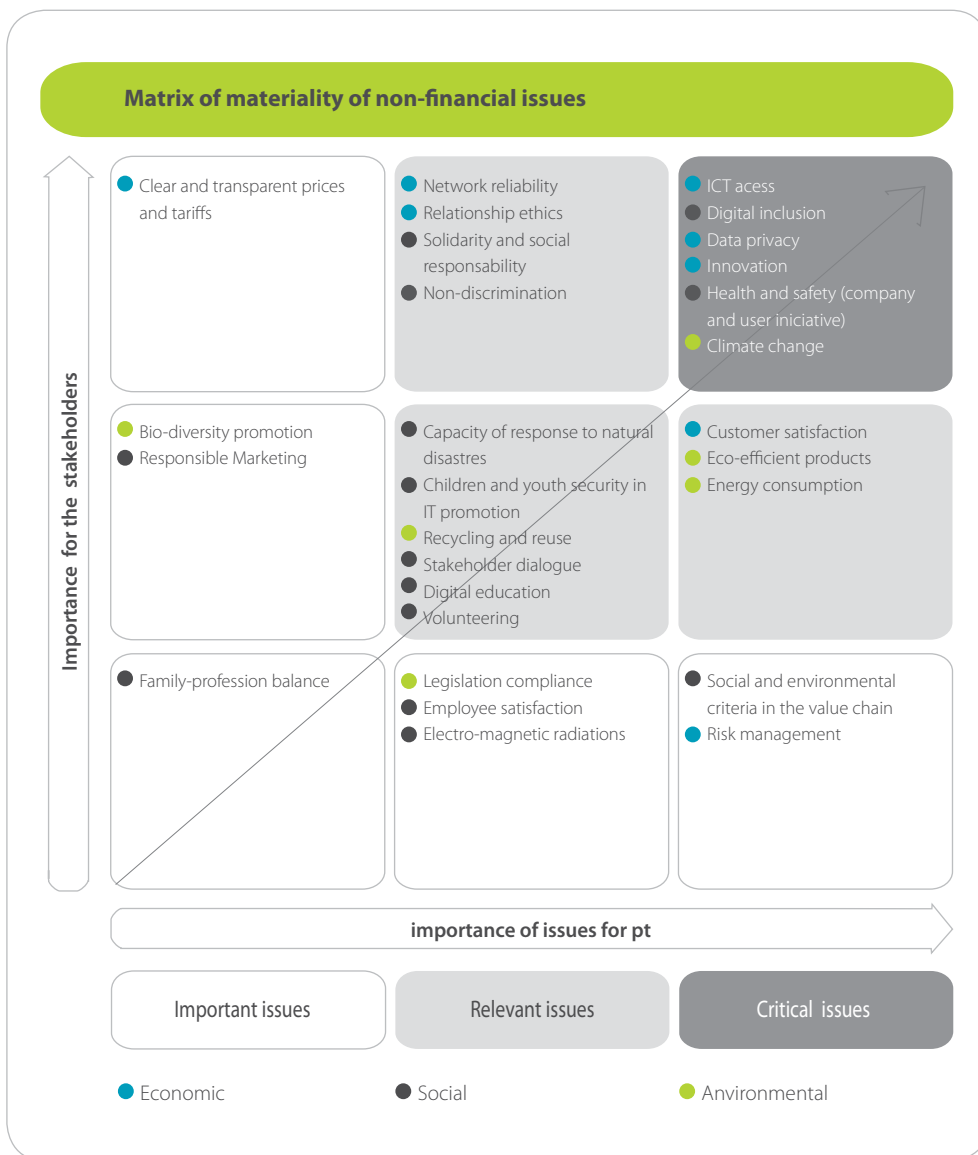
The relationship held throughout this three year period with the various stakeholder groups allowed to record the concerns and expectations of each one, add the different ways of expressing each type of concern and, finally, to systematize generically the relevant non-financial issues and likely impact on the company's activity:



Being sustainability one of PT's five strategic objectives, it was critical to adjust the alignment between the company and the expectations of stakeholders. For this, we need to know the relative importance that each one gives to each theme identified and, based on this, find the materiality profile of each issue and define opportunities for improvement in the performance of the group.

The matrix presented below resulted from the intersection of the results of queries by sample made by PT with the studies and analyses published by non-governmental organizations and international analysts, and reflects the criticality of each topic has in 2011:





The matrices cleared over three years demonstrated that the issues related to “digital inclusion”, “Eco-Efficient Products” and “Privacy of customer data” showed higher level of criticality.

The sustainability strategy implemented during the last three years complied as always with the relevant national, European and American legislation, guidelines from national and international organizations with which it identifies and consultation to various audiences with whom they interact and benchmarks performed regularly. The strategic action lines aimed at strengthening competitiveness domestically and fostering a growth agenda at international level, taking into account the possible balance between the interests of all interested parties.

1.3. STRATEGIC PRIORITIES AND ACTION PLANS OVER THREE YEARS

The strategic axes of sustainability are based on the critical issues identified and addressed in an action plan which, in turn, was adjusted and measured in each year of the triennium. The achievements obtained are listed in the table below:

Economic issues	Achievements over the three year period
Network reliability	<ul style="list-style-type: none"> Implementation of the new fibre network (FTTH) - more than 1,6 million homes; "Disaster recovery" plans readapted.
Customer satisfaction	<ul style="list-style-type: none"> Average satisfaction level always above 7.8 (scale 0-1).
Data privacy	<ul style="list-style-type: none"> Development, implementation and dissemination of the Policy of Personal Data Privacy at PT; Awareness of employees in policy - 100%.
Clear and transparent prices and rates	<ul style="list-style-type: none"> Online availability of price simulator; Provision of tariffs on the website of each service and/or brand marketed by the company.
Innovation	<ul style="list-style-type: none"> Creation of commercial offering converged across networks and devices - with flat rates per user profile; Creation of functionalities related to interactivity and usability of television contents; Development of the project the largest and most sustainable data center in Europe - construction started in 2011.
ICT access	<ul style="list-style-type: none"> Implementation of National Broadband Network; Art scientific universal - telephone service guarantee for all; Price plan for customers with special needs. Support for the acquisition of broadband devices for the national school community.
Ethics in relationship	<ul style="list-style-type: none"> Codes of Conduct reviewed. Started to incorporate issues of human rights, equal opportunities and non-discrimination; Communication channels available 24 hours a day, every day of the year.
Risk management	<ul style="list-style-type: none"> Integration in risk management model of non-financial issues on environment, human rights and health and safety, in the value chain.

Environmental issues

Achievements over the three year period

Climate change

- Definition of the energy strategy;
- Implementation of next-generation networks with less energy dependence;
- Implementation of plans of monitoring and mitigation of natural disasters (fires and floods).

Biodiversity

- Protocols with the Institute for Nature Conservation for the conservation endangered bird species that nest on PT equipment.

Energy dependence

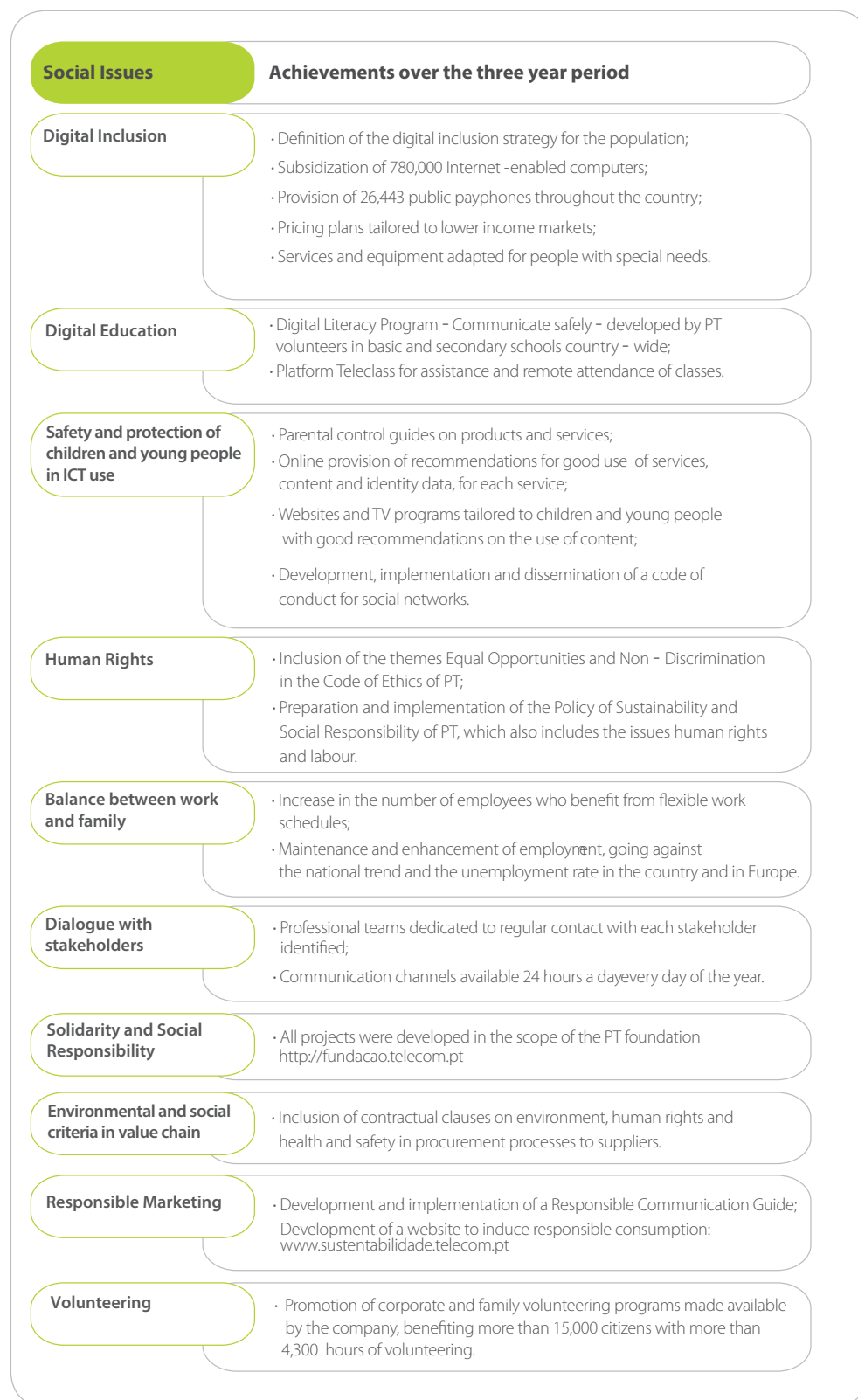
- Replacement of air conditions and lighting equipment in the technical and administrative areas for intelligent, high energy-efficiency systems;
- Evaluation of the energy dependence of the equipment (network and terminals);
- Developing solutions for monitoring energy consumption.

Eco-efficient products

- Development of business solutions for monitoring energy consumption in the home of customers;
- Marketing of products and services that rationalize the need for travel and lessen energy dependence of customers - e-learning, e-health, e-safety, and fleet -, teleconferencing, cloud computing.

Recycling and reuse

- Availability of guidelines for waste forwarding;
- Use of recycled materials;
- Recycling and reuse of customer equipment;
- Development and marketing of the first recyclable SIM;
- Recovery and recycling of used computers for donation to needy school entities;
- Development and production of product packaging recyclable and/or reusable for other purposes.



1.4. MANAGING RISKS AND OPPORTUNITIES

PT has a system for identifying, evaluating and managing risks and opportunities that may affect their operations and implementation of the plan and strategic objectives set by the Board. This system is based on a model of integrated and cross-cutting management that aims to ensure the implementation of good corporate governance and transparency in communication with the market and shareholders.

As a structured and systematic approach, risk management is integrated with PT's strategic planning and operational management process, with the commitment of all employees in the identification, reporting and implementation of measures and behaviours of risk mitigation and / or leveraging of opportunities.

The Risk and Opportunity Management is sponsored by the Executive Committee in conjunction with the management teams of the various businesses units, nationally and internationally.

The functions of Internal Audit and Risk Management, reporting hierarchically to the CEO and CFO, and functionally to the Audit Committee, support PT's Executive Committee in implementing the system of risk management and ongoing assessment of the risk management procedures in place in order to ensure the following objectives:

- I. Implement of a corporate model of risk management in line with the strategic objectives of the PT Group;
- II. Identification and analysis of the major risks to which PT and their subsidiaries are exposed within the development and continuation of their activity;
- III. Identification and analysis of the major risk factors and events that can significantly affect the normal operation of PT and their subsidiaries in the following areas:
 - Impact
 - Probability of occurrence;
 - Level of control associated and responsiveness in crisis situations;
 - Speed at which the risk or event may materialize;
 - Identification of improvements in the control and monitoring of mitigation plans associated with critical risk factors;
- IV. Improving the quality of information that supports the decision-making process;
- V. Communication of the results of the risk management model and execution of alerts in case of occurrence or identification of new critical risks.

It is also worth noting that the entire process is monitored and supervised by the Audit Committee, independent supervisory body composed of independent non-executive members. Within the competence of this body with regard to monitoring the effectiveness of the risk management system, the following tasks stand out:

- I. Oversee the adoption of principles and policies for the identification and management of major risks of a financial and operational nature, or other relevant risks associated with the activity of the PT Group or measures to monitor, control and report such risks;
- II. Annually review the internal procedures related to issues of risk detection and safeguarding the assets of the Company;
- III. Supervise the analysis, revision and implementation of measures and plans in order to monitor, improve and / or correct the internal control system and measures and plans proposed in the context of the risk management systems of the Company.



The Risk Management process implemented at PT is based on an internationally recognized methodology - COSO II, developed by the Committee of Sponsorship Organizations of the Treadway Commission. This approach relies on the identification and analysis of key value drivers and uncertainty factors that may affect value creation, compliance with the plan and set strategic objectives

PROCESS OF RISKS AND OPPORTUNITIES MANAGEMENT

Considering the need for clear mechanisms for assessing and managing risks that may affect the business, the following components are defined in the implementation of the process:

- **Risk Dictionary** to ensure the description, in a clear and objective form, of a common risk language to be used not only internally but also in the various disclosures made to the market on this subject;
- **Risk Management methodology** that formalizes the processes and procedures for identification, analysis, mitigation and reporting of relevant risks;
- **Centralized repository** of all information associated with each relevant risk, simplifying the analysis of correlation between the various risk factors recorded, as well as the prioritization of the response and identification of synergies between the various initiatives to mitigate the risks.

Note that the model set also fits the goals of corporate sustainability classified as strategic for the PT Group, the object of analysis and benchmarking with the best practices in the industry by the Dow Jones Sustainability Index.

Risk Dictionary

The Risk Dictionary allows cataloguing the risk factors that, in general, may affect PT and their subsidiaries, thus contributing to a common and company-wide risk language. However, this dictionary is not intended to be deterministic, since new risks can be identified, being updated in a systematic and whenever necessary.

This component of the risk management process is structured into three major categories of risk, depending on their nature:

- **Environment Risks:** Correspond to the risks dependent on external forces to the PT Group and their subsidiaries, and may affect their performance, strategy, operations and organization. By nature, the origins of the environment risks imply an adequate anticipation of the associated impacts, and timely identification of the realization of the associated risk factors, as well as mitigation strategies in case of crisis;
- **Risks related to the business processes inside the PT Group:** The risks of the processes result from and are inherent to the business activities and internal processes, and management can ensure control of the same at their origin, in a preventive way.
- **Risk of information for decision making:** Is related to the information available, produced by the PT Group and their subsidiaries, which will serve as a basis for the decisions to be taken by management. These risks are segmented into risks for operational, financial and strategic decision making. The risk of information for decision making are related to how the organization produces and manages the information needed to manage their business and for disclosure to their shareholders, investors and other stakeholders.

Risk Dictionary

Environment Risks

- Competition
- Customer needs / Economic Developments
- Technological innovations
- Sensitivity
- Management of shareholder expectations
- Unavailability of capital
- Political / Sovereignty
- Legal and tax related
- Regulatory
- Sector of activity
- Financial markets
- Catastrophic Losses

Process Risk

General

- Governance
- Reputation and image

Operations

- Customer dissatisfaction
- Human Resources
- Not obtaining or retaining talent
- Development of products and services
- Inefficiency
- Revenue assurance / Billing
- Licenses / Concessions Management
- Capability
- Supply
- Customer sales and support channel
- Partnerships
- Non-compliance
- Business Interruption
- Service failure / of product deficiency
- Environmental and public health
- Hygiene and safety
- Erosion of Brand

Empowerment

- Leadership
- Authority / limits
- Outsourcing
- Performance incentives
- Preparing for change
- Communication

Information Technology

- Relevance
- Integrity
- Access
- Unavailability
- Infrastructure

Financial

- Interest Rates
- Exchange
- Equity
- Prices of materials and raw materials
- Financial Instruments
- Cash-flow
- Cost of opportunity
- Concentration
- Non-compliance
- Clearance
- Guarantees

Integrity

- Fraude
- Illegal acts
- Unauthorized use / Access

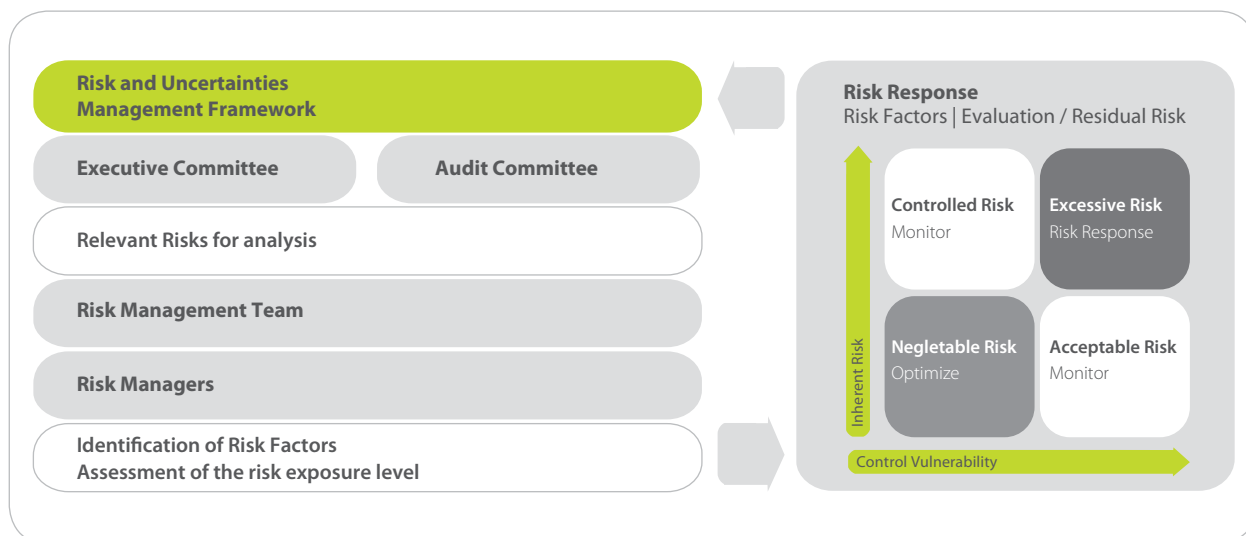
Risk Management Methodology

The methodology of risk management formalizes procedures and responsibilities appropriate to management in line with the strategy and the level of risk exposure / tolerance defined for PT. This tool identifies:

- The intervenients in the assessment and approval of the risks and risk factors that affect the businesses of the PT Group;
- Those responsible for managing the risks identified and how these risks should be analyzed and mitigated;
- The processes for monitoring of mitigation actions for each risk, depending on the management strategy adopted by the Executive Committee and overseen by the Audit Committee.
- The processes of disclosure and reporting of information resulting from the risk management process.

The implementation of the risk management methodology is a cyclical and iterative process that can be summarized by the following table and diagram:

Risk Management Methodology	
Executive Committee	<ul style="list-style-type: none"> Identifies the main risks that affect the PT Group; Defines the Risk Managers; Decide action and prioritization of mitigation actions
Audit Committee	<ul style="list-style-type: none"> Evaluates the risk management model; Proposes improvements and changes to the model Review of risks
Risk Management Function	<ul style="list-style-type: none"> Supports the definition and implementation of the risk management model; Monitors the risk management model, ensuring the integration of information from the different subsidiaries Defines, in conjunction with the Executive Committee and the Audit Committee, the materially relevant risks Monitors the action plans necessary to ensure the proper treatment of identified risks
Business Management	<ul style="list-style-type: none"> Management of the materially relevant risks Implements the necessary actions to ensure adequate control Evaluates and quantifies the residual risk to which the company is exposed Identifies critical areas and proposes mitigation actions Re-feeds the Risk Management Model, alerting to new exposure situations or degradation of the control environment
Internal Audit Function	<ul style="list-style-type: none"> Evaluates the effectiveness of the control mechanisms at the level of reliability and integrity of financial and operational reporting, efficiency of operations and compliance with policies, laws and regulations.



During 2011, we performed the reassessment of the risk areas that may affect more significantly the ability of the PT Group to achieve their strategic objectives, namely:

- i) Customer growth;
- ii) Revenue increase from international markets;
- iii) Leadership in all market segments and geographies;
- iv) Outstanding performance above in terms of shareholder, operational and financial return;
- v) Reference in terms of corporate sustainability in the countries where it operates.

Following this analysis, the relevant risks were ranked for analysis and detailed assessment, involving 31 departments / operational areas responsible for managing these risks in order to identify the events and factors that may affect the operations and activities of the PT Group as well as processes and control mechanisms associated with them.

For the 233 risk factors identified, the impact was measured as well as the likelihood of each risk factor and, depending on the level of exposure or residual risks, a strategy for responding to risk was defined namely:

- i) **reduce the risk** by implementing controls that reduce the likelihood of a risk or its impact if it materializes;
- ii) **accept the risk** in situations where the residual risk is acceptable and the implementation of additional controls have a cost higher than the expected benefits;
- iii) **share the risk**, reducing exposure of the PT Group through its total or partial transfer to other entities, using insurances, derivatives or joint ventures;
- iv) **avoid the risk**, leaving the activity or processes that generate the risk (e.g. leaving a geographical area or alienate a business).

It should be noted that the implementation of the mitigation measures planned for 2011 were examined and it was observed that all situations classified as priority in terms of risk mitigation were implemented timely.

Centralized Risk Registry

The implementation of a centralized repository of all information associated with each relevant risk for the PT Group is critical for proper analysis and prioritization of response actions to the relevant risks. The risk registry currently deployed associates to each risk:

- Risk factors that, if materialized, could affect the PT Group in a relevant way;
- Strategic objectives potentially affected;
- Existing structures, procedures and control indicators to monitor and mitigate the risk factors;
- Qualitative evaluation of the control and residual risk associated with each risk factor;
- Quantitative assessment of the impact, likelihood and speed at which the risk factor can come about;
- Plans for improvement or response to critical risks.

In 2012, the implementation of a new online tool for risk registration will be completed, which will create new synergies, increase the scope of the review and streamline the process of identifying, evaluating and updating the respective level of criticality and control.



All the identified risks are usually detailed in the Annual Report and Governance Report. Here we will highlight non-financial risks associated with corporate sustainability and that were subject to monitoring during the last three years:

Risk Factors	Risk Management
<p>Innovation and Technology</p> <p>Given the history of rapid technological change in the sector of activity of the Group, PT is at risk of failing to leverage technological advances and developments in its business model in order to obtain or maintain competitive advantage.</p> <p>Major risk factors associated with innovation:</p> <ul style="list-style-type: none">• Incorrect identification of new technologies• Inadequate time to market in adopting new technologies• Immaturity of technical solutions adopted• Levels of quality of service inadequate for market expectations• Adopting inoperable solutions• Insufficient information on market trends• Not identifying opportunities to increase operational efficiency• Not entering market trends into the business plan.	<p>The PT Group is historically one of the Portuguese companies with more investment in research and development (R&D). In this area, the PT Group holds strategic assets that allow ensuring the realization of innovative projects, which include:</p> <ul style="list-style-type: none">• PT Inovação: Company directed to the technological development of the Group's business, in terms of applied research, engineering services and development of innovative solutions and services, either in the domestic or international markets.• OPEN Program for development and innovation: aims at the implementation of systematic practices of research and information processing, with the involvement of the entire organization for the realization of innovative projects.• Strategic planning of the network infrastructure and rollout of new technologies, involving the preparation of reports and periodic development reviews, standardization and adoption of new technologies by the industry, including obtaining international benchmarks.• Strategic partnerships with suppliers in terms of technology, equipment and contents.

Risk Factors

Capacity of the infrastructure for continued services provision

The ability and availability of network infrastructures are fundamental aspects for PT to ensure continuity of critical operations in terms of service, within the parameters of high quality in order not only to satisfy their customers, but also to fulfill requirements of the regulator.

For this, PT has identified this risk not only regarding the availability of infrastructure, but also at the level of the increased capacity of the same, in order to support new product and service offerings to the customers, and contribute to the development of the Information Society in Portugal and the countries where it operates.

In this context, we highlight the following risk factors:

- Lack of plans for responding to catastrophic events or crisis
- No letters of risk or weaknesses in the identification of single points of failure
- Lack of redundancy in critical components of the infrastructure
- Saturation of the infrastructure available in the absence of plans of development or upgrade
- Inadequate planning, management and monitoring of available capacity
- Obsolescence of infrastructure or weaknesses in maintenance procedures

Risk Management

In this context, the following actions are performed for risk monitoring and mitigation:

- Securitization of core telecommunications network
- Development of risk diagnoses for the various technology platforms, identifying dependencies and single points of failure;
- Definition of service resumption and faults repair plans;
- Implementation of systems and processes to ensure the levels of QoS (Quality of Service) and QoE (Quality of Experience End user) defined;
- Investment in next-generation networks and preventive maintenance actions;
- Investment in information systems to support the activity of the technical teams.

In February 2010, following the storm that occurred on the island of Madeira, the resilience of PT's network infrastructures and reaction to natural disasters was put to the test. Note that the torrential rains, floods and landslides weakened or destroyed a significant part of the critical infrastructure of the island, among which the telecommunications infrastructure. This situation has triggered the crisis plan and the human and technical resources needed to quickly restore the normal fixed, mobile, satellite and submarine communications of the Autonomous Region of Madeira were made available. This task force enabled to quickly recover 85% of the mobile and fixed communications on the island and a more effective intervention of the authorities and civil protection, thereby mitigating the isolation and the impacts of the disaster on the population.

It should also be stressed that in 2011 the Department of Business Continuity was created, in order to assure, in a more efficient and effective way, that processes and resiliency operations that support the Core Services of the PT Group, in case of incidents and disasters in the following aspects:

- **Prevention:** Preparation of response to reduce the impact of incidents in critical processes that support services;
- **Response and Recovery:** Supported by business continuity and Disaster Recover plans to speed up recovery of critical processes.

	Risk Factors	Risk Management
Environmental	<p>The pursuit of an appropriate environmental policy has been a concern of PT, in order to reduce the company's exposure to environmental damage that can substantiate as: (i) liability to third parties for property damage, (ii) liability to governments or third parties for waste removal costs plus any compensation.</p> <p>Main factors associated with environmental risk management</p> <ul style="list-style-type: none"> • Rationalization of energy consumption and GHG emissions; • Inadequate control of waste; • Inadequate control of electromagnetic radiation and noise; • Inadequate internal awareness level of rationalization of resource consumption; • Incorrect assessment of negative impacts on landscape; • Acquisition of products and services outside the EU (in countries that do not comply with Community rules on the environment); • Failure to comply with applicable law. 	<p>In this context, PT has increased rationalization in environmental management, ensuring the certification of associated systems in accordance with ISO 14001 and a progressively more adequate offer to the market.</p> <p>Environmental management policies and systems focus on the following monitoring areas:</p> <ul style="list-style-type: none"> • Consumption of resources; • Resources used; • Waste production and forwarding; • Air emissions; • Noise and electromagnetic fields; • Sustainable model for selection and contracting of suppliers; • Acquisition of equipment for less energy dependence; • Use of alternative energy • Creation of a "task force" to address the optimization of energy efficiency and to enhance a more environmentally friendly commercial offer; <p>Importantly, also, management models are subject to periodic audits, internal and external, and there is as well an ongoing assessment of impacts and improvements to be implemented.</p>
Relationship with Stakeholders	<p>The risk of breach of trust of stakeholders, by lack of fulfilment of the expectations created or otherwise, with consequent impacts on their relationship with PT:</p> <ul style="list-style-type: none"> • Customers • Suppliers • Employees • Analysts • Society 	<p>In this context, the company develops actions with a view to the involvement of their stakeholders, including:</p> <ul style="list-style-type: none"> • Consultation with stakeholders; • Communication channels available 24 hours; • Customers: monitoring the level of customer satisfaction and performance in customer service, respect for customer privacy, security and protection in relation to content; • Suppliers: ethical principles and practices of social responsibility in the selection and contracting of suppliers; • Employees: attracting and retaining talent; occupational safety and health policies; internal social responsibility program; • Analysts: to ensure adequate communication with the market; • Society: actions to promote inclusion and digital literacy, development of telemedicine solutions, support for patronage and promotion of volunteering.



Risk Factors	Risk Management
<p>Ethics in business and relationships</p> <p>The Code of Ethics of PT together with the relevant national, European and American legislation are the main guides of conduct adopted at PT, whose risk factors identified regard:</p> <ul style="list-style-type: none"> • Failure to comply with one or some of the aspects included in the Code of Ethics, internal policies and /or regulations; • The reputation and / or activity of the company be affected by violations of the Code Ethics or regulations adopted. 	<p>Ethics at PT is monitored through:</p> <ul style="list-style-type: none"> • Internal instruments of assessment of employees and suppliers; • Confidential and anonymous communication channels, offered by the company for whistleblowing; • Dialogue with stakeholders to identify weaknesses; • Internal and external audits to the published information to ensure greater rigour and transparency.

2. COMMITMENTS AND STRATEGIC DIRECTIONS FOR THE FUTURE

The reasons which in recent years have ensured our success no longer suffice. The context in which we live is adverse and economic and social crisis is widespread. Therefore, PT wants to continue to make each of them an opportunity and once again set a course to continue to ensure a sustainable future.

We want to be an active part in building a more balanced and happier world

Our main commitment is to grow the business, helping to enhance our shareholders and the society in which we operate. Even though we are experiencing difficult times and the world around us is undergoing major changes, we still want to be an active part in the construction of a change for the better and continue to deserve the confidence of all.

We believe that effective and sustainable business management has been the support of our leadership, the ability to invest in the future, to innovate and meet the expectations of our stakeholders. We also believe that this capability is a competitive advantage that differentiates us and inspires us every day, a greater responsibility.

It is therefore essential to identify very ambitious goals for the future both in terms of business growth, customers, employment, human rights, innovation, energy efficiency and social responsibility, and in terms of attitude and conduct with which we shall guide this activity.

Therefore, we wish to assume and share the commitments and strategic directions that will guide our work:

1. Ethics

The relationship of trust with all stakeholders should be maintained and encouraged by the continued willingness to interact and meet the expectations of all.

Rigor and transparency in the relationship with society

- Communication channels 24 hours a day, 365 days a year.
- Confidential channels for whistleblowing, available 24 hours a day, 365 days a year.
- Audits conducted by external, independent entities to the information and management systems and to the information disclosed.

Privacy Policy

- To ensure compliance with the Policy of Privacy of Customer data.
- To promote best practices among customers and suppliers.

2. Investment in infrastructure

PT is committed to building the foundations that will underpin the evolution of the way we work, live and communicate in the next 100 years.

Broadband

- FTTH - Fiber to the Home – Next-Generation Network

To ensure the coverage of over 75% of the population with Fibre-to-the-Home and enhance not only broadband access but also associated services and features: strong convergence and interaction between content, communications and electronic devices.

- 4G/LTE - Long Term Evolution - High Capacity Mobile Broadband

To ensure that the 4G network has the most extensive nationwide coverage, providing more than 80% of the population, and enhance not only broadband access but also associated services and features: strong convergence and interaction between content, communications and electronic equipment.

Construction of one of the largest and more sustainable Data Centres in Europe

- This data centre will allow the installation of 50,000 servers, equivalent to 30 Pbytes;
- It will have a large export capacity in terms of storage, and IT services and solutions,
- It will leverage the opportunity to reduce the environmental footprint of PT and consumers (less space for equipment, rationalization maintenance costs, and energy consumption, etc.).
- It will be subject to the process of LEED certification (Leadership in Energy and Environmental Design), developed by the U.S. Green Building Council.



3. Responsible Behaviour

Knowledge and ethics are in our view the main behaviour influencer of each one.

Responsible Consumption

- To provide customers with the information necessary for them to make responsible choices in the purchase, subscription and use of equipment, services and / or contents.
- Add advice on economic, environmental and social sustainability onto the websites containing products and services of all the brands marketed by the group.
- Provide information on energy consumption and electromagnetic radiation (when applicable) of equipment sold.
- Promote prices simulator and consumption profiles of services on the websites of the brands marketed by the group.
- Extend package labelling to the entire range of products with appropriate forwarding information on the respective waste.
- Keep the protocols with independent institutions for monitoring and reporting the levels of electromagnetic radiation.

Protection of minors in ICT use

- Online dissemination of manuals for the good use of each service.
- Dissemination of Parental Control guidelines.
- Awareness programs in the school community on issues of privacy of personal data and correct use of content - reaching more than 120,000 students at the end of the program.

Human and Labour rights

- Maintain the level of direct and indirect employability, despite the context of strong economic constraints - about 0.2% of employability at national level;
- Level careers and remunerations of employees, mitigating slight differences that still exist between men and women.
- Maintain the average level of employee satisfaction above 70%.

Alignment of supply chain

- Development of actions with suppliers that will aim to mitigate the risk of acquiring equipment that incorporate minerals and / or metals from regions of conflict, where human rights are violated: tantalum, tin, tungsten and gold, commonly referred to as conflict Minerals 3TG.
- Maintain the average level of supplier alignment above 70%.

Customer Service and Satisfaction

- Maintain the average level of customer satisfaction above 70%, despite the period of acute economic and social constraints.
- Increase the activity of the Customer Ombudsman, to mitigate the issues that cause conflicts between customers and the company.
- Strengthen the contingency plan to ensure communication to the civil protection authorities, firemen, security forces and customers in disaster situations.



Social Responsibility and Digital Inclusion

Maintain and innovate the digital inclusion programs, continuing to ensure access of all (those who opt for PT) to communication services.

To promote programs of mutual aid and social solidarity to institutions and families affected by the current economic situation and that aim at maintaining the social balance of the population and the dignity of human life.

4. Climate change and energy efficiency

A systematic search for solutions to mitigate the impacts of our activity in society together with the contributions that the new information and communication technologies can bring to our customers will certainly guarantee a better environmental balance in the future.

Energy Efficiency

- Complete the program of replacement of lighting systems and traditional air conditioning systems for lower energy dependent systems.
- Inaugurate the first phase of the new Data Centre, which will be one of the largest and most sustainable in Europe, whose estimate of rationalization of energy consumption and CO₂ emissions, compared to the current data centre, is 40%;
- Strengthen the program of equipment acquisition with less energy dependence;
- Reduce on average the energy consumption by 2%, despite the need for temporary overlap between traditional networks and the installation of the new wireline and wireless networks, the greater sophistication of services and increased capacity required by significant increases in data traffic.

Carbon Emissions

- Continue the program of rationalization of carbon emissions derived from our operations, taking into consideration the greater sophistication of services and increased capacity required by the significant increase in traffic and the respective data storage; Our goal is to reduce 20% of carbon emissions by 2020 based on 2008 emissions.
- Try to use energy from renewable energy sources and seek to identify suppliers to ensure the provision of service with the incorporation of renewable energy.
- Strengthen the commercial provision of services and solutions to lessen the carbon footprint of customers, which according to the SMART 2020 European study may induce reductions up to 15%.

Waste Management

- Strengthen the program of identification, segmentation and responsible waste forwarding.
- Maintain recovery and/or recycling programs of used equipment that can be reused by the company and /or customers.



Biodiversity and landscape balance

- Keep the programs of support for the translocation of nests, existing on PT's towers and antenna, of birds considered endangered;
- Keep the plan of support for communications recovery in geographic areas affected by natural disasters and thus facilitate the recovery work of firemen and civil protection;
- Maintain a program of concealment of telecommunications towers or stations that conflict with landscape balance.

5. Development of services with strong focus on environmental solutions and social inclusion

PT's R&D area systematically seeks to present innovative solutions to the market and right now is committed to diversifying the commercial offering by incorporating environmental and social sustainability into services and solutions under development.

Cloud Computing

- The remote storage of data and information, enables customers to maximize IT cost reductions, increased productivity, mobility and reduction of energy consumption (electricity and fuel).

Georeferencing

- Solutions that enable remote interaction, depending on the location, between assets/equipment/machinery and information systems that manage them, ensuring maximization of resources and minimization of travel.

Security

- Solutions of remote surveillance and interaction adapted to people, buildings, forests and public spaces that allow anticipate and mitigate undesirable situations.

Health

- Telemedicine platform that allows to avoid unnecessary travel between doctors or hospital authorities and patients.
- Interactive Platform for hospital management.

Support for people with special needs

- Telecare solution that allows for remote support for the elderly or people with special needs, through the connection to the competent authorities of medical support or other.

Education

- Teleschool that allows students in a situation of prolonged illness to participate remotely in classes of their own school.

Electronic payments

Payment solution via mobile service: it will work as a substitute for payment by credit or debit card and can be used with high levels of security.

3. PRINCIPLES, POLICIES AND CODES OF CONDUCT

3.1. INTERNATIONAL PRINCIPLES AND ORGANIZATIONS

PT is a party, applies to the company and actively participates in promoting the principles of sustainability and corporate social responsibility advocated by national and international organizations with which the company management is identified.

These are principles relating to business ethics, compliance and environmental protection, human and labour rights, anti-corruption and social inclusion instruments. The adoption of these principles is an ongoing challenge, requiring a systematic identification of areas for improvement in aspects of the group's business and their relationship with society, the promotion and adoption of improvements and their subsequent monitoring.

CHARTERS SUBSCRIBED AND/ OR PRINCIPLES FOLLOWED

INTERNATIONAL	EUROPEAN	NATIONAL
<ul style="list-style-type: none"> • 10 Principles of the UN Global Compact • Universal Declaration of Human Rights • Recommendations of the International Labour Organisation • Charter of Social Responsibility of Union Network International • Children's rights and enterprise principles of UNGC 	<ul style="list-style-type: none"> • Environmental and Sustainability Charter of ETNO • Lisbon Strategy • European Road Safety Charter • Code of Conduct on Energy Efficiency of the European Union • European Code of Best Practices for Women and ICT 	<ul style="list-style-type: none"> • Recommendations of the Business Council for Sustainable Development of Portugal • Code of Good Practice on Commercial Communications to Minors (APAN) • Charter of Commitments on Responsible Communication of the Portuguese Association of Advertisers

The issues on the agenda of these organizations deserve not only the active participation of PT in their discussion, study and promotion, but they are also evaluated and interpreted by the company's Sustainability Committee.

The recommendations and findings revealing to have an impact on the company's activity and their relationship with society are subject to adjustment and implementation programs in the business units of the group, usually by resolution of the respective the Executive Committee.

National and international organizations*

10 Principles of the United Nations Global Compact - As a signatory company of those principles that include the Universal Declaration of Human Rights, the fundamental principles of the International Labour Organisation, the Rio Declaration on Environment and Development, and the Anti-Corruption Convention of the United Nations, PT submits annually the required Communication on Progress required by these as to the compliance with the aforementioned principles.

Reporting guidelines of the international Global Reporting Initiative - (GRI) - PT introduced the Sustainability Report according to the GRI guidelines that include verifying the information contained therein, by an independent external entity, and also by GRI .

* Other organizations to which PT joined are published on the corporate website.

ETNO - European Telecommunications Network Operators - PT is a signatory of the ETNO Sustainability Charter, collaborates actively in the Sustainability Working Group and annually presents the evolution of their performance.

Business Council of Sustainable Development (BCSD Portugal) - PT is a member and collaborates actively in working groups related to Sustainability and ICT Sustainability. BCSD Portugal publishes on its website the Sustainability Report of PT.

London Benchmark Group - PT is a member, uses the LBG methodology and actively participates in the respective working groups related to measuring the impact of social responsibility initiatives.

3.2. CODES OF CONDUCT AND POLICIES

Codes of conduct, regulations and policies adopted at PT are intended to guide the attitude and behaviour of employees towards the organization and the relationship that they establish with shareholders, regulators, competitors, customers, suppliers and society in general.

Rigour, honesty, integrity, transparency, correctness of information, anti-corruption, equal opportunities, non-discrimination, environmental and health protection, and social responsibility are the main points that link the performance of PT to society, beyond the overall alignment with applicable legislation in force at national, European and American level.

The adopted policies aim at guiding the attitude and behaviour of the entire value chain of the company, leveraging the mobilization and participation of all beyond what is defined in the Codes of Conduct and the contractual terms established.

The Codes of Conduct and policies adopted are published and can be found on PT's website and corporate intranet and all employees and suppliers are subject to training and/or awareness-raising actions on their content and impact.

CODES OF CONDUCT

- Code of Ethics of Portugal Telecom
- Code for Financial Officers
- Code of Conduct for Procurement
- Company Agreement
- Internal regulation on transactions by Group executives *
- Regulation on transactions with related parties **
- Code of Conduct for action on social networks
- Responsible Communication Guide

POLICIES ADOPTED

- Sustainability and Social Responsibility Policy
- Integrated Policy of Quality, Environment and
- Occupational Health and Safety
- Information and IT Security policy
- Privacy Policy

* Regulates matters relating to the prevention of market abuse and transactions in financial instruments issued by companies within the group and defines the relevant concepts of insider trading, market manipulation and significant transactions, among others. This regulation supplements the rules of Corporate Governance and good conduct practices already implemented at PT to strengthen the prevention of market abuse.

** Defines a set of procedures aimed at ensuring the correct identification of related party transactions and defining relevant concepts of "transaction" and "related parties".

The sharing of these codes with society in general, reflects and helps to consolidate the strength and alignment of values between PT and remaining audiences with whom they interact.



The Sustainability Committee, part of the governance model, promotes the adoption of principles, codes of conduct and use of communication channels among employees and in the relationship between them and other stakeholders, encouraging a culture of dialogue, avoiding conflicts of interest and providing anticorruption mechanisms. In this sense, PT does not develop any lobbying activity and/or contribute monetarily to organizations that do not fit in their business management or their sponsorship, philanthropy and patronage policies.

3.3. WHISTLEBLOWING AND ALIGNMENT MONITORING

To better identify and monitor compliance with its codes and alignment of its principles, the PT companies in Portugal have certified information and management systems according to international standards ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (Occupational Health and Safety), and are completing the preparation of the necessary steps to realize the self-declaration of the newly created ISO 26000 (Corporate Social Responsibility), which will happen during the three-year period now begun.

All employees participate in stock-raising and receive training on codes of conduct and policies adopted and, in particular on issues related to discrimination and corruption. All codes, policies and procedures are available on the intranet and the company's corporate website.

Any violation to the Codes of Conduct, internal regulations or legislation will be identified and confirmed, is likely to involve determining the liability of offenders under the terms and legal rules applicable to the situation.

These situations can be identified within the daily activity of the company or by complaint through channels specifically created and made available online. These communication channels are confidential and, if the complainant so requests, they are also anonymous.

VIOLATIONS TO THE CODE OF ETHICS

Violations to the Code of Ethics

8 employees

Zero Tolerance

8 terminations due to disciplinary procedures

For anyone who has evidence of some kind of irregularity in relation to the codes and principles laid down, PT provides tools for the complaint to guarantee the confidentiality and anonymity of the content and its author.

Enhancing the transparency of management, provided by various internal control systems - which, in turn, are audited by external and independent companies and organizations - a "System for Qualified Communication of Undue Practices", internationally known as whistleblowing, was adopted, whose guidelines and procedures are as follows:

Communicate by electronic message, in encrypted channel, an occurrence or reasonable suspicion based on verification of facts, by the person who knows or has reason to believe that there is consistent evidence of the following situations:

- violation of law, rule or regulation;
- mismanagement;
- abuse of authority;
- high waste of funds.

It is considered, in this context, “malpractice” any matter relating to accounting, financial reporting or audit, or other relevant and related matters and can be communicated by anyone - both outside PT (shareholder, customer or supplier), as his collaborator - which directly or indirectly, it has news.

This channel is available on the intranet and corporate website of the group.

QUALIFIED COMMUNICATION OF UNDUE PRACTICES

	2009	2010	2011
Entries received	31	20	12
Entries already resolved	21	18	11
Communications under analysis	10	2	1

The number of anonymous and confidential communications decreased over this three year period, which translates into a relational balance which is becoming stable over time.

Since 2010, employees have another reporting channel also confidential and anonymous and more suited to everyday work issues related to ethics in relationship, environmental sustainability and social responsibility.

COMMUNICATION OF EVENTS ON RELATIONSHIP, ENVIRONMENT AND SOCIAL RESPONSIBILITY

	2010	2011
Environmental conditions	0	0
Occupational Health and Safety	1	0
Discrimination	1	1

Complaints are reviewed and subject to corrective plans for improving results, which in turn, are evaluated and monitored. In cases of clear violation of existing codes of conduct, the approach is reinforced and follows disciplinary procedures with legal implications.

Child labour has been identified as a possible risk, although the Portuguese law prohibits it and PT considers it totally inappropriate. Therefore, procedures were defined in order to mitigate the impacts of such situations that eventually might be identified in the value chain of the group. Specifically, if any employee and/or auditor of PT identify the existence of child labour cases in the value chain of PT should denounce them in order to be subject to the procedures defined set in terms of child support:

- Analysis of the situation of the child and its environment in family terms;
- Exceptionally if the child's age allows continuity of work, the number of hours in transportation, school and work should not exceed 10 hours/day.
- Attendance / completion of minimum compulsory education;
- Its sustenance, providing it with the conditions for its normal physical and psychological development;
- The procedures to be adopted are communicated to all employees and partners of the companies;
- Definition of responsible persons for implementing the respective actions and deadlines;
- The effectiveness of the actions implemented is evaluated and records of evolution are kept.

In 2010 and 2011 there were not any cases of child labour detected in the value chain of the company.

In parallel, there is an additional set of procedures with regard to the Group's supply chain. The Supplier Control Group defines goals and the sample of suppliers that, each year, shall be subject to:

- Binding commitment with the Code of Conduct;
- Audit;
- Sustainability Questionnaire;
- Interview.

The suppliers subject to the actions described are identified by the Suppliers Control Group based on the following criteria of criticality:

- Provision of services on behalf of the Group;
- Provision of services at the premises of the Group;
- The supply of products with direct integration in the value chain;
- With control assessments with negative results;
- Subject of complaints or denunciations;
- Other criteria deemed relevant.

The evaluation conducted on the supply chain is presented in the chapter of Involvement and Relationship with stakeholders.

3.4. TRANSPARENCY AND COMPLIANCE

The recommendations of international organizations, national, European and American legislation in relation to listed companies, are carefully observed by PT and whenever there are disagreements the company will be represented in the respective bodies to ensure the evaluation of their views.

Compliance with the diversity of recommendations that PT follows, particularly in the areas of corporate governance, is highlighted in its Corporate Governance Report and Form 20F.

We will however mention here the following:

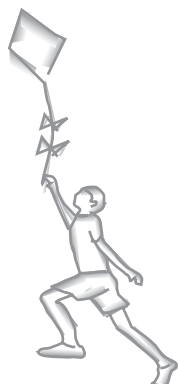
Regulators and supervisors of PT's activity at a national level

PT, besides the strict adherence to the existing legal framework, maintains an attitude of dialogue and proactivity with regulators, participating in meetings to which it is invited, by collaborating with well-founded opinions and suggestions and accepting the decisions taken.

The PT has, at corporate level, units that are intended to interpret the recommendations and decisions of regulatory authorities, as well as stimulate the dialogue among all. PT has maintained an attitude of dialogue and cooperation with these entities, participating actively in its various initiatives.

In Portugal, the sector of electronic communications is fully liberalized since 2000. Therefore, the legal framework applicable to the sector is geared to an environment of free competition, which during the year 2008 was increased with a new operator in the Portuguese market.

In 2002 we adopted a new regulatory framework applicable to networks and electronic communications services, consisting of a set of European directives covering the telecommunications sector. These directives have been transposed into national law by Law nº. 5/2004 of 10 February (Electronic Communications Law).



This is a regulatory framework that uses the methods of analysis associated with the principles of competition defence, applied to a given set of relevant markets in order to determine entities with dominant position and ex-ante adoption of a set of obligations.

As a result of technological change and integrative characteristics of next-generation networks, the European Commission started in 2005, the process of reviewing the regulatory framework - called Revision 2006, with a view to amending the current Policy and Recommendation of Relevant Markets. In this regard, in December 2009 was published a regulatory framework for electronic communications within the European Union, which includes, among others, Directive 2009/140/EC (Better Regulation) and Directive 2009/136/EC (Citizens' Rights)*

Entities regulating markets and trade relations in the electronic communications sector in Portugal:

- **National Communications Authority** - ANACOM - whose regulatory function has the following objectives: the promotion of competition in the provision of networks and electronic communications services, the contribution to the development of the EU internal market and also to protect the interests of citizens.
- **Competition Authority** - whose main objective is to ensure compliance with competition rules in view of the efficient functioning of markets, the efficient allocation of resources and the interests of consumers.
- **Regulatory Authority for the Media** - ERC – whose scope of intervention is the regulation and supervision of all entities pursuing activities relating to the media in Portugal.
- **National Commission for Data Protection** - CNDP - whose main objective is the protection and privacy of data.

Issues treated with an impact on the company's activity

Portability

Digital Terrestrial Television

Regulated Wholesale offers

Reference Offer for Leased Lines

Reference Offer Ethernet Circuits

Wholesale markets for voice call termination on individual mobile networks

Radio-electric spectrum

Cost Accounting System

Settlement and collection of the activity

Tariff for Universal Service

Public Payphones

Net Costs of Universal Service

Designation of provider(s) of the Universal Service

New EU regulatory framework for electronic communications

Value-added services based on text messages

Roaming

Net Neutrality

All these issues are developed in detail in the report of the consolidated Annual Report.

* For more information on European directives for electronic communications see the following link:

http://www.anacom.pt/streaming/quadro_regulamentar_comunicacoes_electronicasUE.pdf?contentId=1045301&field=ATTACHED_FILE



This year there was no situations of conflict to add to eventual situations that may drag from the past and have not been resolved yet.

The final decisions on the processes of conflict are fully observed by the company.

Legal processes and consolidated tax contingencies

As at December 31, 2011 and 2010, there were several court cases, arbitration awards and tax contingencies brought against various Group companies, classified as probable loss processes in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The group, based on the opinion of the internal and external legal counsel, noted provisions for these court and arbitration proceedings and tax contingencies to deal with the likely departure of resources, as follows:

	EURO	
	2011	2010
Civil liabilities	455,240,630	18,117,450
Labour liabilities	220,946,141	4,230,646
Other liabilities	4,274,712	4,915,363
Subtotal	680,461,483	27,263,459
Taxes	163,444,761	54,761,153
Total	843,906,244	82,024,612

The increase occurred in the exercise ended December 31, 2011 is primarily explained by the impact of proportional consolidation of non-current and current provisions of Oi and Contax in the Statement of Financial Position of Portugal Telecom on March 31, 2011, amounting to 213 million euros and 594 million euros, respectively, totalling 807 million euros.

As at December 31, 2011, excluding the effect of proportional consolidation of Oi and Contax in the amount of 760 million euros, the total consolidated value of lawsuits and tax contingencies would be 79 million euros, compared with 82 million euros on December 31, 2010.

4. GOVERNANCE MODEL

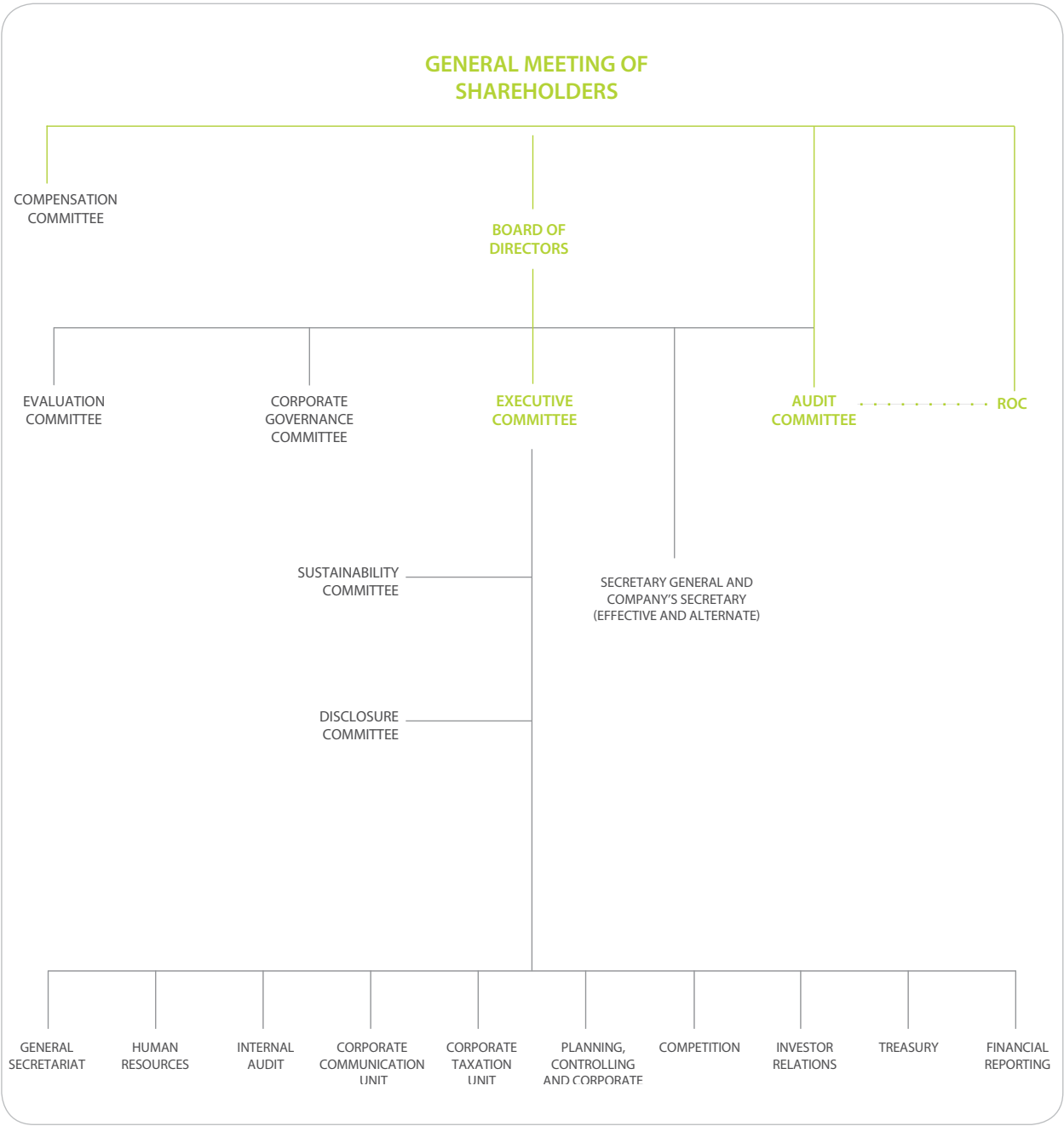
4.1. ORGANIZATIONAL STRUCTURE

PT adopts the model of Anglo-Saxon governance, which assumes the existence of a Board of Directors, an Audit Committee composed by mostly independent non-executive Directors, and a Chartered Accountant, all directly elected at the General Assembly of Shareholders. The Chartered Accountant is elected on a proposal of the Audit Committee as required by Portuguese commercial legislation.

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

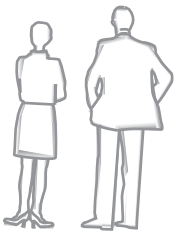
The members of the corporate bodies and of the Board of the General Meeting of Shareholders are elected for a three-year term of office, and they may be re-elected once or more times within the limits of the law.

The governance model of the PT can be presented in schematic terms as follows:



This governance model assumes the values of efficiency, simplicity, transparency and rigour as their basic pillars and gives PT a structure appropriate to the particularities and needs of the Company and is welcomed by the market.

In this context, PT has an Executive Committee with powers delegated by the Board of Directors of a predominantly operational nature, being also responsible for proposing to the Board all the strategic initiatives necessary for the proper development of the Company.





The Board of Directors, apart from all non-delegable responsibilities under national law and company by-laws, has the duty to supervise the performance of the Executive Committee.

In support of its Corporate Governance activities, have been created within the Board of Directors two internal committees composed exclusively of Directors almost entirely non-executive.

Thus, an Evaluation Committee was created, with the main objective of ensuring a competent and independent assessment of the performance of the executive Directors and the assessment of their overall performance, as well as a Corporate Governance Committee, with the main objective of reflecting on the model of government adopted and verifying their effectiveness.

The organizational structure of PT also includes a Compensation Committee elected by the General Assembly, which is responsible for fixing the remuneration of the members of the corporate bodies.

The members of the corporate bodies and the board of the General Assembly are elected for a three year term of office, renewable one or more times within the limits of the law.

In the governance model adopted the separation of powers remains, as the members of the Board delegate daily management on an Executive Committee.

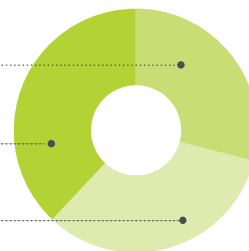
The Board of Directors of PT is composed of a minimum of 15 and a maximum of 25 members. Among the elected, there are executive Directors, independent non-executive Directors and non-executive and non-independent Directors.

FUNCTIONS (%)

EXECUTIVE 29%

NON-EXECUTIVE AND INDEPENDENT 38%

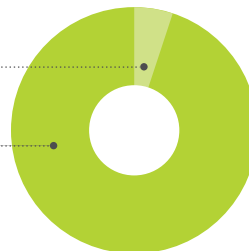
NON-EXECUTIVE AND NON INDEPENDENT 33%



GENDER (%)

WOMEN 5%

MEN 95%



4.2. FUNCTIONS

Composition

Members (date of first appointment)	Board of Directors	Executive Committee	Audit Committee	Corporate Governance Committee	Evaluation Committee	Independence (4)	Nº. of shares
Henrique Granadeiro (2003)	Chairman				Chairman (1)	Yes	150
Zeinal Bava (2000)	Member	Chairman (CEO)			Member (2)		63,161
Luís Pacheco de Melo (2006)	Member	Member (CFO)					45
Carlos Alves Duarte (2009)	Member	Member					40
Manuel Rosa da Silva (2009)	Member	Member					90
Shakhaf Wine (2009)	Member	Member					-
Alfredo Baptista (2011)	Member	Member					8,193
Pedro Durão Leitão (2011)	Member	Member					758
João de Mello Franco (1998)	Member		Chairman	Member	Member (3)	Yes	13,308 (5)
José Xavier de Basto (2007)	Member		Member			Yes	-
Mário João de Matos Gomes (2009)	Member		Member			Yes	-
Otávio Marques de Azevedo (2011)	Member						-
Francisco Bandeira (2008)	Member						523 (6)
Rafael Mora Funes (2007)	Member				Member		501 (7)
Joaquim Goes (2000)	Member			Member	Member		2,437
Pedro Jereissati (2011)	Member						-
Gerald S. McGowan (2003)	Member					Yes	-
Maria Helena Nazaré (2009)	Member					Yes	-
Amílcar de Moraes Pires (2006)	Member						3,242
Francisco Soares (2006)	Member			Member	Member	Yes	-
Jorge Tomé (2002) (8)	Member			Member	Member		-
Paulo Varela (2009)	Member			Member			7,134
Milton Silva Vargas (2009)	Member					Yes	-
Nuno de Almeida e Vasconcellos (2006)	Member			Chairman			11,190

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

(2) Inherently in his office as Chief Executive Chairman.

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

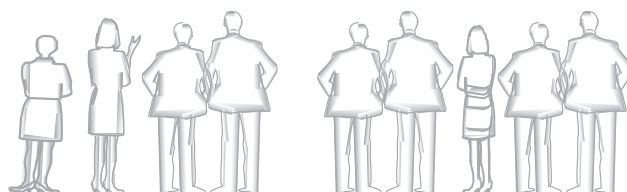
(4) Under the rules described in Chapter II.15. below.

(5) Of which 322 are owned by the respective spouse.

(6) Of which 236 are owned by the respective spouse.

(7) Held in full by the respective spouse.

(8) Resigned from office as at February 29, 2012.





Assignments of the Executive Committee

Executive Committee	Corporate Assignments	Executive Assignments
Zeinal Bava CEO	<ul style="list-style-type: none"> • Strategy • Human Resources • Innovation • Investor Relations • Communication & Corporate Image • Internal Audit • Regulation & Competition • Institutional & International Relations • Sustainability 	<ul style="list-style-type: none"> • PT Portugal • Oi Group • PT Investimentos Internacionais • PT Inovação • Fundação PT
Luís Pacheco de Melo CFO	<ul style="list-style-type: none"> • Management Planning & Control • Financial Reporting • Corporate Finance • Financial Operations & Treasury • Taxation • Internal Control & Risk Management • Service Hiring Strategy • Financial Management and Collections • Pension Funds 	<ul style="list-style-type: none"> • PT Centro Corporativo • PT Pro • PT Compras • PT ACS • Previsão
Alfredo Baptista	<ul style="list-style-type: none"> • Networks • Information Systems • Development of Products and Services 	<ul style="list-style-type: none"> • PT SI
Carlos Alves Duarte	<ul style="list-style-type: none"> • Enterprise Segment (Corporate and SME's) 	
Manuel Rosa da Silva	<ul style="list-style-type: none"> • Customer Care • Installation and Maintenance • Continuous Improvement • Distribution Network • Physical Security of Buildings, Networks & Systems 	<ul style="list-style-type: none"> • PT Contact
Pedro Leitão	<ul style="list-style-type: none"> • Customer Segment (Residential/SoHo and Personal) 	
Shakhaf Wine	<ul style="list-style-type: none"> • Holdings in Brazil 	<ul style="list-style-type: none"> • PT Brasil • Oi Group • PT Inovação Brasil

4.3. EVALUATION AND REMUNERATION

Evaluation Committee

In line with best national and international practices in matters of corporate governance, as well as with the recommendations of CMVM within this framework and with the Final Rules approved by the New York Stock Exchange on corporate governance, adopted following the Sarbanes-Oxley Act, the Board of Directors of PT decided, on 15 October 2008, to delegate on an Evaluation Committee the powers necessary for the evaluation of the executive members of the Board and the Board of Directors as a whole.

For the assessment of the executive members, the Evaluation Committee proposes to the Compensation Committee the relevant criteria and objectives in terms of compensation each year and for each term of office, taking into account the plans approved by the Board. It also has advisory powers on matters of selection of members of the Board of the most relevant companies in the Group.

The Evaluation Committee has the duties, skills and responsibilities required to assist the Board in the following areas:

- Evaluation of the overall performance of the Board;
- Evaluation of the performance of the members of the Executive Committee, based on criteria approved by the Compensation Committee appointed by the General Assembly of Shareholders.

Under the regulations, the Evaluation Committee is composed of the Chairman of the Board of Directors, the CEO, the Chairman of the Audit Committee and four non-executive Directors, including at least one independent Director, the respective mandates corresponding to term of office of the Board of Directors. The Evaluation Committee is chaired by the Chairman of the Board of Directors of the Company, unless it also exercises the functions of Chief Executive, in which case the Evaluation Committee is chaired by one of its non-executive members appointed for that purpose by the Board of Directors.

Composition

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

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

(2) Inherently in his office as Chief Executive Chairman.

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



Remuneration Committee

The Remuneration Committee, elected by the shareholders at a General Meeting, consisting of elements outside the Board of Directors, has the task of approving the remuneration policy for the members of the corporate bodies, fixing the remuneration applicable taking into account the functions performed, the performance achieved (particularly with regard to the assessment made by the Evaluation Committee) and the company's economic situation.

In the case of the executive members of the Board of Directors, the Remuneration Committee determines their remuneration based on objective criteria approved by them and assessing their performance conducted by the Evaluation Committee, in its expertise and listening to the Chief Executive Officer.

The current members of the Compensation Committee were elected on March 27, 2009 for the term of office of 2009-2011, which expires on December 31, 2011.

Composition

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

Independence of the members of the Compensation Committee

Without prejudicing the necessary articulation of this Committee with the Board of Directors, the composition of the Remuneration Committee seeks the greatest possible degree of independence of its members from the Board. None of the members of the Remuneration Committee is part of any corporate body or committee of the Company and no member of the Compensation Committee has any family connection to any member of the Board by way of marriage, kinship or affinity in a straight line to the third degree, inclusive.



REMUNERATION PAID IN 2011 COMMITTEES AS OF 31 DECEMBER 2011						
	Fixed 2011	Variable FY 2010	Total	Audit	Corporate Governance	Evaluation
Executive Committee						
Zeinal Abedin Mahomed Bava	695,038	660,905	1,355,943			Member
Luís Miguel da Fonseca Pacheco de Melo	486,526	420,575	907,101			
Manuel Francisco Rosa da Silva	486,526	420,575	907,101			
Carlos António Alves Duarte	486,526	420,575	907,101			
Shakhaf Wine (a)	486,526	420,575	907,101			
Alfredo José Silva de Oliveira Baptista (b)	358,313	-	358,313			
Pedro Humberto Monteiro Durão Leitão (b)	358,313	-	358,313			
	3,357,767	2,343,205	5,700,972			
Audit Committee						
João Manuel de Mello Franco	271,404	-	271,404	Chairman	Member	Member
José Guilherme Xavier de Basto	126,574	-	126,574	Member		
Mário João de Matos Gomes (c)	183,736	-	183,736	Member		
	581,714	-	581,714			
Other members of the Board of Directors						
Henrique Manuel Fusco Granadeiro	617,812	-	617,812			Chairman
Joaquim Aníbal Brito Freixial de Goes	85,316	-	85,316		Member	Member
Gerald Stephen McGowan	44,058	-	44,058			
Amílcar Carlos Ferreira de Morais Pires	44,058	-	44,058			
Francisco Teixeira Pereira Soares	132,174	-	132,174		Member	Member
Nuno Rocha dos Santos de Almeida e Vasconcellos	132,174	-	132,174		Chairman	
Rafael Luís Mora Funes	85,316	-	85,316			Member
Paulo José Lopes Varela	85,316	-	85,316		Member	
Maria Helena Vaz de Carvalho Nazaré	44,058	-	44,058			
Pedro Jereissati (d)	32,447	-	32,447			
Otávio Marques de Azevedo (d)	32,447	-	32,447			
Milton Almícar Silva Vargas	44,058	-	44,058			
Francisco Manuel Marques Bandeira (e)	-	-	-			
Jorge Humberto Correia Tomé (e) (f)	-	-	-		Member	Member
	1,379,235	-	1,379,235			
	5,318,715	2,343,205	7,661,920			

(a) The remuneration of executive director Shakhaf Wine is paid through PT Brazil, a subsidiary of PT in Brazil, in local currency, being shown in the table the equivalent in Euros.

(b) Executive directors Alfredo José Silva de Oliveira Baptista and Pedro Humberto Monteiro Durão Leitão were appointed to their terms of office as at April 6, 2011.

(c) In addition to the amount referred to in the above table paid by PT, executive director Mário João de Matos Gomes has earned a fee in the amount of Euro 7,838 paid by Forecast - Management Company Pension Funds SA for the functions of Chairman of the Supervisory Board performed therein.

(d) Non-executive directors Pedro Jereissati and Otávio Marques de Azevedo were appointed to their terms of office as at April 6, 2011.

(e) Non-executive directors Francisco Manuel Marques Bandeira and Jorge Humberto Correia Tomé waived their pay for incompatibility with other professional obligations.

(f) Executive director Jorge Humberto Correia Tomé resigned from office as at 29 February 2012.

The compensation policy of the executive and non-executive Directors and chartered accountant are defined according to the following criteria:

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

The compensation of non-executive members of the Board, including members of the Audit Committee, follows a rigid model determined by an annual compensation fixed by the Compensation Committee (to be paid 14 times a year) without attendance.

The fixed remuneration takes into account the fact that some directors also exercise their duties in any of the committees assisting the Board, to support the exercise of its oversight function, and/or because they are considered independent under and for the purposes of paragraph 5 of Article 414 of the Portuguese Companies Code. In particular, the Chairman of any committee assisting the Board (not accumulating with the position of Chairman of the Board of Directors, Chief Executive Officer or Chairman of the Audit Committee) as well as the independent Members who are part of more than one committee receive an additional pay of twice the remuneration of a non-executive Member.

Similarly, this fixed compensation considers the performance of duties as a member of the supervisory board, especially as Chairman or as financial expert within the Audit Committee, taking into account that performing duties in this corporate body implies compliance with the Portuguese legislation as well as the mandatory rules to which the Company is subject, while foreign private issuer with securities admitted to trading on the New York Stock Exchange ("NYSE"), including those under the Sarbanes-Oxley Act and the regulations of the Securities and Exchange Commission and the NYSE.

The remuneration of the Chairman of the Board of Directors of PT SGPS corresponds to an annual fixed amount indexed to the fixed annual remuneration of the Chief Executive Officer, not including a variable component. This does not invalidate the recognized capacity of the Evaluation Committee to propose to the Compensation Committee to award a prize to the Chairman of the Board at the end of his term, in accordance with the Group's performance.

In line with Recommendation II.1.5.1 of CMVM, even though this remuneration policy is structured to allow alignment with the interests of society, there is no provision for any form of variable pay for non-executive members of the board or for members of the supervisory board (without prejudice to the possibility of awarding a prize to the President of the Board, as described in the previous paragraph).

II. Remuneration policy for executive Directors:

The remuneration of executive management takes into account the performance of PT SGPS, in the short and medium term, as well as the performance benchmarking with other companies of similar size and business.

The remuneration of executive Directors is composed of a fixed component and a variable, being the latter: (i) it is payable only if an average degree of fulfilment of objectives of 85% is achieved; and (ii) in the case of annual variable remuneration, it may be amount up to 90% of the fixed remuneration and in the case of the multiannual variable remuneration, it can reach up to 70% of the fixed remuneration, if the predetermined goals are achieved for each of these situations (being the objectives relating to the annual remuneration fixed at the beginning of each year and those of the multiannual remuneration set at the start of the term of office), as determined by application of the criteria and parameters specified, in b. below:

Fixed remuneration:

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

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

Variable remuneration:

The variable remuneration policy in PT SGPS is governed by the following guiding principles to ensure a clear alignment between the interests of Executive Directors and the Company's interests in line with Recommendation II.1.5.1 of CMVM:

- The pursuit and achievement of goals through quality, hard work, dedication and business know-how;
- The policy of incentive and compensation of PT SGPS must allow the attraction, motivation and maintenance of the "best people" on the market, as well as the stability of the executive team;
- The implementation of a professional management philosophy and embodied in the definition and realization control of ambitious (but achievable) goals, measurable annually and multianually (term of office), thereby taking into account developments in the company's performance and the Group;
- Developing a culture of market orientation and its best practices, measured, whenever possible, by comparing the performance of the company's goals with a group of companies and/or organizations in its relevant market (domestic and international);
- The pursuit of excellence in management through a set of business practices of reference, enabling the company to achieve balance and sustainability of the business;
- This will need to implement a management philosophy to develop its activity in three dimensions: economic, environmental and social.

This variable component precludes share allotment or stock option plans.

Annual variable remuneration:

Given the tradition and the model existing at PT SGPS in the last decade, the performance evaluation of the Executive Directors of the Group was indexed in annual terms, to the pursuit of goals at Group level.

The determination of the annual variable remuneration to be awarded on account of the performance in 2009 will be determined based on a percentage of the fixed annual remuneration, calculated using the weighted average level of achievement of each of the following indicators, and if this average reaches 85% of the objectives established and if the company maintains the qualification of "investment grade" at the end of each year (unless the loss of such a classification is the result of a strategic decision of the Board):

- Ratio of total shareholder return (TSR) of PT SGPS, compared with the DJ Stoxx Telecom Europe sector, TSR is understood as the sum of the change in share price with the amount of dividends per share;
- Dividend per share delta adjustable if the Board of Directors change the dividend policy;



- Earning per share (EPS) growth Delta;
- Revenue growth delta compared to a group of comparable companies;
- EBITDA growth delta compared to the same group of companies in the sector;
- EBITDA growth delta minus CAPEX.

After determining the annual variable remuneration in accordance with this methodology, the Compensation Committee may increase or decrease the variable remuneration of the Chairman and other members of the Executive Committee on the proposal, respectively, of the Evaluation Committee and of the CEO. In every case, depending on the degree of achievement of the pre-defined objectives, that the annual variable remuneration will not exceed by more than 110% the fixed remuneration.

Variable multiannual remuneration

The determination of the multi-annual variable remuneration is calculated on an annual basis and cumulatively over the term of office and paid at the end to Executive Committee members remaining at PT SGPS until the end of the mandate (this requirement will not be mandatory if the Executive Committee member does not continue at PT SGPS at the end of term for reasons not imputable to him), if the weighted average of all indicators throughout the term of office reaches 85% of the established goals.

This calculation is done yearly and cumulatively based on the weighted average the degree of attainment of each of the following quantitative and qualitative indicators:

- Evolution of total shareholder return (TSR) compared with the DJ Stoxx Telecom Europe sector;
- Dividend per share delta adjustable if the Board of Directors change the dividend policy;
- Earning per share (EPS) growth delta;
- EBITDA growth delta by reference to the figures contained in the Strategic Plan;
- Evolution of the Sustainability Index of PT SGPS as a function of DJSI methodology;
- Compliance with the strategic goals nationally and internationally.

The methodology of annual calculation of multi-annual goals was favoured to the detriment of the calculation of indicator values exclusively at termination of office in order to render more effective the control of the implementation result of the corporate strategy throughout the triennium.

If during any annual exercise the amount equals zero, the amounts due from previous exercises will not be lost, if at termination of office, the result obtained from the evaluation of the multi-annual indicators achieves at least 85% of the established goals. Otherwise, the accumulated amounts will be lost.

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

Alignment of the interests of the Directors with the interests of PT

As described above, the multi-annual and annual variable remuneration of the Executive Directors of PT SGPS in office in 2011, is dependent on their performance as well as sustainability and ability to achieve the strategic objectives of the group, seeking this way to contribute to maximizing long-term performance and also to align the interests of management with the interests of the Company and their shareholders.

Remuneration policy of the Chartered Accountant

During 2011, the Chartered Accountant of the Company was paid according to normal practices and remuneration conditions for similar services, following the conclusion of a contract for services and a proposal of the Audit Committee of the Society.

4.4. SUSTAINABILITY COMMITTEE

The Sustainability Committee must ensure that corporate sustainability is part of and consistent with the Group's strategy and cuts across all its subsidiaries.

In 2011, the Committee evaluated a number of new opportunities for improvement and proposed to the Executive Committee, the following areas of intervention:

- Approval of the stakeholder consultation and involvement program;
- Approval of the issues relevant to stakeholders with a probable impact on the business of PT;
- Approval of the action plan to bridge gaps regarding benchmarks and stakeholders;
- Approval of program with action for the involvement of employees in sustainability initiatives;
- Preparation of instruments for child protection from ICT exposure;
- Internal awareness-raising / training actions in the area of responsible communication / marketing;
- Identify opportunities to create eco-efficient infrastructure and offering of products and services;
- Closer dialogue with all opinion leaders and analysts with a strong focus on transparency, rigour and exchange of experiences and opinions.

All opportunities were approved by the Executive Committee and their developments and results are mirrored in the present Report.

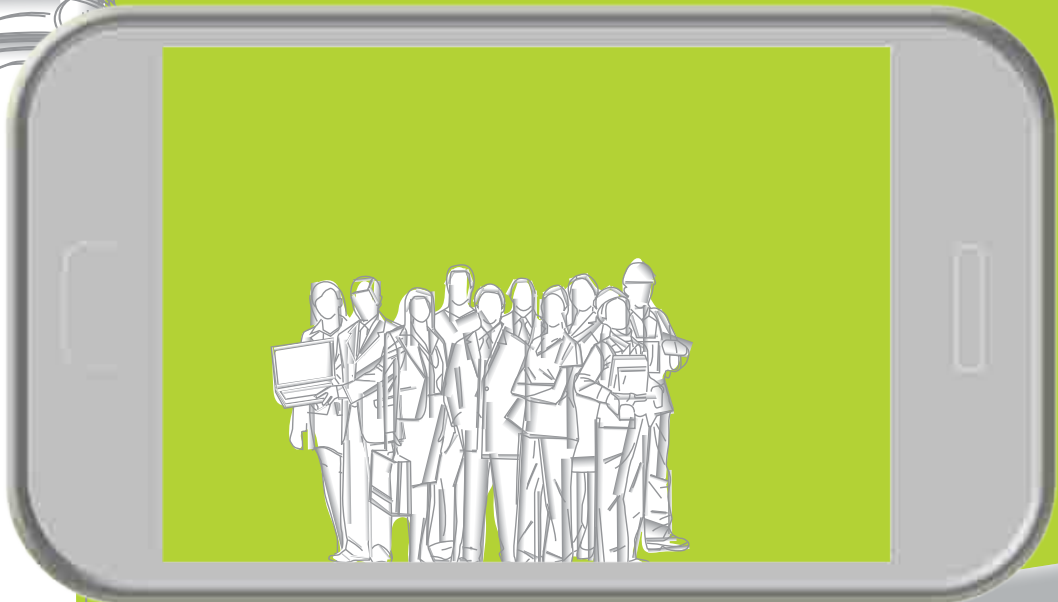
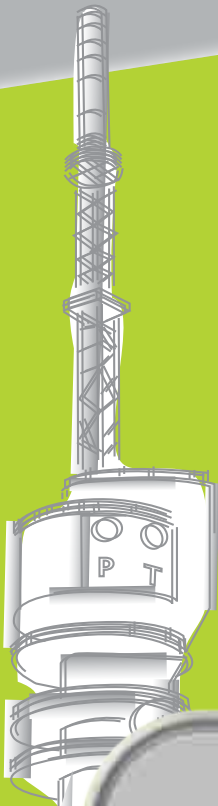
In September 2010, PT joined the Dow Jones Sustainability World Index in the telecommunications sector. Being one of the most respected indexes worldwide, which analyses the performance of companies listed on the New York Stock Exchange in terms of sustainability, and is a reference for analysts and investors. PT is currently a Portuguese company included in the most important global sustainability indexes, namely the Dow Jones Sustainability Index and FTSE4Good, of which PT is already part since 2005.







INVOLVEMENT WITH STAKEHOLDERS





INVOLVEMENT WITH STAKEHOLDERS

1. SHAREHOLDERS AND ANALYSTS

1.1. PRINCIPLES OF RELATIONSHIP

PT undertook the commitment to create shareholder value by ensuring a good economic and financial performance today and tomorrow. Transparency, information accuracy and confidence levels in the management of organizations are increasingly determining factors in the evaluation processes of analysts and investors' decisions regarding their options in capital allocation.

Therefore, the relationship built with shareholders and analysts is based on dialogue, rigour and transparency of information. In addition to the General Meeting of Shareholders, the roadshows in the main markets where the company is listed and where their investors are based, PT has specialized teams to talk with market analysts and publishes all information relevant to this audience on its corporate website.

RELATIONSHIP WITH STAKEHOLDERS

Means of relationship	Instruments of relationship
General Meeting of Shareholders	Quarterly, half-year and annual reports
National and international roadshows	Sustainability Report
Specialised teams in dialogue	Press releases with relevant facts
Corporate website	Market Consultation on expectations and trends
	Quote of the company on the stock where it is present
	Investor Kit
	Participation in consultations of international rankings

Throughout 2011, PT pursued its investor relations activities, conducting several events, roadshows, presentations to investors and analysts, meetings and conference calls, and also participated in conferences in Europe and the United States.

In 2011, PT held two roadshows, one in Europe and one in the USA, and participated in six investor conferences in Europe and the USA. Additionally, it held over 300 meetings and conference calls with analysts and investors.

1.2. SHAREHOLDER COMPOSITION

The share capital is Euros 26,895,375 since December 10, 2008, fully paid up and represented by 896,512,500 shares with a nominal value of three Euro cents each.

At the end of 2011, the holdings of qualifying shareholders representing over 50% of PT's share capital were as follows:



QUALIFIED HOLDINGS

Date of report	Institutions	Nº. of shares	% of capital	% of voting rights
30/Dec/11	Espirito Santo Group (1)	101,697,989	11.34%	11.34%
02/Jun/11	RS Holding, SGPS, S.A.	90,111,159	10.05%	10.05%
23/Sep/11	Capital Research and Management (2)	89,403,498	9.97%	9.97%
30/Nov/11	Telemar Norte Leste, S.A.	64,557,566	7.20%	7.20%
31/Dec/11	Caixa Geral de Depósitos Group	56,011,952	6.25%	6.25%
27/Dec/11	UBSAG (3)	45,309,635	5.05%	5.05%
13/Dec/11	Norges Bank (4)	44,852,919	5.00%	5.00%
23/Set/11	The Income Fund of América, Inc. (5)	44,575,845	4.97%	-
31/Dec/11	Brandes Investments Partners, L.P.	34,628,566	3.86%	2.87%
12/Dec/11	Barclays Group (6)	23,689,084	2.64%	2.64%
31/Dec/10	Visabeira Group	23,642,885	2.64%	2.64%
14/Dec/11	JP Morgan (7)	21,590,141	2.41%	2.41%
07/Dec/09	BlackRock Inc.	21,025,118	2.35%	2.35%
03/Feb/10	Controlinveste Comunicações	20,419,325	2.28%	2.28%
24/Jun/10	Telefónica, S.A. (8)	18,122,661	2.02%	2.02%
11/Oct/10	Europacific Growth Fund (9)	18,061,608	2.01%	-

(1) PT further disclosed, on February 15, 2012, that the Espirito Santo Group held a qualified stake corresponding to 93,697,989 shares representing 10.45% of PT's share capital and corresponding voting rights. (2) PT further disclosed, on February 13, 2012, that Capital Research and Management held a qualified stake corresponding to 42,952,953 shares representing 4.79% of PT's share capital and corresponding voting rights. (3) PT further disclosed, on February 6, 2012, that UBS AG had a qualifying holding representing 42,024,498 ordinary shares representing 4.69% of PT's share capital and corresponding voting rights. (4) PT also released, on February 6, 2012, that Norges Bank held a qualified stake corresponding to 44,442,888 shares representing 4.96% of PT's share capital and corresponding voting rights. (5) PT further disclosed, on February 3, 2012, that The Income Fund of America, Inc. now holds a stake of less than 2% of the voting rights attached to the share capital of PT. (6) PT further disclosed, on March 6, 2012, that Barclays had a qualifying holding representing 22,791,762 ordinary shares representing 2.54% of PT's share capital and corresponding voting rights. (7) PT further disclosed, on January 9, 2012, that JP Morgan held a shareholding of less than 2% of the voting rights attached to the share capital of PT and a long economic position of less than 5% of the share capital of PT. (8) PT further disclosed, on January 22, 2012, that Telefonica had a shareholding of less than 2% of the voting rights attached to the share capital of PT and a long economic position of less than 5% of the share capital of PT. (9) PT further disclosed, on February 20, 2012, that the EuroPacific Growth Fund held a qualified stake corresponding to 23,045,000 shares representing 2.57% of PT's share capital and corresponding voting rights.

PT has a diversified shareholder structure, with about two thirds of the capital held by foreign shareholders, mainly divided between Europe, the United States and the United Kingdom, representing approximately 31.5%, 16.3% and 12.7%, respectively of the shareholder base. The Portuguese market represents approximately 32.1% of the shareholder base.

The shareholder composition of PT by geographic area has the following profile:

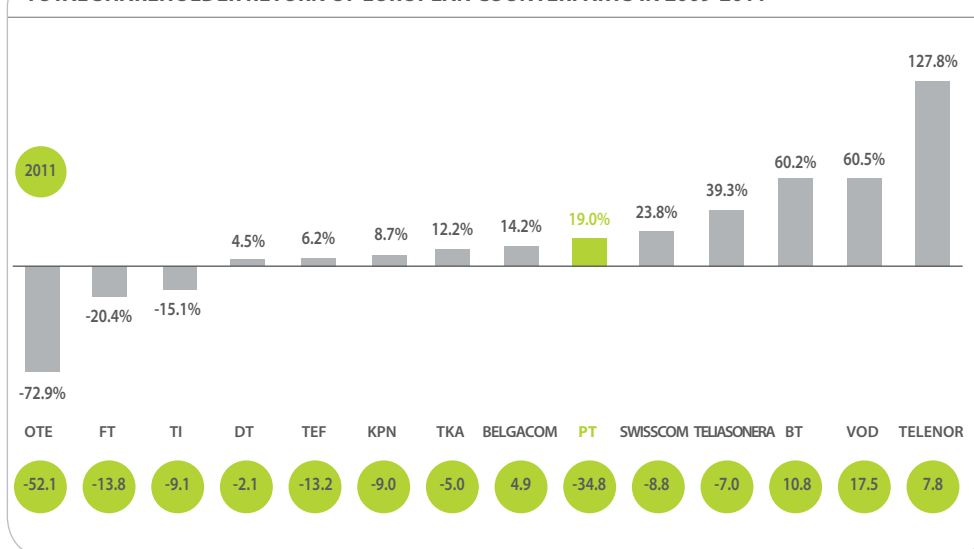


1.3. VALUATION AND DIVIDENDS

In terms of total shareholder return, PT increased from 19.0% during the period 2009-2011, compared with 0.0% registered by the index DJ Euro Stoxx Telecom during the same period. During the period 2009-2011, PT had one of the best performances among companies in the Euro zone and outperformed the DJ Stoxx European Telecom Euro.



TOTAL SHAREHOLDER RETURN OF EUROPEAN COUNTERPARTS IN 2009-2011



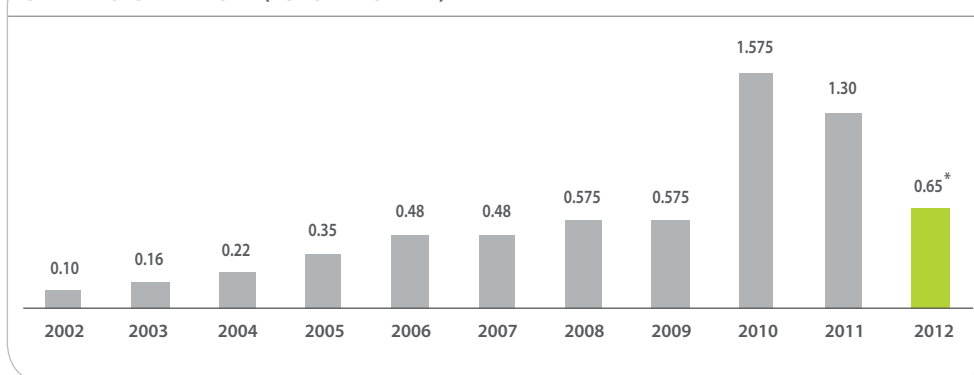
Source: Bloomberg

Among the major financial markets, the NASDAQ registered the best performance in the period 2009-2011 (+65.2%), followed by BOVESPA (+51.1%) and the S&P 500 (+39.2%). In 2011, the Dow Jones recorded the best performance (+5.5%), followed by the S&P 500 (+0.0%). The other major financial markets recorded negative performances, reflecting the global economic and financial crisis.

In terms of shareholder remuneration, PT distributed in June 2011 about Euro 1,118 million to its shareholders, broken down as follows:

- Ordinary dividend for the fiscal year 2010 amounting to 65 cents per share, and,
- Exceptional dividend amounting to 65 cents per share.

SHAREHOLDER RETURN (EURO PER SHARE)



* Euro 0.215 per share attributed as interim dividend in December 2011

For fiscal 2011, according to the dividend policy announced on November 3, 2010, the Board of Directors proposed a dividend of 65 cents per share. On December 15, 2011, PT announced an interim ordinary dividend of 21.5 cents per share, according to the dividend policy announced on November 3, 2010, in the form of an advance of profits for 2011, paid on January 4, 2012.

2. CUSTOMERS

2.1. CUSTOMER RELATIONSHIP MANAGEMENT

PT is committed to building a lasting relationship of proximity, respect and trust with each customer.

To do this, the company's brands are committed to give the market an effective response, adapting the whole range of services and solutions of PT, to the needs expressed by each user, while ensuring the continued provision of the subscribed services and customer satisfaction.

The last three-year period was marked by significant improvements in the areas of customer care, delivery/installation of services and faults, in line with the suggestions and the subsequent recognition by the market.

The increasing service sophistication and the expansion of the Group's commercial offering triggered an increase in the number of contacts for service subscribe, clarification, complaints and/or fault reports. Therefore, PT has implemented a number of processes and platforms that made it possible to deepen the knowledge about each customer, adjusting the provision of services to the responsiveness to each need.

Relationship is a responsibility of all Group employees, regardless of which roles and/or responsibilities that they hold in the organization.

AREAS OF CUSTOMER FOCUS

Listen to customers

Personalise the relationship with each customer

Innovate in market offering

Offer quality services

Ensure continuity in service delivery

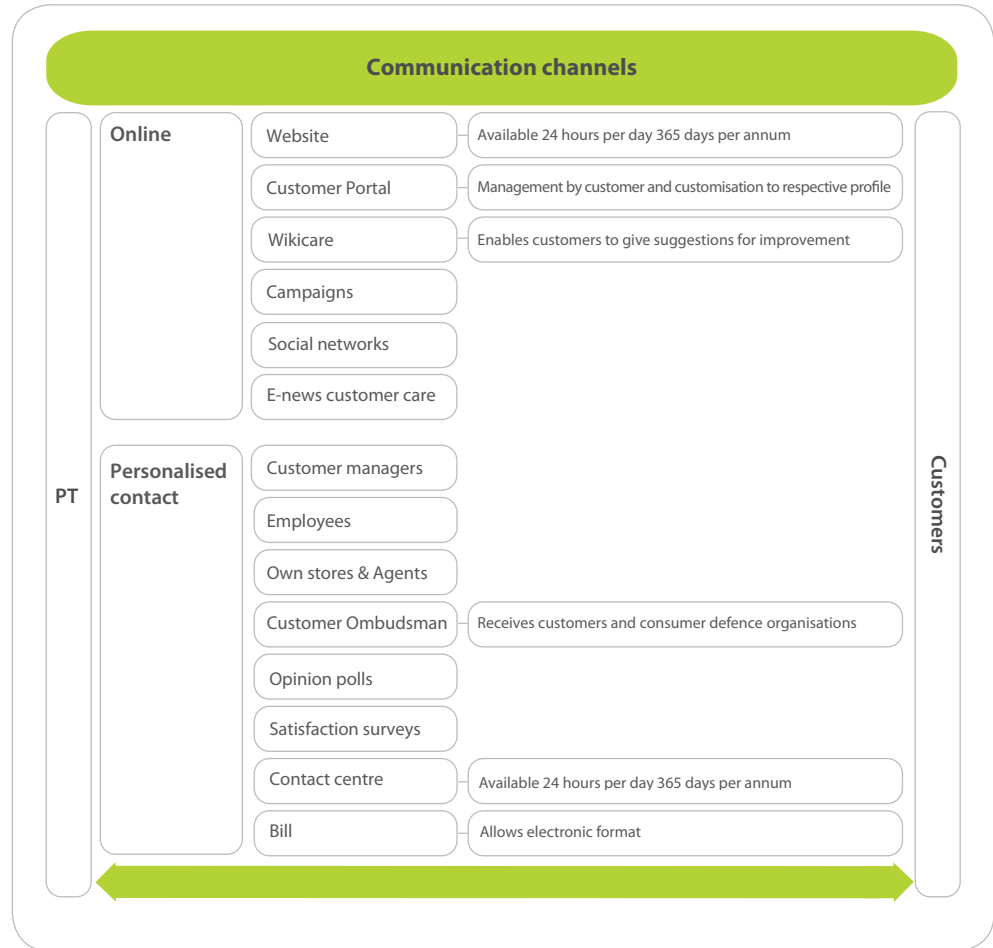
Ethics in the commercial relationship

Promotion of correct habits in service use

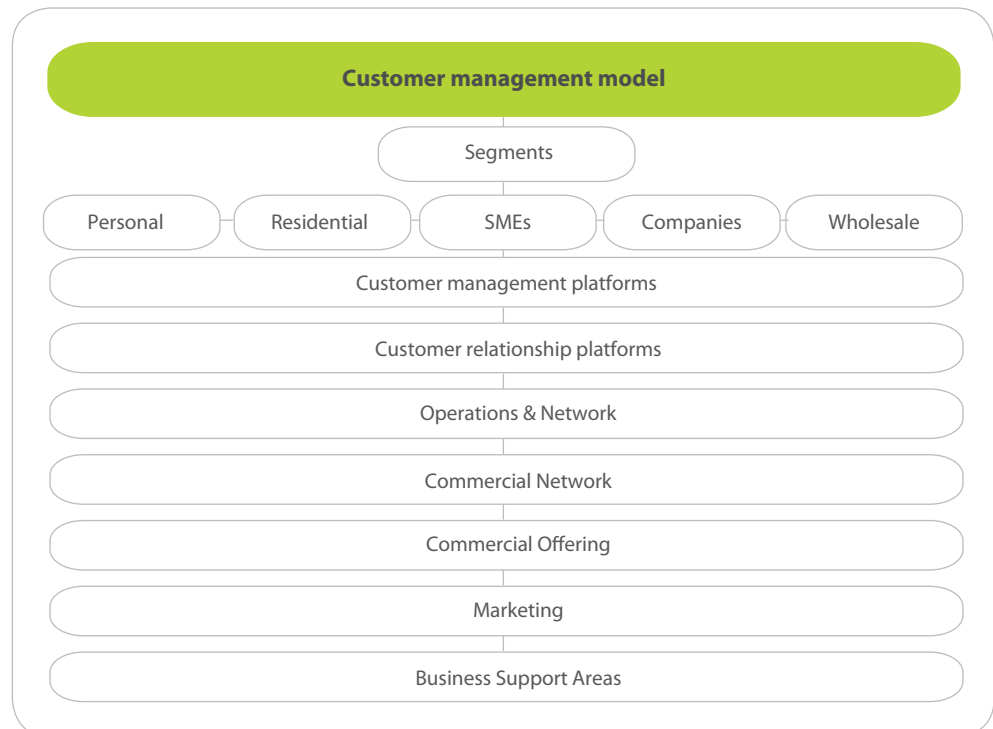
Within this context, PT continued to wish to be recognized as the Portuguese company that offers the best customer experience, having received this recognition from several entities over the last three years, both at domestic and international level.

With this responsibility, we have continued to seek the path of excellence in this area and to reinforce the channels of communication with customers, in order to meet the expectations identified in our market surveys.





The path to excellence in customer relationship is based on a company-wide management model.



PT entered a new stage in customer relationship management with the new CRM (Customer Relationship Management) platform, also called project ONE.

For each customer, we get just one screen, one history, one look and one vision.

With the development and implementation of this new CRM solution, PT gained a single image of the customer in every contact point, facilitating the relationship and a better understanding of each one's expectations.

PROJECT ONE

Know customers

Identify characteristics	Have information to identify the integrated profile of each one
Differentiate offer	Create solutions suited to each profile
Interact	Talk and identify new opportunities
Personalise	Respect each one's expectations

Anticipating solutions and improving customer service – Tactical Centre

With more than 100,000 daily contacts, together with the launch of new services and updates to the network, PT has the problem of recording situations/complaints presented by customers, for which it had no suitable, fast and efficient solutions, thus possibly affecting the quality of service and consequently the level of satisfaction of its customers. Therefore, it created an observatory where every case exposed in the scope of customer service is monitored and where new problems are identified and suitable solutions defined. This observatory, designated Tactical Centre, strongly contributed to accelerate the response to customers and to improve the success rate in contacts made via contact centre.

Goals of the Tactical Centre

- **Focus on customer impact** – To improve customer experience, reducing the number of technical calls and fault reporting
- **Articulation of different interventions:**
 - To articulate the intensity of interventions with weather forecasts (fault estimate);
 - To measure the impact of network interventions on the quality of service to the customer;
 - To promote communication, involvement and company-wide participation: customer support, technical areas, operations, business;
 - Control of impact on the customer – analytical and objective quantification;
 - Continuous monitoring – to reduce perception-based analyses;
 - Service assurance - provided by the technical team dedicated to the tuning of the upgrade processes.

In 2011, 428 new situations were identified, distributed by the following areas:

New situations identified by the Tactical Centre

Wireline	230
Wireless	187
Common areas	11

From the identified situations, circa 90% were corrected immediately, minimising the negative impact that these occurrences might cause to other customers and to the customer services of the company.

Examples of situations identified over the last three-year period and solved in the scope of the Tactical Centre:

Common Areas: the quality of the telecommunications services is affected by atmospheric conditions, so after a bad weather alert from the National Authority for Civil Protection (ANPC) there were a number of preventive actions defined in the scope of the Tactical Centre, together with the technical areas in order to minimize possible negative impacts derived from the bad weather for the days identified during October. This operation minimized the negative impact that atmospheric conditions usually provoke on telecommunications.



Wireline: Due to human error, the price update of the fixed telephone service of the residential segment caused an impact on the prices of this service for the business segment. When this situation was detected in the first billing cycle, it was solved at once, avoiding inconveniences to all the other business customers in the remaining billing cycles in the same month.

Wireless: After a request from the business units, the minimum top-up values were changed. Due to human error, the new top-up values would not update the validity of the card for another 30 days as it should be. This correction was made in two days, avoiding an impact on more than 90% of the customers using this service.

Business: Definition of the form of action in situations of spam. Sending a high amount of email by some customers, causes that enterprise customers are left without email access. A preventive circuit of action in these situations includes blocking (pre-emptively) email accounts of corporate clients that are sending more email traffic than normal and providing this information to the call center for an effective response to blocked clients. There is an ongoing project for improvement of account lockout policies, enabling to proactively inform customers that they are going to be blocked.

Customer Ombudsman – minimising unsatisfactory situations

The customer ombudsman evaluates the complaints received from unsatisfied customers, after unsatisfactory solutions have been presented by all the other areas of the company.

During 2010, 61,143 complaints were evaluated and solved.

Origin of situations presented	(Nº. of situations)
Customers	52,384
Consumer defence organizations and other external bodies	8,759
Total	61,143

Every situation presented and evaluated by the services of the Customer Ombudsman was solved in accordance with the customers' expectations in a short period of time, which varied from 4 to 24 hours, according to an evaluation of the urgency of the situation.

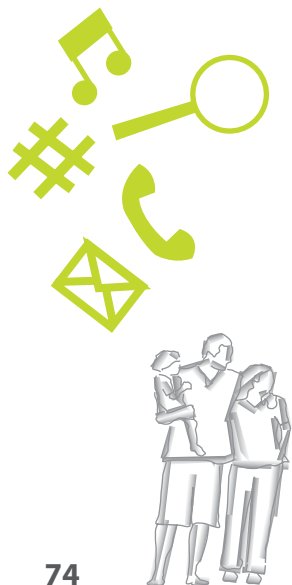
Performance in customer contact

It is essential for PT that customers feel satisfied with their customer contact services.

Being aware that the number of contacts would necessarily increase due to growing service sophistication and diversification, the performance monitoring reached shows that the improvement measures introduced contributed to increase PT's customer contact capacity in terms of response time and quality.

Customer contact	2009	2010	2011
Total contacts received/1,000 customers (monthly average)	219	182	160
Contacts made (monthly average)	95.3%	91.3%	95.4%

Complaints	2009	2010	2011
Total complaints received/1,000 customers (monthly average)	31.7	26.6	30.7
Time spent treating each one – days (monthly average)	3.9	4.1	2.2



Service Installation

	2009	2010	2011
Total installation requests (monthly average)	72,503	67,455	63,865
Time spent installing each one – days (monthly average)	10.3	8.3	9.2

Faults

	2009	2010	2011
Total faults reported/1,000 customers (monthly average)	33.4	29.4	24.7
Time spent repairing each one – days (monthly average)	1.6	1.7	2.1

The three-year period showed an unusual capacity of PT to adapt to the market because, not only it innovated significantly its commercial offering – with the multi-platform services and expansion of the fiber-optic network across the country – but also adapted effectively its contact and care services to its customers who legitimately increased their support requests to obtain clarification, troubleshoot faults or have new services installed.

In line with the goals set for the three-year period, the request resolution time improved on average and, this year, the average time for the resolution of complaints was significantly reduced (47%), compared with the previous year, compared with the previous year and (44%) over the last three years.

2.2. CUSTOMER SATISFACTION INDEX

Customer recognition demonstrated through the average score attributed to PT constitutes a strong motivation to keep improving daily the relationship established with the market.

Apart from the CRM platforms, PT has chosen to survey regularly the market to collect perceptions and expectations concerning the activity of the PT Group.

These surveys aim to assess the level of customer satisfaction and are conducted on market segments, obeying generically with the following criteria:

SEGMENTS SURVEYED

Residencial customers
Personal customer
Business customers

SURVEYS CONDUCTED

Global satisfaction index
Welcome call
Evaluation of complaint resolution
Evaluation of fault resolution



These surveys are conducted by external market research institutions of good repute with renowned experience in order to give accurate, neutral and impartial information and to constitute a valid basis for the decision-making processes and identification of corrective measures.



The methodology adopted in these studies is based on statistically significant samples for each market segment and the overall results assessed in three years have the following profile:

CUSTOMER			
	2009	2010	2011
Residential customer satisfaction index (1 to 10)	7.8	7.8	7.9
Personal customer satisfaction index (1 to 10)	8.0	8.0	8.8
Business customer satisfaction index of fixed service (1 to 10)	7.4	7.9	7.6
Business customer satisfaction index of mobile service (1 to 10)	7.4	7.5	7.6

Sources: Residential / Personal: Marktest
Business: DataE

In general, the average levels of satisfaction expressed by customers throughout the three-year period were high and therefore reveal the existence of a positive relationship between both parties. The business market presents on average satisfaction levels below those of the residential market and these assessments over the three-year period stood at very high levels, with improvements from year to year.

The exception was the average satisfaction of the business segment area in wireline, which in 2011 declined slightly compared with the previous year, remaining, however, at a high level and in line with the objective for this period.



2.3. DATA PRIVACY PROTECTION

The Information Security Policy in terms of Information Systems and Technologies was prepared and launched in 2010, having most employees been subject to specific training actions and the respective content was disclosed to both customers and users.

Confidentiality and security of consumer data, access and traffic protection to database information, as well as confidentiality of telecommunications content, are areas safeguarded by PT in order to respect the freedom and basic rights of each individual.

PT follows the national legislation scrupulously, which is very detailed and specific concerning this subject, as well as the European and American legislation. Being listed in European and North-American Stock Exchanges, PT is scrutinised by entities from different sectors, apart from the regular audits to all the situations capable of rendering the protection of personal data more vulnerable with the support of security and legal experts.

When we say personal data we mean any information of whatever nature and irrespective of the respective support, including sound and image, relating to an identified or identifiable natural person: it is the person who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural or social identity.

Information Security Policy

In 2010, PT prepared and launched its Information Security Policy in terms of the Information Systems and Technologies. This policy contains a vast number of procedures about which most employees have already been specifically trained.

Knowing that this is a sensitive area in which evolution is fast, PT has been participating in discussion forums on this matter and implementing measures deemed as best practices to safeguard data protection and customer privacy.

The rules set out in this privacy policy supplement the provisions on personal data, provided for in the contracts that customers celebrate with PT Group companies, as well as the rules laid down in accordance with the Terms and Conditions governing the offer of various products and services, which are advertised on the respective websites.

PT provides data pertaining to its customers exclusively on request by the judicial authorities and in the terms of the law.

Participation in the 31st International Conference on Data Protection and Privacy

- As a sequence of the 31st International Conference on Data Protection and Privacy held in Madrid, 50 countries came to an agreement on new common measures about data protection and privacy, as some of the measures already developed and applied within the EU are expected to be enforced outside its borders.
- The "Madrid Resolution" as the document is known, seeks to establish international standards to ensure increased privacy and reservation in the access to personal data and may originate new legislation in this domain in countries where it does not exist.
- PT is part of a working group in which representatives from circa 50 countries and companies in the domain of the information and communication technologies are also present.
- The approved document may be consulted online and defines the basic principles for the use of personal data: loyalty, legality, proportionality, quality, transparency and responsibility. It also recognizes the need of existence of supervisory authorities.
- The principles defined in this resolution are part of the "standard" in force in the European Union and in Portugal, but the authorities have been defending the importance of its generalisation to other countries as transactions and services are each time more global, as data protection of Portuguese citizens may be rendered more vulnerable taking into consideration the absence of rules in other countries.

A Committee responsible for the implementation and verification of the Privacy Policy applicable to the group as well as for the definition of clear rules for processing personal data was created, ensuring that all those who entrust us with their personal data are aware of how they are treated and what rights they enjoy in this matter.

2.4. CONTENT SECURITY

Today's ease to access and to make available contents is really stimulating, no doubt contributing to bring people closer together, and to make these more knowledgeable in diversified terms. Nevertheless, we know that this reality causes concerns related to undue use of these potentialities by segments of the population with less critical and/or selection capacity to choose contents suited to their interests.

Aware of this fact, PT has launched initiatives whose goal is to make the population aware of the responsible use of contents, makes available guidelines for the use of parental control devices and software, follows the recommendations on international bodies on this matter and signed a protocol in 2009 with a scientific computing entity to monitor contents and for network security.



Code of Conduct:

PT signed in 2008 the Code of Conduct for activities of delivery of content services that aims to protect minors from harmful content when using mobile communication services.

Protocol of cooperation for IT security and safe use of Internet

PT signed a protocol of cooperation with FCCN (Foundation for National Scientific Computing) in the domains of IT and Internet security.

As to IT security, there is provision for an action or a number of actions carried out against a computer or computer network that results or may result in the loss of confidentiality, integrity, or performance of a data communications network or system, namely unauthorised access, information change or removal, interference or service denial in a computing system.

As to Internet security, there is provision for the identification and denunciation of illegal contents, aiming essentially to remove and make impossible the access to content pertaining to child pornography or violation of human rights, notably violence and racism.

Charter of principles to ensure greater security of children and young people

PT is also a signatory and founder of the industry alliance that developed a number of guidelines to ensure greater safety of children and youngsters in the use of information and communication technologies published in January 2012 - "Principles for the Safer Use of Connected Devices and Online Services by Children and Young People in the EU", and which brings together players representing the entire ICT value chain: operators, manufacturers, social media, gaming and content providers.

"Communicating Safely" Program

In order to make the school community aware of the good use of content accessible via electronic communication devices, PT prepared, through its corporate volunteer work programs, an initiative to be brought to a wide number of schools nationwide in a classroom environment whose goals are:

- To promote the safe and responsible use of electronic content and equipment;
- To make educators aware of the parental control tools currently available.

This program was prepared and tested in some schools in 2009, and it is being executed all over the country.

Guidelines for best practices in the use of services and parental control

The interactivity of the new media not only opens doors, but also, just as in other aspects of day-to-day life, requires attention in order to preserve the safety of each individual, of their personal data and the information or content that they want to access and share with others.

It is therefore essential to know the correct and ethical ways of using these services so as to ensure that experiences in today's digital world be more enriching and responsible. PT, aware that this path is the best for the safeguard of their customers, particularly the younger ones, provides parents and young people with a number of services and guidelines, which tend to promote safe use of information and communication technologies, which can be found online on the respective website.



2.5. RESPONSIBLE CONSUMPTION

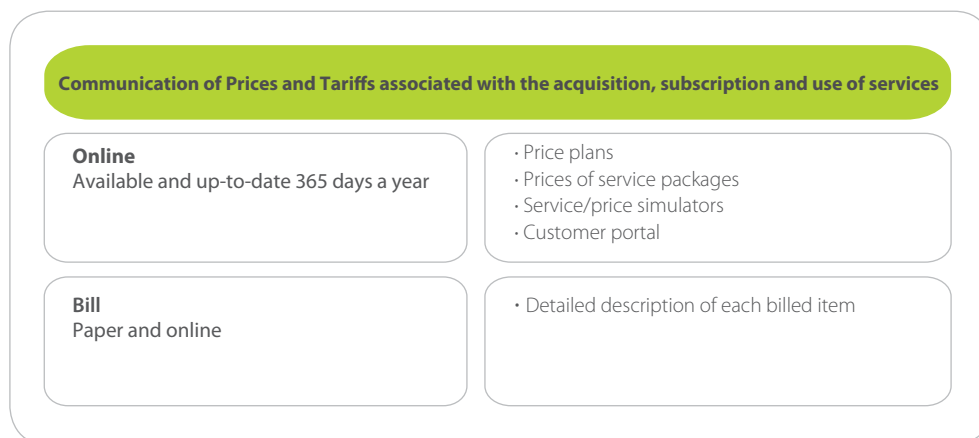
For PT, it is crucial to provide customers with the necessary knowledge so that they can make their purchase, subscription and/or use options consciously and responsibly.

The increased convergence between devices and contents, between the fixed and mobile networks and the new functionalities afforded by the fibre optic network (including FTTH – Fibre-to-the-Home), together with the consolidation of the customer management and interaction, programs for customer service improvement and the aggregation of more sustainable attributes to the commercial offering, were some of the issues on the management agenda of the business units of the group's companies over the last three years.

Initiatives that contribute to a more responsible consumption

In order to ensure the clarity of the tariffs associated with the acquisition, subscription and use of services, PT had already launched in 2009 a new bill that presents each item more clearly to its customers and kept the online divulgation of prices as well as simulators so that each customer may have total control over the amount spent and may select the most convenient solutions for their specific needs and characteristics.

Communication of prices and tariffs



User manuals that promote healthy and environmentally-friendly use of products and services

- All the products and services commercialized by PT are subject to rigorous tests in order to ensure user health and safety and, for each one, there is a user manual of procedures and/or labels provided with the specifications on their adequate use and what to do whenever replaced or discontinued by the users.
- In addition, PT developed and promoted a mini-website with an entertaining content that informs customers about the opportunities and risks to take into consideration in the selection and use of ICT-related devices and services: <http://sustentabilidade.telecom.pt/>.
- The packages of the products sold contain labels indicating the correct forwarding of the respective waste.

In 2011 there was not any controversy associated with the products and services marketed by PT.



Guidelines for minor protection and parental control

- On the website of the company, customers will also find user guides that include not only parental control indications as well as indications to protect the identity of each user and access to harmful contents. Soon, we will also make available indications on healthy ways to use telecommunications equipment and services.

Impacts of services and products

- Through case studies, published online on the website, PT informs customers about the impact of some of its services: highlight goes to the study on the carbon footprint of the mobile service and its comparison with the carbon footprint of other services.

<http://www.telecom.pt/NR/rdonlyres/0EF3D6DB-B23C-4288-86C3-046832F85D95/1458006/MobileCarbonFootprint.pdf>.

Products and services that minimise customers' carbon footprint

- The commercialisation of services and solutions, based on the new information and communication technologies, will contribute decisively to the energy dependency reduction of our customers and consequent atmospheric carbon emissions minimisation. The healthcare, education, and domotics domains have already started to become the basis of this new paradigm and although still little significant, they are already a new window of opportunity in environmental preservation.

Products and services for people with special needs

- The commercial offer available includes products, services and solutions for people with special needs and offers packages adapted to foreign residents.

Responsible Marketing

- Promotional campaigns made by the company seek to respect the beliefs and values of the target audiences and provide accurate information about the characteristics and forms of use of the services/products advertised;
- All campaigns are published containing one or more contact forms - an email, a website and/or a phone number - through which a customer or a potential customer can clarify doubts, give suggestions, request detailed information or subscribe to the product/service promoted.
- Messages used in the campaigns are built consciously and responsibly, appealing to the benefits of the brand, product and/or service. Messages are avoided establishing comparisons with the competition or that reveal situations susceptible to undermine the values and beliefs prevailing in Portuguese society.

Last year, PT was not subject to any dispute regarding their communication campaigns.

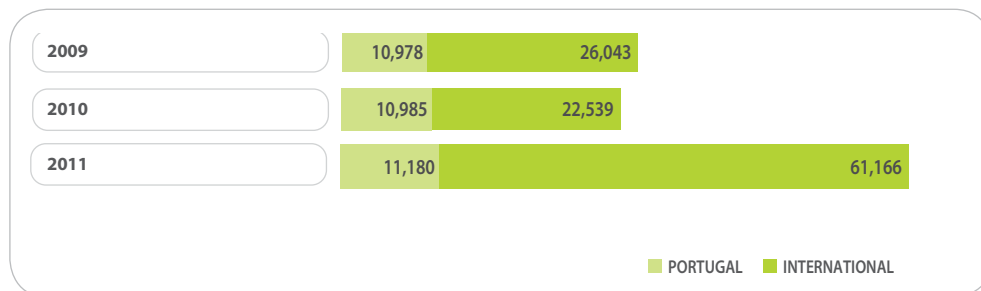


3. EMPLOYEES

3.1. EMPLOYEE PROFILE

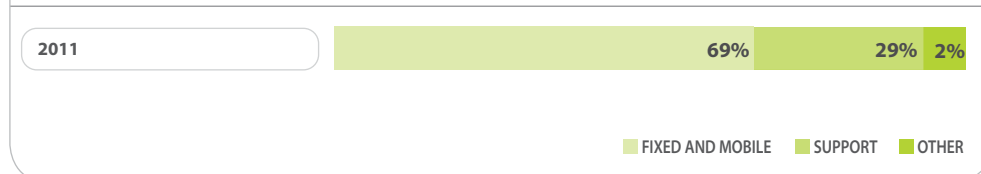
Globally, the profile of PT's employees underwent changes at international level, arising from the sale of the operation held in South America, Brazil – VIVO – and the subsequent acquisition of a stake in the largest Brazilian operator – Oi, in 2011.

Thus, the overall profile of the employees of the group acquired the following configuration:

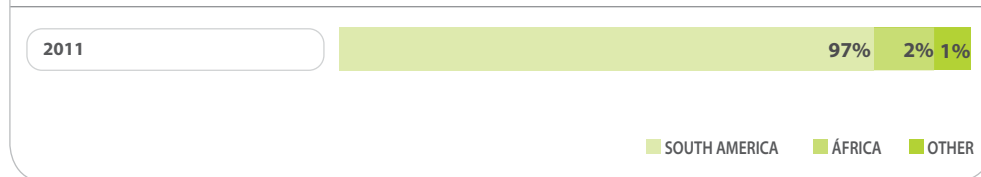


Without VIVO

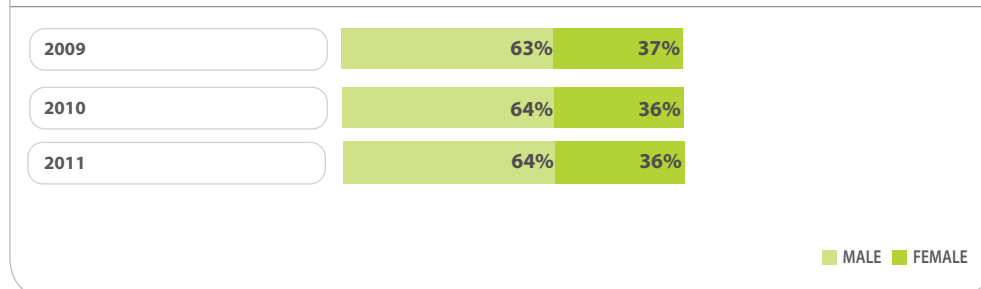
DISTRIBUTION OF EMPLOYEES BY BUSINESS AT NATIONAL LEVEL (%) IN 2011



DISTRIBUTION OF EMPLOYEES AT INTERNATIONAL LEVEL (%) IN 2011



GENDER*



* Data from PT in Portugal



The distribution between men and women has remained stable over the last three-year period – in every ten employees, about six are men and four women.

PEOPLE WITH DISABILITIES*

2009	1.02%
2010	1.04%
2011	1.07%

About 1% of PT's employees have disabilities.

AVERAGE AGE* (YEARS OF AGE)

2009	40,6
2010	40,6
2011	41,0

The average age of employees remained at the same levels over three years, although it shows a slight increase in the last year.

AVERAGE TERM IN SERVICE* (YEARS OF WORK IN THE SERVICE OF THE COMPANY)

2009	14,5
2010	14,5
2011	14,8

The average term in service of PT's employees was stable over the three-year period, revealing a slight increase in the last year

UNIONIZED EMPLOYEES*

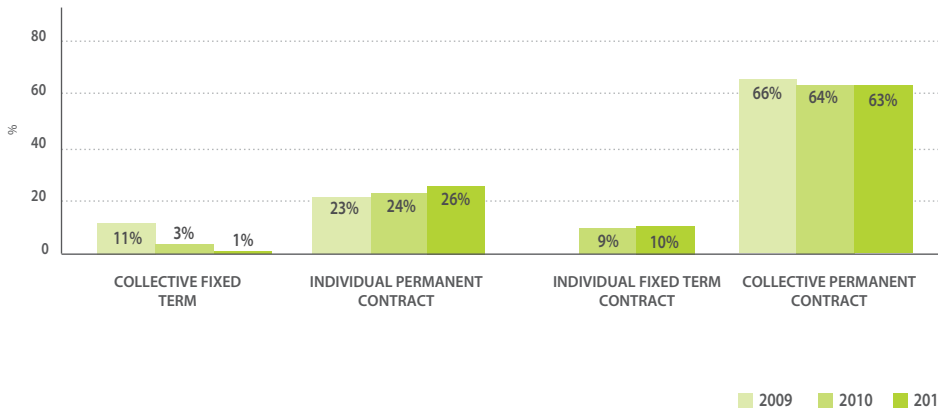
2009	44%
2010	41%
2011	39%

The percentage of unionized employees showed a slight reduction over the last three years while the number of employees covered by the Company Agreement – designed and approved by all entities representing the employees – includes, in 2011, approximately 64% of all employees.

* Data from PT in Portugal



TYPE OF CONTRACT*



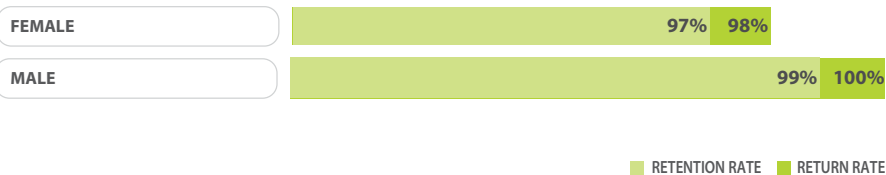
Over the last three years, collective contracts account for about 2/3 of the contracts established with the employees and individual contracts, about 1/3.

ABSENTEEISM*



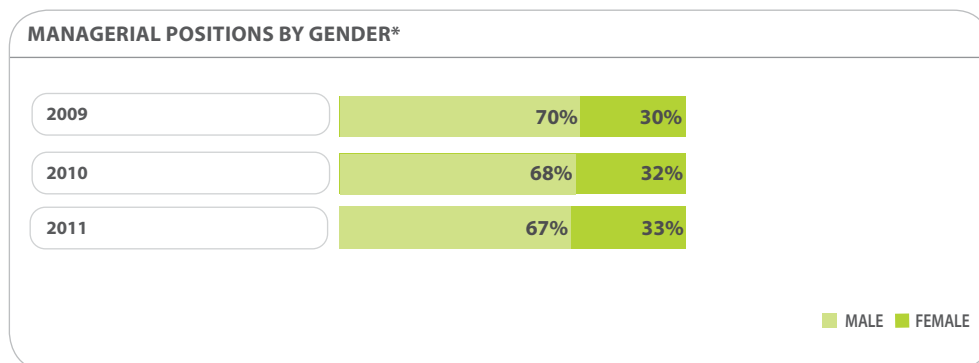
The rate of absenteeism at PT, calculated from the potential of working hours and the number of hours of absence remained stable throughout the last three-year period, between 3 and 4%, amounting to 5.9% for women and 2.6% for men in 2011.

RATE OF RETURN AND RETENTION AFTER PARENTAL LEAVE IN 2011*

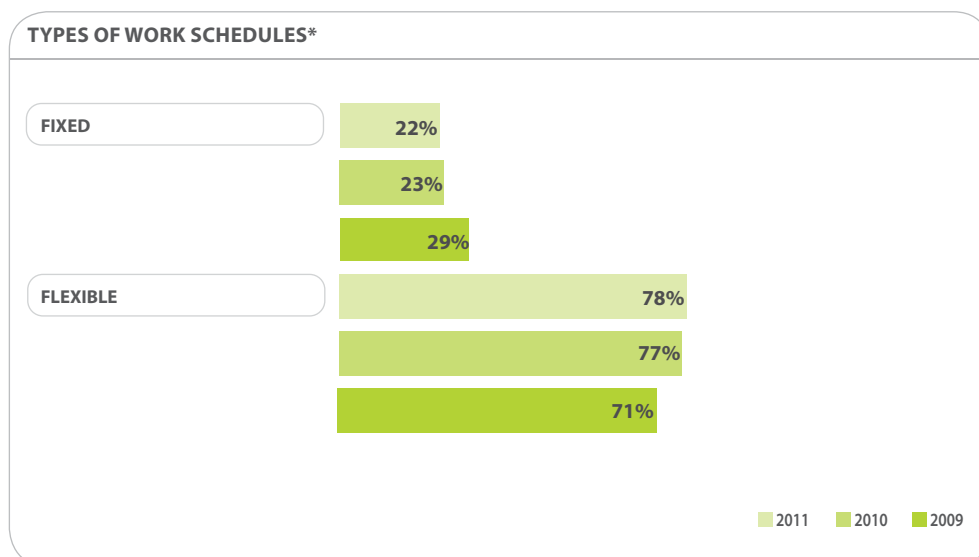


All employees are covered by the right to parental leave and the rate of return after parental leave, in addition to the retention rate at the end of a year, are those referred to in the chart above.

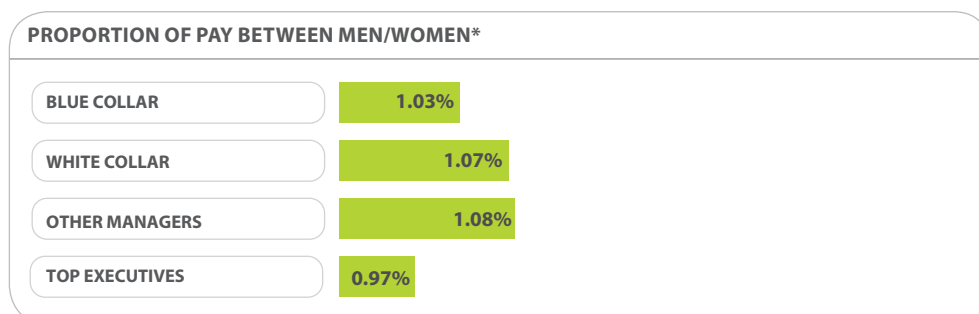
* Data from PT in Portugal



The percentage of women in managerial positions increased slightly over the last three years.



Flexible work schedules allow a better reconciliation of work and family life. Most employees have a flexible work schedule assigned, and this percentage increased slightly over the last three years.



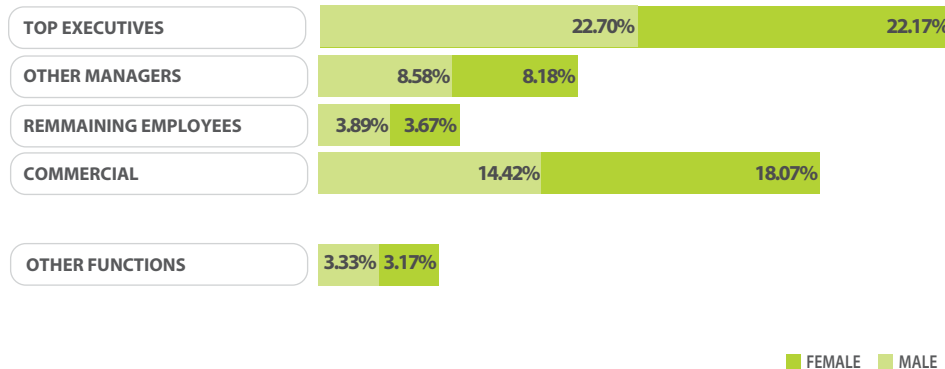
Among top executives, women receive on average a slightly higher pay than men. Generally, among the remaining employees, men's salaries are on average slightly higher than women's.

* Data from PT in Portugal

MINIMUM REMUNERATION PAID BY PT/GUARANTEED MINIMUM MONTHLY REMUNERATION* = 1

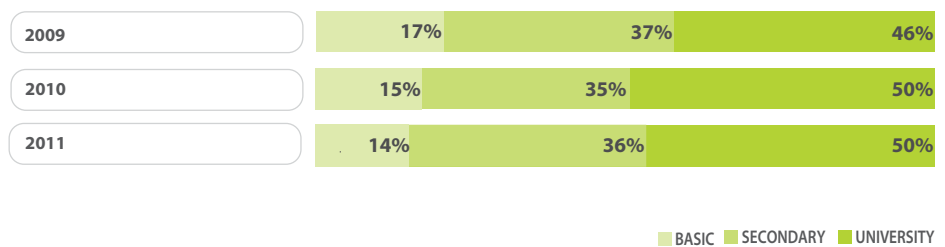
At PT, just 11 employees receive the minimum remuneration.

VARIABLE REMUNERATION/BASE REMUNERATION IN 2011*

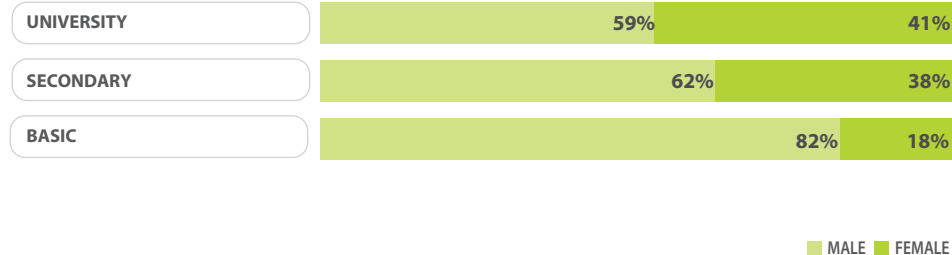


The top executive and the commercial functions present a higher level of variable compensation compared to the fixed remuneration.

ACADEMIC TRAINING*



Over the last three years, the academic training of employees has evolved into a slightly higher training level.



At PT, the proportion of women increases with the level of academic degree (2011).

* Data from PT in Portugal.



**TURNOVER RATE OF EMPLOYEES***

TURNOVER RATE		(RECRUITMENTS/TERMINATIONS)
Global		1.34
Gender		
Women		0.90
Men		1.64
Age		
<30		3.31
30-50		0.79
>50		0.03

*In 2011 the turnover rate at PT was 1.34. This figure was 1.64 in men and slightly lower for women (0.90).

In terms of age, the rates reflect the bet on staff rejuvenation, showing a value of 3.31 for employees under 30 years and of 0.03 for employees aged over 50 years.

NUMBER OF EMPLOYEES HIRED DURING THE YEAR 2011 AND LEFT IN THE SAME YEAR*		
Age/Gender	Women	Men
<30	8	6
30-50	11	2
>50	0	0

* Data from PT in Portugal

The number of employees hired during the year 2011 and left in the same year is 27, mostly women (70%).

3.2. HUMAN RESOURCES MANAGEMENT MODEL

The people who are part of the organisation assume a fundamental importance for management as their capacity of adaptation to market changes and innovation in the use of their work tools contribute decisively to making the difference and consequently to the positioning of each company on the market.

Through the profound knowledge about the strong and weak points of each employee and of the organisation itself, it is possible to develop management methodologies to optimize the alignment between personal skills and company goals and in this way contribute to aggregating value to the respective businesses.

In fact, it is people who with their attitude, skills and degree of involvement with the organisation that, more and more, constitute the main factor of differentiation and competitiveness of the company in the global market.

PT's human asset management is done taking into consideration the Universal Declaration of Human Rights as part of the 10 principles of the United Nations Global Compact signed by PT, also complying with the Social Responsibility principles of UNI (Union Network International) and the Portuguese labour legislation.

PT keeps being recognised as a family-friendly company by AESE (Escola de Direção de Negócios) and Deloitte, and maintains the certification of its management systems in the Occupational Hygiene, Health and Safety area, in compliance with OHSAS 18001.

PT's Human Asset organisation aims essentially to:

- Promote a culture of merit and continuous development within the organisation;
- Maximise employee skills and capabilities;
- Ensure close and effective accompaniment of organisational structures;
- Ensure excellence in execution betting on specialisation;
- Promote a constructive labour relationship;
- Stimulate a fluid communication throughout the whole organisation;
- Include all employees in this model irrespective of work contract.

Integrated model of human resource management*

Codes of principles and agreements

- Code of Ethics
- Code of Ethics for Financial Officers
- Company Agreement
- United Nations Global Compact principles
- Union Network International Code
- ETNO Sustainability Charter

Development instruments

- Recruitment model
- Welcome programs
- Mobility programs
- Training programs
- Business Intelligence System
- Talent retention programs
- Internal social responsibility programs
- Corporate intranet
- Professional evolution model

Management and Evaluation Tools

- Organisational Climate Survey
- Performance Assessment system (goals/management and technical skills)
- Employee Portal
- Feedback meetings
- Personal development plan

Benefits

- Working time flexibility
- Health Plans
- Cultural, leisure and eating spaces
- Communication channels
- PT Club
- Plan of discounts for acquisition of services
- Social Support Association
- End of career support
- Internal social responsibility

*The HR model ensures equality of opportunities, equality of remunerations for identical functions, health and security protection and minimum periods of time for communication of any work-related change, for any PT employee.

Means of relationship with the employees

- Employee portal
- Feedback meetings for performance assessment
- Corporate Intranet
- "É Consigo" (helpline –email and telephone line)
- Workers' Committee, Unions and Paritary Committee
- Internal magazine and newsletter
- Organisational climate survey
- Welcome Program





3.3. DIVERSITY AND EQUAL OPPORTUNITIES

PT, in addition to being committed to comply with national labour legislation, believes that it should ensure equal opportunities to all its employees and candidates to their recruitment programs.

All policies that guide the company's acting advocate equal opportunities at work, irrespective of gender, age, race, religion, disability and/or sexual orientation.

In addition to integrating specifically this theme into its code of ethics, it is also a signatory to the principles of the United Nations Global Compact and Corporate Social Responsibility Charter of UNI (Union Network International).

The processes of identifying an appropriate profile to any function, by internal mobility or recruitment of external candidates, are based on the respective technical and behavioural skills and suitability of qualifications and skills of the candidates, for the performance of the activity.

Organizational climate survey

The organizational climate survey, among other topics, translates employees perception about discrimination, where around nine employees out of ten each believe that there is no discrimination within the company.

Gender

It should be noted also that the proportion of women in managerial positions is aligned with the proportion of women in the Organization.

People with disabilities

At PT, over the last three years, about 1% of its employees are disabled and the company has adapted the access to the work positions and the respective work positions, to their special needs.

Age

With an average age of 40 years, PT employees are aged between 18 and 70 years.

No child labour situation has been identified at PT or in any of the companies in their supply chain, but if there had been any report of such a circumstance, PT would have initiated the procedures defined for the resolution of child labour situations.

3.4. ATTRACTION AND RETENTION OF TALENT

RECRUITMENT

PT wishes to continue to rejuvenate its managers seeking to identify the necessary skills to achieve its strategic goals and identifying young talent in the main Portuguese Universities.

In 2011, 65 new interns initiated PT's Trainees program. This program lasts has the duration of two years and puts the interns in contact with the different areas of intervention of the company so that they may get in touch with the entire business reality. The groups of Trainees annually admitted by PT deserve being followed up and directly evaluated by the Chief Executive Officer.

During 2011, in order to optimise the talent retention programs already existing in the group, the pilot program continued to be implemented, having several actions, namely coaching and advanced training, been conducted on 40 managers who have shown talent according to two perspectives:

- Leadership, and
- Specific technical knowledge.

This project will be extended to the entire organisation during the current year.

This action has direct impact on employee retention, enabling to capitalize on the investment made, both in terms of admission and of continued training of these employees.

Training and development

Employee training is considered a priority by PT's management. Only through an adequate training plan can solutions be anticipated and value added to human resources, businesses, the environment and society. Over the last three years, PT has invested more than Euro 10 million in training actions of their staff.

INVESTMENT IN TRAINING PER YEAR (EURO MILLION)*

2009	3,278
2010	3,210
2011	3,515

NUMBER OF TRAINING ACTIONS*

2009	5,626
2010	6,077
2011	6,464



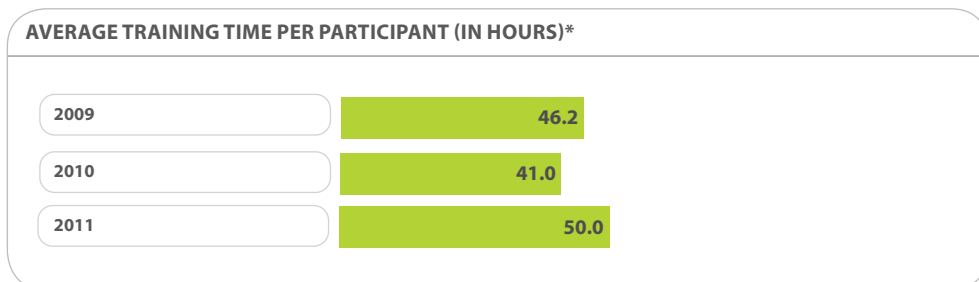
*Data from PT in Portugal.



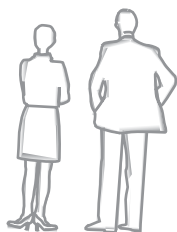
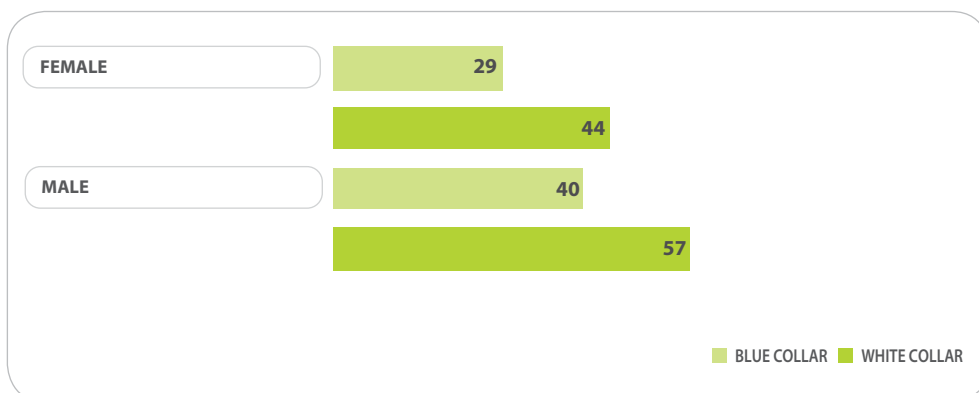
The number of training actions has increased over the last three-year period, having been conducted in the year 2011 in the form described below:



PARTICIPANTS IN TRAINING ACTIONS VERSUS UNIVERSE OF EMPLOYEES* = 96%



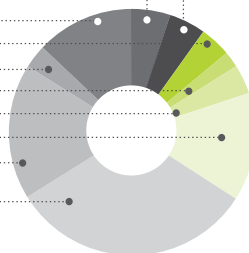
The training time per participant rose slightly in 2011, to 50 hours on average per participant, although the average number of hours is higher for senior management and, within these, male employees.



*Data from PT in Portugal.

TRAINING AREAS*

MANAGEMENT	5%
COMMERCIAL & MARKETING	5%
ENVIRONMENT & OSH	13%
BEHAVIOURAL	4%
CODE OF ETHICS	3%
IDIOMS	2%
ACADEMIC	4%
IT	14%
GENERAL	18%
TECHNOLOGY	32%



In addition to the areas of behaviour, environment, occupational safety and health and code of ethics, employee training in 2011 related mainly with technological innovation and information systems.

Management and performance assessment

Performance assessment is a key element of the human resources management process having been subject to improvements in line with the current market trends, with the company's strategic direction and with best practices that are taking place at international level.

Performance assessment - Main objectives

Motivate

To motivate people through the establishment of objective criteria which make it possible to reward their contribution to the performance of the organisation

Develop

To monitor employee performance, providing them with a clear direction; to establish future commitments

Improve results

To analyse the levels of goal fulfillment and skills proficiency

A process of analysis in terms of behaviour skills and achieved results was defined and implemented, involving all employees, which is based upon a number of transversal skills, systematized into a common scale, differentiated by assessment profiles so as to allow an evaluation suited to the duties and skills of each employee.

Assessment areas

Knowledge

Attitude

Initiative

Rigour

Teamwork

Team management

Goal Achievement



The model comprises a top-down analysis, self-evaluation and feedback meetings between evaluator and evaluated person, whose result is a Personal Development Plan for each employee, in which a joint constructive analysis is drawn up for the development and maximisation of the strong points of the employee as well as the identification of development actions on areas to improve.

The Performance Assessment is supported on an application resident on PT's internal portal, its main features being the ease of access by all employees and execution of all associated actions.

This management tool allows:

The Company

- To increase their knowledge of employee skills;
- To increase their level of alignment with the strategy of the company;
- To reinforce the orientation towards the fulfilment of goals;
- To promote bottom-up and top-down communication.

Employees to get

- A better knowledge of what the management values in their work;
- Awareness of their strong points and areas to be improved;
- New opportunities for direct communication with management to find the best solutions to meet the defined goals;
- The right vectors for improving their performance and development.

In order to ensure process transparency, once the conclusion of the assessments is stabilised in the system, the self-assessments are made available on the intranet to the evaluators as well as the evaluation and respective Personal Development Plan to the evaluatees. The aim is to get feedback on the level of satisfaction of the employee with the performance analysis process, so that during 2011, employees should confirm their acknowledgement of their evaluation during the feedback meeting, not only to validate that it took place, but also to express their agreement with the Personal Development Plan, ensuring in this way the best articulation between all parties.

Professional development model

The telecommunications sector has evolved very rapidly in recent decades, which means successive adaptations of its employees and management models of goals and incentives. So, in 2011, a new model of professional development was implemented that seeks to blur the complexity arising from previous models based on:

- simplicity,
- individual merit,
- internal equity,
- competitiveness, through compensation in line with the market, and
- transversality, as it promotes mobility.

This model includes five professional categories and five levels of development in the various functional areas of the company's activity.



With simple and objective rules, the new professional development model allows all employees to:

- have a clear perception of the evolution of his career in the company,
- know what is to be expected from their career,

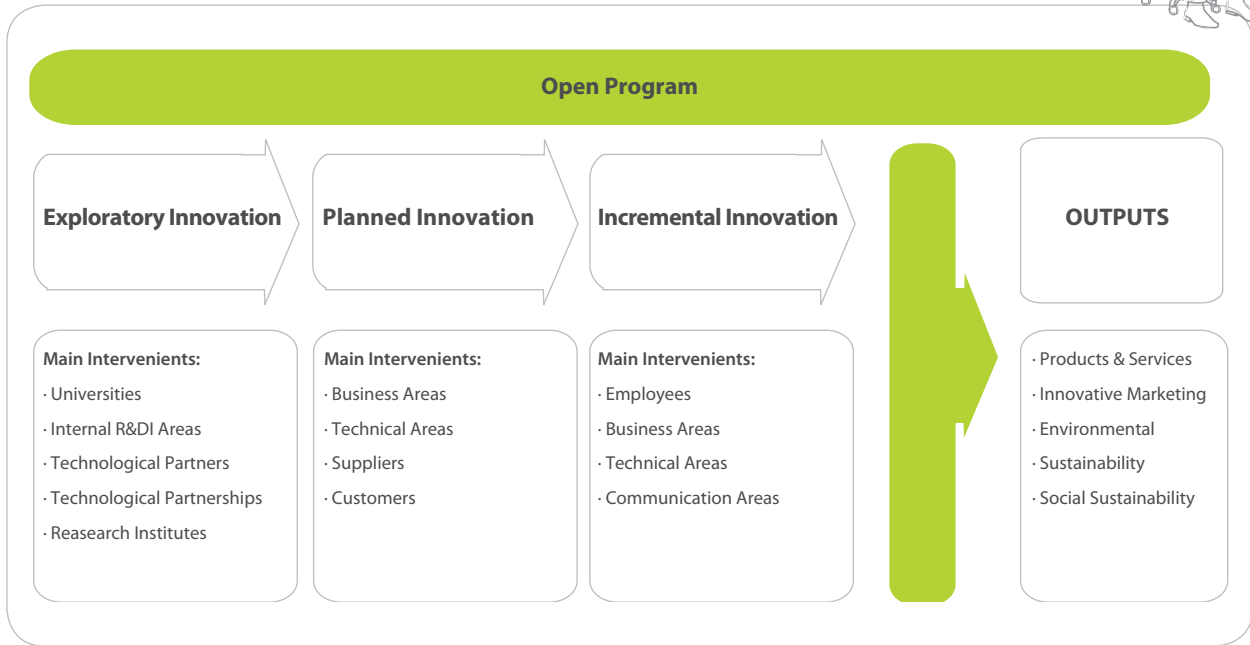
- know that performance matters to their evolution and to
- feel more motivated to work.

Two movements of professional evolution are provided for:

- progression that certifies the employee movement to the next development level in the same professional category, where they continue to perform duties of similar complexity
- promotion that certifies the employee to a higher professional category, as they perform duties of greater complexity

3.5. OPEN PROGRAM | GENERATING IDEAS

PT's Research, Development and Innovation model is based on a program where all employees are agents that contribute actively to its implementation. In addition to technological innovation, employees have been called upon to participate in the organizational, procedural, environmental and social areas, especially within the framework of incremental innovation.



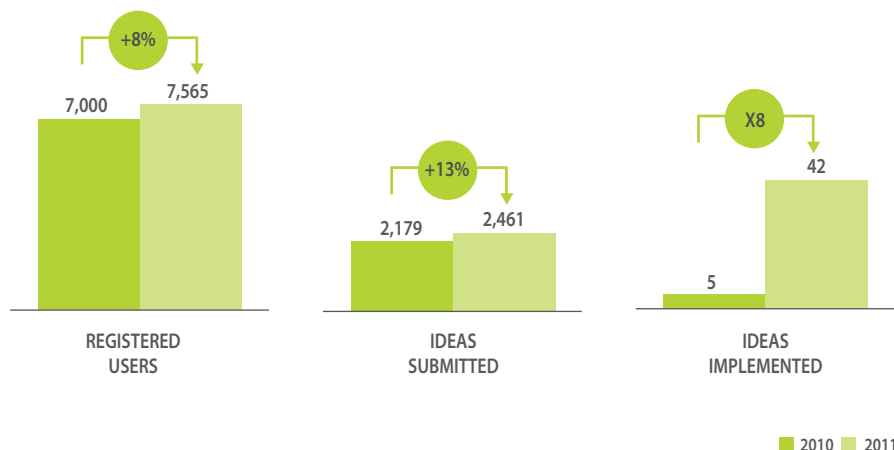
The structured approach to RD&I management brought by the OPEN program, since its launch in 2009, has been decisive for the promotion of a culture of innovation throughout the PT Group and for fostering motivation of the whole staff.

Through the marketplace of ideas - online platform resident on the company's corporate intranet - employees respond to challenges, submitting, discussing and voting on solutions. About 2/3 of employees have already participated in challenges launched by the OPEN program.





PROGRAMA OPEN | PARTICIPATION IN THE MARKETPLACE OF IDEAS



The ideas presented in the program are subject to an assessment in accordance with the economic, environmental and/or social impact on the company and according to their opportunity for development or implementation.

In 2011, this program generated 2,461 valid ideas, of which 42 were implemented, which can be found in the RD&I chapter.

This new culture has contributed decisively to leverage methodologies and work processes within the organization, to foster their social and environmental sustainability and to create a relationships ecosystem susceptible to stimulate employee creativity and commitment in identifying ideas/solutions that distinguish PT's attractiveness in the market.

3.6. COLLECTIVE BARGAINING AND REPRESENTATION OF EMPLOYEES

Employee policies and management model are the outcome of the dialogue between PT's management and the heads of the workers' collective representation structures.

The issues discussed in the meetings relate to the issues on the agenda for the year in question.

Bargaining of the Collective Labour Agreement (ACT) of telecommunications operators - 1st stage (year 2011)

- a. Area, scope, duration, review and Joint Commission (Commission comprising PT executives and employee representation structures)
- b. Rights, duties and guarantees of the parties
- c. Training
- d. Filling work positions
- e. Positions of top executives and managers - secondments (includes functional mobility)
- f. Casual staff transfer (includes functional and/or geographical mobility)
- g. Special conditions of work
 - Parenting
 - Worker-Student
 - Physically disabled workers

h. Workplace
Personnel transfers (includes geographical mobility)
i. Duration of work
Normal period of work
Part-time work
Weekly Rest
j. Remuneration of work
k. Suspension of the provision of work
Public holidays
Vacation
Absences and unpaid leave of absence
l. Exercise of union activity
m. Health protection, safety and health at work
n. Career model
Definitions, guidelines and professional activities
Professional development (progression and promotions)
Functional areas
Professional categories, functional contents and requirements
Table of minimum remunerations and reference values for integration in development levels
Integration process and functional migration
o. Regulation of disciplinary authority

In 2011, this dialogue had the following frequency with the issues subjects on the agenda.

Collective representation structures of workers		
	Trade Unions	Workers' Committees and Sub-Committees
N.º of meetings in this year between PT's management and representatives →	35	51
Issues handled: ↓		
Collective Labour Agreement	●	
Training Plan		●
New Career Model	●	●
Assessment & Incentives	●	●
Work Schedules	●	●
OSH Plans	●	●
Information Security		●
Safety in buildings		●
Functional restructuring		●
Grants and prizes	●	●
Financial results		●
Responsibility/Social Policy	●	●

Agreed conclusions are incorporated in these meetings into the policy and management models adopted.



3.7. RECONCILING WORK AND FAMILY LIFE

Aware that many European studies identify that families express having great difficulty in reconciling working life and family life, in particular as regards the gaps between working hours and the schedules of their children's schools and, where necessary, the support in case of illness of children and/or parents, PT has implemented a number of procedures and initiatives aimed at mitigating the adverse consequences of this reality.

Internal Social responsibility

PT's internal Social Responsibility area, "éConsigo" - is based on four pillars and intends to support employees and their families, promote social values, group initiatives related with well-being, health and culture, mark special moments and to support the development of employees' children going through difficult situations.

INTERNAL SOCIAL RESPONSIBILITY	
Internal social responsibility programs for employees and family members	Description of the scope of the programs
Grow	Digital inclusion program, acquisition of school skills and occupation of free time
Support	Program to support specific needs
Action	Sports and cultural initiatives that promote well-being, anti-stress, and reinforce team and family spirit
Celebrate	Program to commemorate special dates

We highlight the following procedures and programs that assume particular significance over the years and, in particular, also in 2011:

Working hours

As to working hours, PT has flexible working hours, allowing employees a time band to start work and another to leave work, which facilitates the reconciliation with the remaining schedules of the respective families. More than 75% of the employees enjoy a flexible work schedule.

Employees with flexible working hours in 2011 – 78%

Health

In terms of health assistance, PT has a network of health care providers for employees and, if they so wish, the rest of the household, in favourable conditions compared with other health care systems.

Support for studies of employee children

The PT has a support program – grants and excellence awards – for the studies of employee children who are going through situations of apparent difficulty, related to temporary spouse unemployment and/or situations of serious or protracted illness.

2,606 actions of support (+ 9% vis-à-vis 2010) were carried out.

Summer camps for employee children

During school holidays, PT organizes (by age) summer camp programs for employee children. These programs include didactic, ludic and sports activities, which are always very popular.

There were 1,603 participants (+23% compared to 2010).

Family volunteering

PT organizes volunteering programs outside working hours that allow employees to participate individually or jointly with their families. These volunteering programs are often related to environmental protection activities, outdoors, and/or social support (for needy young and/or elderly people).

The family volunteering programs had – 927 participants (+57% compared to 2010).

Budgetary and social training

PT organizes awareness-raising sessions on issues of concern to the families of their employees, in particular relating to:

- Safety of children;
- Family budget management in times of crisis;
- Volunteering;
- Basic notions of first-aid;

The social training programs counted with 908 participants (+52% compared to 2010).

Celebrating births

PT offers a kit (basket of useful things for the baby) to celebrate the birth of employee children.

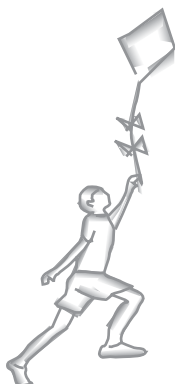
414 Kits were offered in 2011 (-14% compared to 2010).

Bookpoint

PT employees have a network of internal audiovisual libraries where they can request for their homes and for a given period, different formats and different contents suited to various ages and interests.

Advantages of being PT

PT employees and their families also benefit from discounts and special conditions for the purchase of goods and services in various stores and brands (e.g. mobile phones, computers, pharmacies, opticians, gasoline, car repairs, travel and leisure, sports, etc.), through protocols established between PT and the respective brands.





3.8. ORGANIZATIONAL CLIMATE

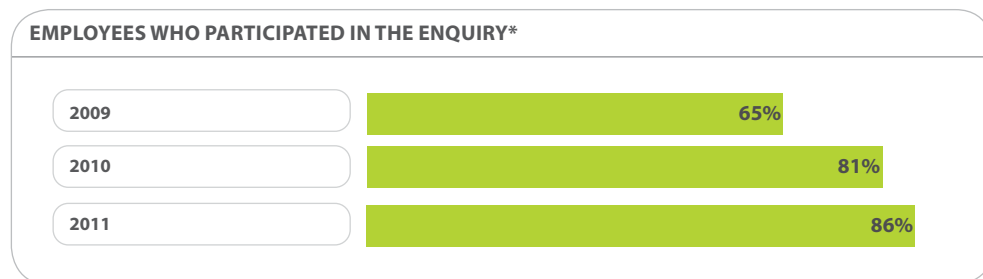
To ask for answers, to listen for understanding, to analyse for improvements: these have been the basic foundations of the Employee Satisfaction Survey that PT conducts annually on their employees.

Carried out in every PT subsidiary, the results of this survey have contributed not only to enabling the employees to express their views in a voluntary, anonymous and confidential way but also to adjusting the human assets management to the strategy of the Group.

Performed on all PT companies, this study has allowed not only employees to express their views in a completely voluntary, anonymous and confidential way, but also to adjust human resources management to the strategy of the group.

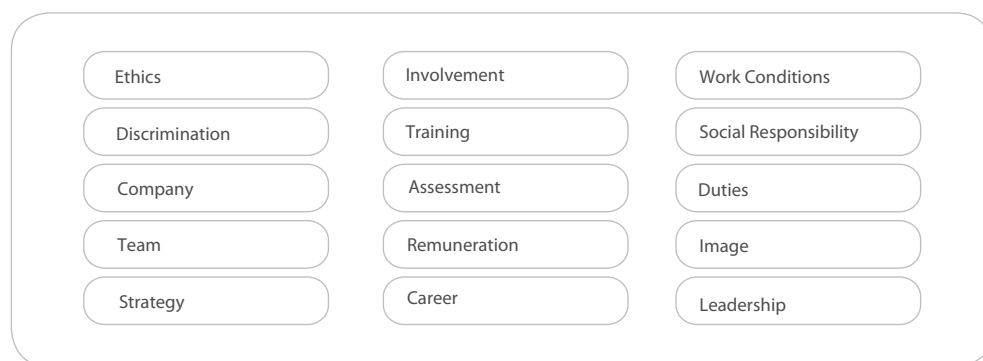
The enquiry implemented in 2011 included, once again, a wide range of topics relative to the concerns and issues that involve the day-to-day lives of those who work at PT.

The accessibility of all employees and the confidentiality of the answers are guaranteed, through direct access to the website of an external, independent company.



Over the last three years, the percentage of employees who participated in the survey increased significantly from year to year, which indicates the recognition of the usefulness of this consultation tool and the application of its results in human resources policies and practices adopted in the company.

The dimensions analyzed in this enquiry are as follows:



To guarantee result comparability, the 15 satisfaction analysis dimensions of previous years were kept, having been assured the evolutionary analysis of the various indicators, not only at PT level, but also by company, area of responsibility and department.

In 2011, the Overall Satisfaction Index (ISG) rose once again, reaching 76 points, on a scale from zero to one hundred. This value reflects a growth of +7 pp compared to 2009 and +3 pp compared to 2010.

* Data from PT in Portugal

EMPLOYEE SATISFACTION INDEX (ISC)*



It should be noted that over the last three-year period the ISC showed substantive improvements from year to year:

- The dimension that showed higher growth in terms of assessment was 'Social responsibility';
- The dimension 'non-discrimination' always received the highest evaluation; and
- Compared to last year, the dimensions 'Careers' and 'Management - employees involvement' had the most significant improvements

3.9. OCCUPATIONAL SAFETY AND HEALTH

Safety and health at work are provided by specialized organizational units. However, employee representatives for occupational safety and health, as well as all employees, are an active party in the continuous improvement of their working conditions and respective quality of life.

All employees are responsible for ensuring safety and health at workplaces, and in particular through participation in hazard identification, risk assessment and on the definition and adoption of control measures appropriate to each situation.

To better anticipate industry trends in this area, PT actively participates in ETNO's work group "Good Work Good Health". In parallel, information and management systems of PT's business units are certified according to OHSAS 18001.

MANAGEMENT MODEL OF SAFETY, HYGIENE AND HEALTH AT WORK

Safety at work

Prevent **work accidents**, minimising professional risks.

Hygiene at work

Combat **professional illnesses**, through the identification of the factors that may affect the work environment and the worker.

Health at work

Monitor the **worker's health**, whose technical responsibility belongs to the occupational doctor.

OSH committees represent more than 75% of the employees of the group, and as they act in 99% of the buildings of the PT group, it actually causes that the workers represented can be considered higher than the population of PT Portugal and PT Inovação.

OBJECTIVES OF THE SHS MODEL

Improve the quality of life of employees

Decrease the number and seriousness of work accidents

Improve human relations in the workplace

Ensure business productivity levels

Rationalise costs

* Data from PT in Portugal

**IMPLEMENTATION OF THE OCCUPATIONAL SAFETY, HYGIENE AND HEALTH MODEL**

- Develop prevention plans
- Identify hazards and assess risks of workplaces and activities
- Participate in monitoring of occupational risks and propose the respective measures to eliminate/mitigate them
- Participate in and monitor the implementation of measures to control professional risks
- Cooperate in the conception of workplaces
- Analyze the causes of incidents and define the respective action measures
- Participate in the definition of the information program, in the execution and implementation of information campaigns to employees on OSH
- Participate in the design of the training program on OSH and in the development of the respective educational content and media
- Participate in the activities of certified OSH management systems, particularly in internal and external auditing

The OSH programs conducted by PT ACS cover all active employees and, during the year of 2011, stand out the following activities and results:

ACCIDENTS*

	Total	Gender	
		Men	Women
Labour accidents with sickness leave	90	72	18
Total Hours of Work	19,019,140.55	12,331,012.96	6,688,127.59
Accident rate	0.95	1.17	0.54
Nº. of deaths due to occupational accidents	1**	1	0

** This accident occurred by fall from height from a telecommunications pole, being the secondary cause the lack of observance of security rules and procedures laid down for this kind of work. The primary cause is still under investigation.

TYPE OF OCCUPATIONAL ACCIDENTS*

Service	169
Transport	63
Sport	20
Other	7

ASSESSMENT OF WORKING CONDITIONS*

Nº. of risk assessments performed (IPAR)/Establishment	112
Nº. of Studies and Opinions issued	74

The reviews of working conditions in spaces occupied permanently include the analysis of issues such as thermal environment (temperature and relative air humidity), indoor air quality (carbon monoxide and carbon dioxide) and lighting.

**ORGANIZATION OF SECURITY IN EMERGENCY***

Nº. of simulations conducted	46
Nº. of studies and opinions issued	52

There was a significant increase in the number of simulations conducted each year, from 11 in 2009 to 46 in 2011.

*Data from PT in Portugal.

SAFETY COORDINATION*

Nº. of Safety Procedures cards (FPS)	9,955
Nº. of health and safety plans (PSS)	175
Nº. of Reports/Opinions	910

PREVENTIVE MEASURES ADOPTED*

Global plan for improvement of Individual Protection Gear used in PT companies;
 Training action "STAP – Safety when working at a height – Wooden poles" for PT employees and some Service Providers working outdoors, namely on poles.

TRAINING*

Training conducted on employees	360 training programs on OSH
Average nº. of training hours per employee	6.5 hours

The intervention of PT ACS goes beyond the OSH management model, assuring health assistance to family members of employees, whether in active, pre-retired and/or retired situation.

The intervention of PT ACS covers thus a universe of 50,544 beneficiaries, distributed as follows:

EMPLOYEES BENEFICIARIES BY PROFESSIONAL STATUS*

ACTIVE EMPLOYEES 36%

RETIRED EMPLOYEES 64%



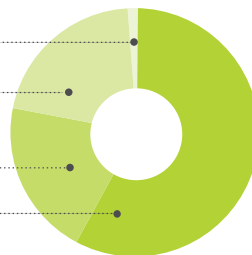
EMPLOYEES AND RELATIVES BENEFITING FROM PT'S HEALTH SERVICES

PROGENITORS 1%

DESCENDENTS 22%

SPOUSES 19%

EMPLOYEES 58%



* Data from PT in Portugal.



4. SUPPLIERS

4.1. PROFILE

To ensure a broad supplier base, aligned with PT's values, principles and procedures, is an important factor of competitiveness and sustainability for all businesses. The base of suppliers pre-selected and registered on the portal created for this purpose, has remained stable over the last three years:

SUPPLIERS			
	2009	2010	2011
Registered suppliers	1,083	1,246	1,217
Domestic	89%	86%	87%
International	11%	14%	13%

The volume of purchases reduced significantly due to the sale of the Brazil operation VIVO and to the fact that the main investments in the fiber-optic network (Fiber-to-the-Home) were made in previous years.

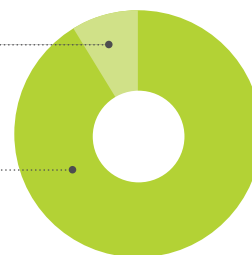
**VOLUME OF PURCHASES FOR DOMESTIC COMPANIES /
INTERNATIONAL SUBSIDIARIES (2011)**

EURO 792 MILLION

From the purchases made in 2011, 91% went to domestic companies and 9% to international companies.

INTERNATIONAL 9%

DOMESTIC 91%

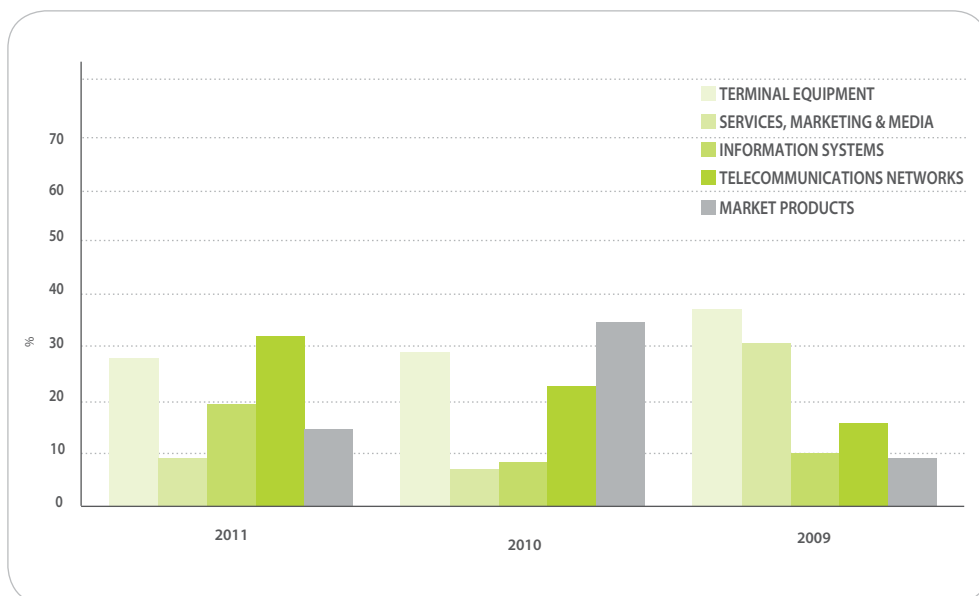


**Nº. OF SUPPLIERS WITH CONTRACTS IN CORPORATE
PROCESSES DURING THE YEAR**

549

Purchases per service and/or product category

During 2009, the purchases made for the PT companies focused mainly in the area of terminal equipment and in marketing campaigns, whereas in 2010 and 2011, they were associated mainly with the fiber-optic network (FTTH) and with IT, in particular the Data Centres.



Base: values contracted.

4.2. PROCUREMENT MODEL

To optimize the procurement of goods and services, thus contributing decisively to the creation of competitive advantages and greater sustainability in the value chain, PT has defined a Procurement Model that comprehends three stages – planning, market consultation and monitoring – supported on the principles of ethics and respect for the environment and for human rights, which guide the attitude of any company in their relationship with all stakeholders.



4.3. SELECTION AND HIRING OF SUPPLIERS

Business success and customer satisfaction are closely related to the capacity of selecting suppliers that fulfil the corporate needs and that are simultaneously aligned with PT's conduct as well as its ethical, social and environmental principles among which those related to human and labour rights.

Therefore, the supplier selection and contracting model is based on rigorous principles of transparency, honesty, equality of opportunities, fairness and confidentiality and is managed by a business unit – PT Compras.



Electronic platform for supplier pre-selection

All suppliers are subject to a pre-selection phase. An electronic platform was created for this purpose that specifies the policies, requirements and values that guide PT's actions and has fields to fill in and include documents to prove the capacity of response and ethical alignment of each one.

This platform has been improved over the years through the implementation of new features, which help to reduce the time limits in which the respective processes run to increase information confidentiality and security and to dematerialize everyday life and the environmental footprint in this organizational relationship.

2011 saw the creation of the Club of Suppliers to facilitate the strategic alignment and the relationship between suppliers and PT: a unique space where PT suppliers can in fully equal terms coexist in a community whose values, goals and interests are potentially common.

It is a space for best practice sharing where any supplier can sign up and join. For PT, it is a complementary relationship mode that will help to highlight the advantages of ethical, environmental and social alignment between its members and thus deepen partnership relations among all.

Supplier evaluation and selection

PT adopted regulations that ensure that along its relationship with suppliers, there are always systems and processes that promote and assess ethical conduct and social responsibility, notably in terms of:

Supplier acquisition

Our code of ethics signals our *a priori* position and requirement in terms of ethics, environmental protection and social responsibility for all suppliers wishing to interact with PT.

Supplier registration

Supplier registration includes a questionnaire containing detailed questions on the policies followed in terms of quality, environment, social responsibility and occupational health and safety.

Consultation

Each supplier must deliver, together with their proposal, a document which states that they respect and comply with, within the framework of their activity, the fundamental human rights within the community and in the workplace, in particular those provided for in the Code of Conduct of Social Responsibility, (fundamental rights, principles and standards applicable in the field of environment, and occupational health, safety and hygiene at workplaces).

The supplier must also submit the documents proving the existence and compliance with applicable environmental legislation, in particular with regard to waste management.

Selection

The level of social responsibility and environmental protection ensured constitute, among others, evaluation criteria for eventual selection and/or later contracting.

Contracting

The contractual minutes negotiated with suppliers specify their compliance with environmental legislation applicable to the activity developed under the contract in question, as well as the laws and regulations concerning occupational safety, hygiene and health.

Suppliers not meeting the requirements included in the selection platform shall be automatically rejected.

4.4. TRANSPARENCY AND ANTI-CORRUPTION IN THE PROCUREMENT PROCESS

Apart from being governed by PT's Code of Ethics and Sustainability and Social Responsibility Policy, the application of PT's Procurement Model to the bargaining relationships with suppliers is translated into the following practices divulged and verified with all interested parties:

Transparency

All the information should be made formally available to the potential suppliers during a procurement process, ensuring full transparency in information access.

Equality of Opportunities

During the bargaining process, the equality of opportunities is guaranteed to all suppliers that meet comparable requirements, enabling the group's openness to all suppliers.

Access to Information

Suppliers will be able to have access to all the information and clarifications that they need on any matter of the negotiations in course, in a clear, complete and cordial form.

Reciprocity and Rigour

All conditions relative to the delivery dates, prices, conditions of payment, conditions of acquisition and attribution of responsibilities should be defined in detailed form, by both parties.

Loyalty

Employees intervening in the negotiation must take into account the company's objectives, trying to meet its needs in the most credible and advantageous form.

Reciprocal Procurement

Reciprocal procurement should not condition or interfere with the result of any bargaining process.

Confidentiality

Both PT and suppliers should keep secrecy on all the information exchanged during a procurement process.

Likewise, the following behaviours from suppliers in their relationship with PT are deemed unacceptable:

- Use of less competitive prices in direct adjustments or situations of sole supplier;
- Use of low prices during the negotiations, to win the contract, with the intention of increasing them when the contract is won;
- Request for price increases throughout the duration of the contract;
- Request for information on other competitors;
- Use or proposal of ambiguous conditions with the intention of gaining advantage over other competitors;
- Lying or purposeful induction in error during the bargaining process;
- Commitment above their capacities;
- Exaggeration in the gravity of a problem to get bargaining advantages.

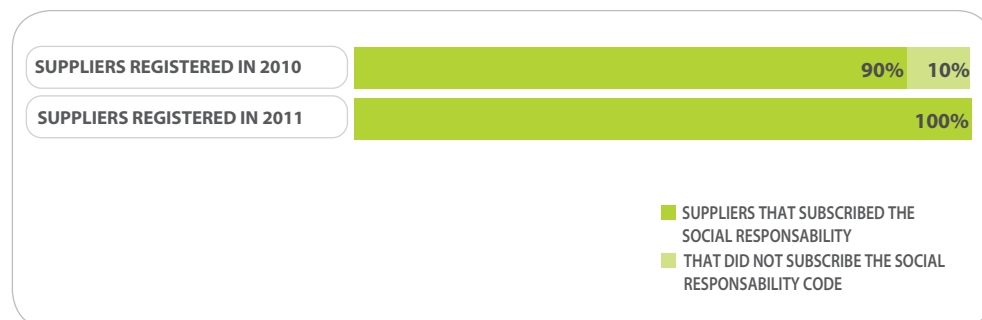
Code of Conduct of Social Responsibility of PT

The Code of Conduct of Social Responsibility of PT advocates, among other fundamental rights, freedom of employment, non-discrimination, prohibition of child labour and respect for fundamental rights at work.

It has been a constant concern of PT to get the alignment of suppliers with this code by means of the declaration of acceptance of the respective charter of principles.



This process started in 2010. All corporate suppliers registered from 2010 were subject to successive awareness actions. The acceptance of the charter is from 2011 indispensable condition for new suppliers to join the Supplier Club, thus qualifying to take part in the purchase processes.



Ethics Committee

Along with improvements included into the Sustainable Supplier Selection and Hiring Model, aligned with the evolution of the market needs and requirements, PT Compras was created in 2007. Composed of company representatives and of the chairman of the Governance Committee, the Ethics Committee has the following functions:

Functions of the Ethics Committee

- To give to employees and to the company management all the clarifications deemed necessary in the scope of the Code of Ethics
- To ensure the counselling of employees who may have doubts of interpretation or application of the Code of Ethics to concrete situations
- To ensure the resolution of conflicts between Norms of Conduct of the Code of Ethics and the specific functions of each employee
- To analyse eventual deviations to the fulfilment of the Norms of Conduct defined by the Code of Ethics and propose the measures deemed pertinent.

Any violation to these procedures may be denounced through the whistleblowing channel available at PT's corporate website.

IN 2011, THERE WERE NOT ANY DENUNCIATIONS OF THIS NATURE - 0 DENUNCIATIONS

4.5. STRATEGIC ALIGNMENT ACROSS THE VALUE CHAIN

For PT it is essential to create conditions to promote the alignment between their principles and those of their suppliers, believing that only in this way lasting partnerships can be created with mutual advantages and beneficial results for society and environment.

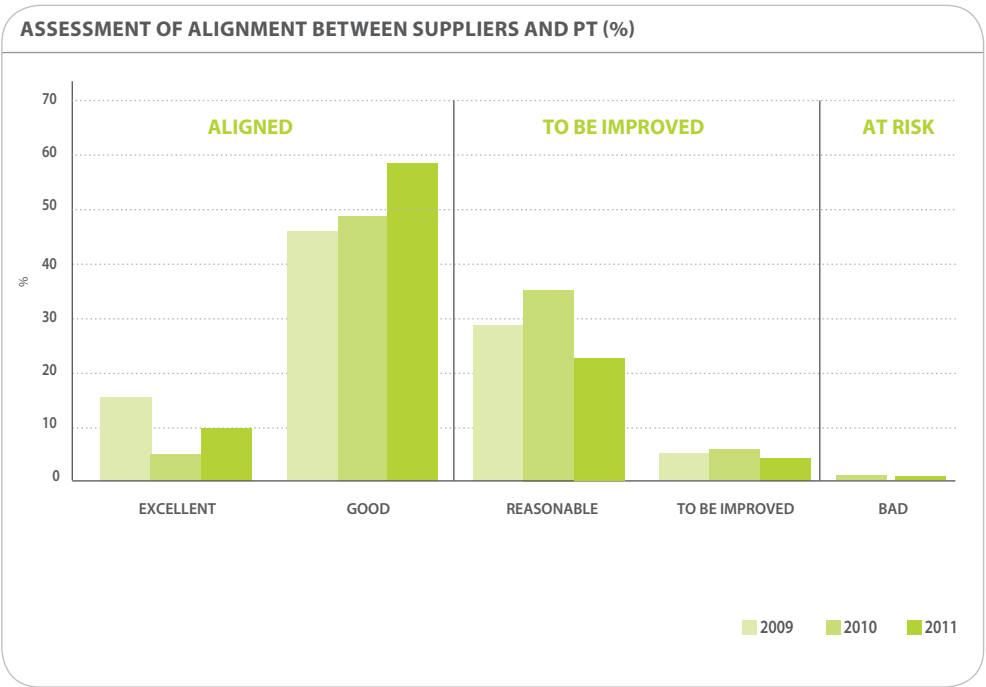
It is essential to make an annual assessment to measure the level of alignment between PT's sustainable procedures and policies and those of their suppliers so that as a result of the findings it is possible to identify the path that ensures an increased, continued approximation of those with a profile less similar to that of PT.

Assessment of sustainable practices of suppliers

Continuing with their assessment of the sustainable practices of suppliers, PT Compras conducted the third wave of the sustainability survey in 2011.

The 2011 survey showed once again a high level of response, from 535 suppliers, with a positive evolution of the average score, which stood at 75.3 (scale 0 to 100).

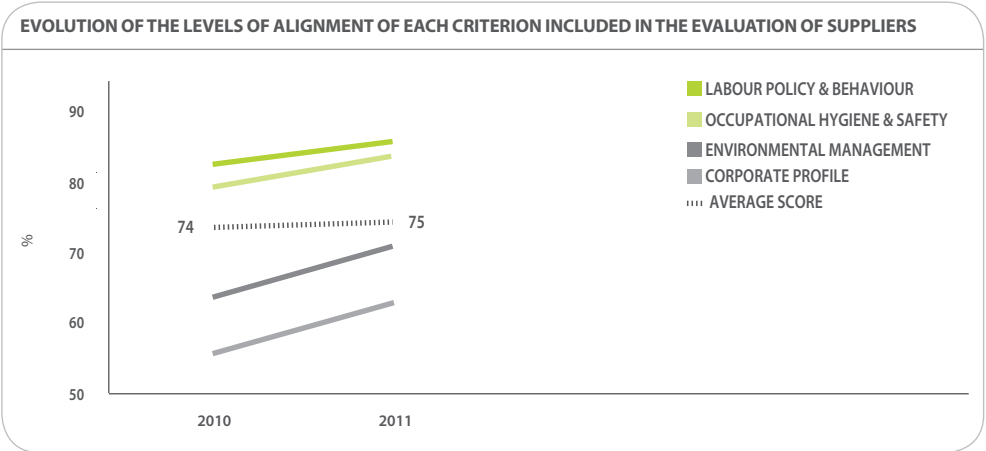
The performance displayed in the chart below indicates a high level of alignment in most suppliers.



Among the PT supplier base in terms of alignment, only about 1% is considered to be at risk to be controlled.

In general, the average evaluation has improved over the last three years, and PT believes that this is due to the approach adopted: successive approximation and identification of areas for improvement with advantages for all. So far, PT has not identified the need to reject suppliers after being pre-selected and accepted through the registration procedures defined and required in the existing electronic platform.

However, and following the individual feedback action to be undertaken, PT will raise the awareness of the entities assessed in order to consolidate their position or, as the case may be, to evolve to levels of greater alignment in order to meet the goals pursued by the company.





INITIATIVES FOR SUPPLIER CONTROL AND RELATIONSHIP MANAGEMENT

	2011	Control initiatives	
Aligned suppliers	71%	Exchange of experiences and good practices	
Suppliers in need of improvement	28%	Feedback and identification of improvement areas	Random face-to-face audits
Suppliers at risk to be controlled	1%	Control and suggestion of improvement areas	

In connection with the supplier assessment during the last three years, there were additional 24 face-to-face audits conducted by the supplier control team of the PT group, in order to monitor compliance with human and labour rights, particularly in terms of health and safety, labour policy and working conditions.

24 FACE-TO-FACE AUDITS TO RANDOMLY SELECTED SUPPLIERS

THEMES: HEALTH AND SAFETY, LABOUR POLICY AND WORKING CONDITIONS

Future perspectives

In the scope of the development of the supplier selection and hiring model, from a continuous improvement perspective, PT Compras identified the following opportunities to be implemented in the near future:

Sustainability

Supplier monitoring: Continue supplier interaction in the scope of improvement in terms of sustainability and of supplied services and/or equipment evaluation, aiming not only to reinforce mutual knowledge, but also to contribute to constructive evolution of the partnership relationships with PT.

Audits: to promote a new wave of face-to-face audits within the framework of Corporate Social responsibility (CSR) continuing the process begun in 2010.

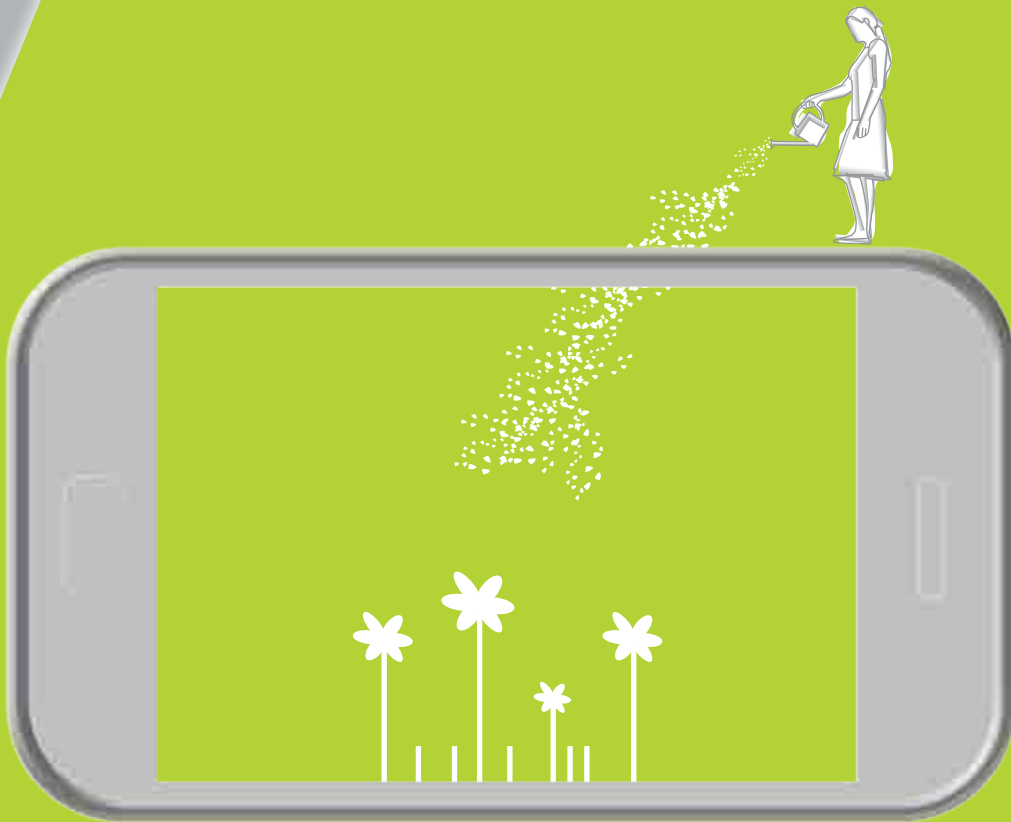
Supply Evaluation: PT is developing, with implementation scheduled for 2012, a new supplier assessment platform, focused on the supply side, in order to assess supplier performance in this context, in a transversal way and based on criteria deemed critical: quality of supply, meet SLA compliance, proactivity, etc.

This tool will not only contribute to procedural transparency in supplier contracting, but also through actions of systematic feedback, make a contribution to the positive development of suppliers with direct impact on performance improvement and development of partnership relations.

Conflict minerals: PT will develop actions with their suppliers in order to minimise the risk of equipment acquisition from conflict regions, where human rights and international law are violated, that might incorporate the following minerals and metals: tantalum, tin, tungsten and gold, commonly referred to as Conflict Minerals 3TG.

IV.

PRESERVING THE ENVIRONMENT



IV.

PRESERVING THE ENVIRONMENT

1. STRATEGY OF ENVIRONMENTAL PRESERVATION AND CLIMATE CHANGE COMBAT

1.1. VISION

We know that climate change will have repercussions in company businesses and its potential financial implications are on the agenda of both the community and investors. Therefore, PT has identified this issue in day-to-day management, anticipating strategies that contribute to preserving this balance between environment and society at large.

Technological evolution, lower energy-dependency of the new equipment, progressive introduction and availability of renewable energies, remote control through domotics, waste segmentation and collection and its more adequate routing for reuse or recycling are now enabling PT to optimize the relationship between their environmental impacts and the delivery of each time more sophisticated services to the market over the last three years.

On the other hand, the new information and communication technologies and next generation networks already allow us to deliver services to the customers that contribute to reducing their environmental impact, namely carbon dioxide emissions and in this way, also contribute indirectly to ecosystem balance.

We know that the systematic search for solutions that minimise the impacts of our activity on society, together with the contributions that the new information and communication technologies may induce in our customers, will certainly promote better environmental quality in the future.

However, this balance is not acquired overnight. It is a path whose results are neither linear nor immediate. The telecommunications industry is in profound change, and not all operators are offering the same type of services: PT, besides offering triple play services – TV, internet and voice – for IPTV (requiring a large amount of information storage), also offers Smart Cloud services, which in turn require data centres, with increasingly bigger capacity and consequently with increased energy needs to provide adequate power and cooling for the respective equipment.

1.2. STRATEGIC DIRECTION IN THE LAST THREE YEARS

Over the last few years, PT dedicated itself to promoting the implementation of good environmental practices within its organisation, with suppliers and customers, having defined a policy and environmental management system that deserved the recognition and the progressive certification of each one of its business units in compliance with international standard ISO 14001.

In the last three years, the environmental strategy adopted by the company aims to implement a number of measures to rationalise the energy-dependency of its activity and its customers, and consequently reduce the impacts of the CO₂ emissions related directly or indirectly to the services delivered to the market.

Principles and knowledge that guide our practices

PT subscribes, applies within the company and participates actively in the promotion of the principles of sustainability and environmental responsibility recommended by national and international organizations with which the management company identifies itself:

- 10 principles of the United Nations Global Compact;
- Environmental Charter and Sustainability Charter of ETNO (European Telecommunications Network Operators);
- EU's Codes of Conduct of Energy Efficiency in the ICT sector;
- Recommendations of the Business Council for Sustainable Development in Portugal;
- Participation in the Green Touch initiative.

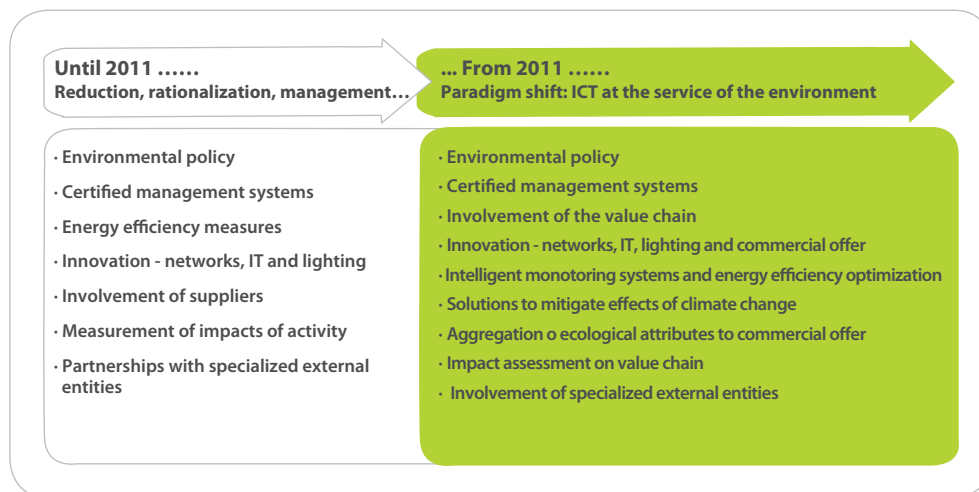
The Green Touch initiative, presented in the UK, constituted by a consortium of industry-leading partners, research institutions and non-governmental organizations, aims to reduce by 1000 times ICT energy-consumption and respective carbon footprint.

The telecommunications sector has a marginal contribution (about 1%) to the total current CO₂ emissions; however it may have a key role in the overall reduction of national emissions. According to the study "SMART 2020 Portugal"¹, the indirect impact expected for this sector alone will fulfill the objectives set by the European Union, and this impact represents approximately ten times the direct carbon footprint of the industry.

The studies carried out indicate that the adoption of services based on the new features of the next-generation networks, intensify the reduction of total CO₂ emissions by about 15%. The areas of health care, education and home automation have already begun to form the basis of this new paradigm and, though still little expressive, are already a new window of opportunity for environmental preservation.

1.3. STRATEGIC APPROACH FOR THE NEXT THREE YEARS

The three-year period, which we have already started, will be marked by a paradigm shift where we want to place ICT at the service of the environment. It will be a long path, whose effects will feel over the next several years: to contribute to the reduction of CO₂ emissions and energy consumption of our clients, seek to do more with fewer resources and assess the impacts of each initiative, product or service, are the main designs adopted.



¹SMART Portugal 2020 - Increasing Energy Efficiency through ICT - BCG Study with PT Group Participation

Environmental issues on the agenda

Energy | consumption, sources and emissions



Water | consumption, source and destiny



Materials | consumption, origin and appropriate forwarding



Value chain | from suppliers to customers



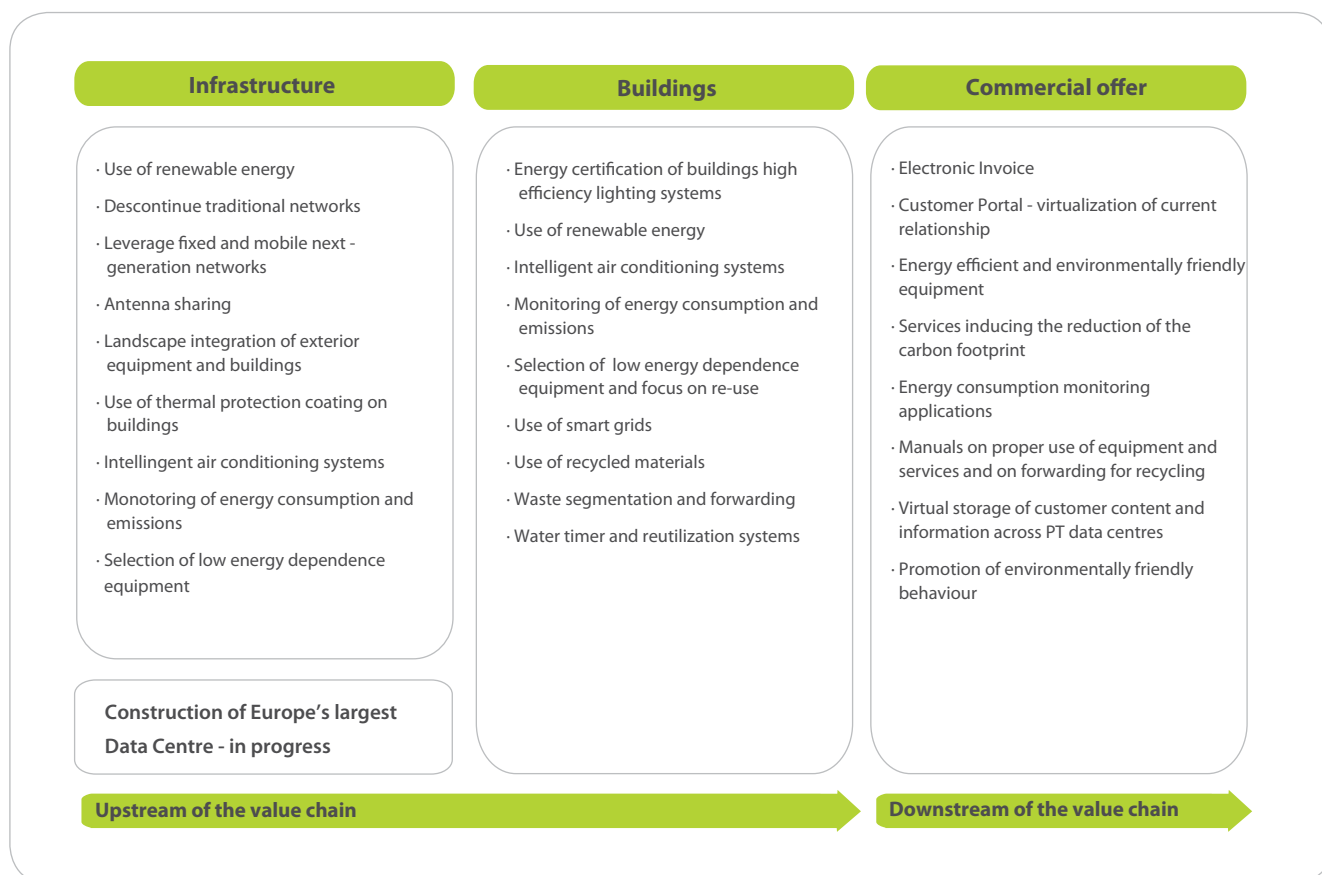
Activity Impacts | direct and indirect (suppliers, customers and the community at large)



The company's intervention will occur at several levels: networks, data centres, equipment, information systems, air-conditioning, buildings and new services to market, being instrumental the full involvement of the entire value chain: suppliers, partners, employees, customers and NGOs.



1.4. AREAS OF INTERVENTION



2. INNOVATION | ECOLOGICAL PRODUCTS AND SERVICES

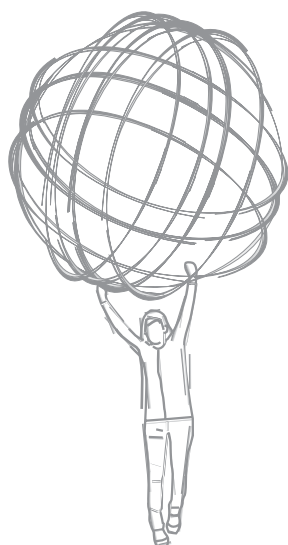
2.1. ENVIRONMENTAL SUSTAINABILITY IN BUILDINGS

To serve current and future generations, the company has to constantly lay the foundations for new ways to live, work and communicate over the next 100 years.

All structuring projects of PT are planned in order to minimize the company's environmental impact. Furthermore, all employees are encouraged to contribute with ideas for improvement in this area and to look for ways to reduce the environmental footprint of their work processes.

In this context, we highlight some of the measures implemented over the last three years and, in particular, in 2011:

- **Green IT – Through Virtualization:** PT has been increasing the internal virtualization indexes through the massive use of virtual information storage, cloud solutions, in order to achieve significant gains in terms of energy efficiency and, in this area, the virtualization index increased from 34% in 2010, to 42% of the total number of servers in 2011.
- **CopyPoint:** through the consolidation of print and fax equipment onto a centralized management service, it was possible to achieve efficiency gains. This project allowed in the first half-year, after its implementation, a reduction in paper consumption by 12,5%, 49% in consumables, and 66% in energy consumption of the equipment.
- **More efficient air conditioning:** Replacement of older and therefore less efficient air-conditioning machines, by others with proper refrigeration suited to existing loads, thus more energy-efficient. It is worth pointing out that the vast majority of these machines already have a free-cooling system, with a reduction of approximately 187 tons of CO₂ emissions in 2011.
- **Installation of LED lamps:** replacement of existing fluorescent bulbs in PT buildings with lamps with LED technology, thus allowing for a consumption reduction in the order of 94% and an increase in the useful life of the same.
- **Efficient use of lighting in buildings:** obligation to turn off the lights of the corridors of buildings during the weekends and holidays.
- **Monitoring and detailed analysis of energy consumption:** detailed presentation of energy consumption data in real time. Allows performing diagnoses and determine improvement actions in order to reduce electricity consumption in some places and spaces of the company, as for example, in the use of elevators, where there has been a reduction in energy consumption by around 30%, during a campaign held in the last three year period.
- **Autonomous photovoltaic solution:** development of an innovative autonomous photovoltaic solution to overcome the energy inefficiency of the system then existing. This action results in an annual energy savings corresponding to 15,277 kWh, with consequent reduction of emissions at about 7.18 ton of CO₂.
- **Efficient gardens:** placement of decorative stones in the company's gardens to support the reduction of water consumption and costs associated with the maintenance of plants. Additionally, was implemented a process to relay the water used in washbasins and rain water to irrigate gardens and that also contributes to the reduction in water consumption.



2.2. ENVIRONMENTAL SUSTAINABILITY IN NETWORK INFRASTRUCTURE

- **In the fixed network,** Portugal Telecom expanded, in 2011, its fiber-optic coverage (FTTH), having currently more than 1.6 million homes passed and ensuring the permanence of Portugal in the European leadership in terms of implementation of a fiber network. Furthermore, the FTTH network was reinforced with new ONT features – Optical Network Terminal - monitoring equipment of the fiber-optic infrastructure.
- **In the mobile network,** took place an important modernization of the TMN mobile network with the adoption of multi-standard equipment, with improvement of the quality offered to customers and adoption of more efficient and environmentally sustainable technologies.

Finally, PT has taken important steps in mobile network infrastructure optimization to develop solutions for passing seamless mobile network traffic to WiFi networks.

2.3. ENVIRONMENTAL SUSTAINABILITY IN THE NEW DATA CENTRE

In 2011, PT began the construction in Covilhã of one of the world's largest Data Centres, which will come into operation at the end of 2012 and will be supported by a network of high-speed fiber communications that will connect it to the major global communications networks. Representing an investment of Euro 90 million in the first two phases of the project, the new PT Data Centre will occupy more than 75,500 m² and will have a capacity of over 50 thousand servers with 30 Pbytes, allowing the export of data storage capacity of European companies and technological services. The project will enable the creation of more than 1,400 direct and indirect, skilled, specialized jobs, making Covilhã one of the cities that most contribute to the economic development of the country.

The new PT Data Centre will differentiate itself by high levels of sustainability and energy efficiency, with savings of 144 thousand tons of CO₂ and 40% in energy consumption.

The commitment to Covilhã is also brings about the creation of partnerships with several local agencies, in particular with business (INDIGO and NERBAC) and academic associations (University of Beira Interior and Student Association of the University of Beira Interior).

2.4. ENVIRONMENTAL SUSTAINABILITY IN THE COMMERCIAL OFFER

PT's commercial offering of PT contains services that save time, unnecessary movements, fuel expenses and materials.

- **Machine-to-Machine Solutions** - Important steps were also taken towards the consolidation of a Machine-to-Machine (M2M) offer, by providing a set of solutions that enable interaction, without human intervention, between assets/devices/machines and information systems that support the management of such assets.

Solutions:

Fleet management and geo-referencing
Energy efficiency
Tele-security
Tele-assistance

- **IT/IS Solutions** - PT has been developing new services that are a reference in terms of domestic pioneering, translating into competitive advantages for customers to leverage IT cost reductions, increased productivity, mobility and reduction of energy consumption (fuel or electric).

Services and solutions:

SmartCloudPT
Video surveillance
E-learning
Telemedicine
E-procurement

- **Rationalization of the material used in packaging:** reduction of the amount of material used in the packaging of products for access to mobile broadband and mobile phones using smaller amounts and use of recycled and equally resistant material.
- **Equipment reuse:** assessment, recovery and reuse of equipment returned by customers due to migration to other solutions or services. Over the last three-year period, around 25% of the equipment of the triple play offer – MEO - was reused.
- **Study and dissemination of the carbon footprint of the mobile service:** the study of the carbon footprint of PT's mobile service, conducted by an external and independent company, and that included the assessment of the whole process that allows an individual to communicate with another, identified that this footprint is 2.7 g CO₂/minute.

3. ECO-EFFICIENCY INTEGRATED PERFORMANCE

3.1. CONSUMPTION OF MATERIALS

Consumption of materials	(T)		
	2009	2010	2011
Batteries (Distribution network)	35	41	70
Batteries (Network infrastructures)	268	138	198
Electric and electronic equipment	1,672	1,958	2,750
Activity-support infrastructures *	18,174	18,703	17,402
Paper / cardboard	3,244	4,741	1,629
Plastics	1,991	1,551	1,998
Toners and ink cartridges	4	4	3
Wood	5	11	16
Total	25,393	27,147	24,066

* Includes leaded copper cable, self-supported copper cable, copper cable with plastic, armoured copper cable, fiber-optic cable, TEDS and TE1SE cable, telephone poles and metals (iron, copper alloys, zinc and aluminum).

The consumption of materials registered a decrease in 2011. The decrease in paper consumption in 2011 was due to a great rationalisation in merchandising material. A new plastic packaging for TMN products was also introduced, reducing the need to purchase cardboard packaging (boxes).

Due to these changes, there was an increase in the consumption of plastics.

Materials from recycling

PT has been replacing the use of recycled paper for FSC-certified paper (a paper that promotes the sustainable management of the forests from which their raw materials are extracted), for being an economically advantageous option and having at the same time benefits for the environment. However, and in addition to this widespread practice in PT companies, in PT Inovação the purchase of recycled paper is still significant, having been consumed during the year of 2011, 75% recycled paper compared to the total.

3.2. DIRECT CONSUMPTION OF ENERGY, SEGMENTED BY PRIMARY SOURCE

Overall, energy consumption showed a 2% decrease compared to 2010. The decrease in consumption was due mainly to savings achieved by adopting measures of rationalization of energy consumption and energy efficiency, such as the replacement of obsolete equipment, with freecooling and with shutdown and replacement of equipment from the mobile network. This year, and due to the weather conditions, only 26% of the electrical energy consumed originated from renewable energy sources.



Energy consumption		(GJ)		
	2008	2009	2010	
Energy consumption (electric)	1,464,065	1,581,726	1,550,573	
Electric energy (wireline)	1,101,537	1,193,081	1,184,673	
Electric energy (wireless)	339,916	362,935	340,749	
Energy (business support)	26,898	25,710	25,151	
Natural gas	12	1	0	
Fuel (petrol)	15,183	12,356	10,524	
Fuel (diesel)	208,489	222,182	218,671	
Total	1,687,749	1,816,264	1,779,798	

On the other hand, the amount of traffic for each unit of energy consumed, increased by 89% over the last three years, which clearly shows the energy efficiency of PT.

Traffic for each unit of energy consumed							
Year	Annual Traffic Volume per Service (GBytes)			Annual Energy Consumption (GJ)			bit/Joule
	Wireline	Wireless	Total	Electric	Others	Total	
2008	357,148,133	6,409,088	363,557,221	1,368,324	207,252	1,575,576	1,982
2009	571,369,458	9,065,600	580,435,058	1,464,065	223,684	1,687,749	2,954
2010	912,182,758	13,079,680	925,262,438	1,581,726	234,538	1,816,264	4,376
2011	1,142,470,798	15,673,344	1,158,144,142	1,589,227	234,538	1,823,765	5,455

In relation to the energy produced through renewable sources, the table below shows the amount of energy produced by PT from renewable and electrical energy supplied to PT by operators, obtained from renewable sources.

Renewable energy used		(GJ)		
	2009	2010	2011	
Energy produced from renewable sources	110	139	127	
Energy supplied to PT by operators from renewable sources*	578,306	666,707	402,663	

Note: The data for 2009 have not been validated in the context of the Sustainability Report 2009.

* Source: EDP and ERSE

In short, there is a decrease in the percentage of renewable energy consumption at PT that is due mainly to the change in the energy mix of primary energy sources of network service providers at national level as a result of unfavourable weather conditions throughout the year: less wind and less rain.

Power consumption		(GJ)		
	2009	2010	2011	
Energy (electricity and fuel) consumed by suppliers in the development of PT's activities	304,515	355,919	665,817	

The energy consumed by suppliers in the development of PT activities registered an increase in 2011 due to the increase in outsourcing activities, which include the electric consumption of logistical warehouses.



Initiatives leading to rationalization of energy consumption

Tangible initiatives

- Progressive replacement of air-conditioning equipment with next-generation equipment – free-cooling;
- Network equipment shutdown, as the next-generation networks are adopted by customers and all services are migrated;
- Replacement of lighting of buildings (stores, administrative and technical) for intelligent lighting systems;
- Consumption monitoring applications;
- Selection of high-efficiency equipment and with less energy dependence.

It took place in the first half of 2011, the project of replacement of lamps of telephone booths by Led's. The LED Project covered the entire country, having been replaced 500 bulbs by 500 LED lamps in 500 telephone booths. The consumption passed from 56 kWh to 1kWh per booth.

Intangible initiatives

- 17 PT buildings were certified for their energy efficiency in 2011.

With the energy certification of buildings, the energy performance and indoor air quality of same were optimized, ensuring better working conditions for PT group employees.

3.3. TOTAL WATER CONSUMPTION

Water consumption at PT is essentially for two purposes: cooling of technical areas, and hygiene and comfort of employees in administrative areas.

Water consumption *	(M ³)		
	2009	2010	2011
Total consumption	414,307	285,942	295,950

* The water consumed is totally from the public network

Globally over the last three years, water consumption has been reduced, although in 2011 a 3.5% increase was registered, explained mainly by scarce rainfall.

3.4. LOCATION AND AREAS OF LAND BELONGING TO PT, LEASED OR MANAGED IN BIODIVERSITY-RICH HABITATS

PT's activity extends throughout the national territory, although the area in biodiversity-rich habitats is insignificant.

Area in biodiversity-rich habitats	(M ²)		
	2009	2010	2011
Total area *	10,050	11,300	11,450

* Reports the PT sites that lie within protected areas and with high biodiversity index.



3.5. STRATEGIES AND PROGRAMS, CURRENT AND FUTURE, OF IMPACT MANAGEMENT ON BIODIVERSITY

Electromagnetic Radiation

Under regulation 96-A/2007, the plan was completed and 256 stations classified as TFE (top or façade of building) and 113 I Stations (indoor projects/antennas inside buildings) were monitored. There were no values outside of the parameters established by law.

All measurements were sent quarterly to ANACOM, Ministry of Health and local councils.

PT is a member and supports the Telecommunications Institute of Instituto Superior Técnico - independent entity – which studies issues related to electromagnetic radiation and that regularly publishes the results not only from random measurements that it performs as well as the results of studies that it follows on this matter. The respective results are published at <http://monit.it.pt/>

Noise

The noise sources susceptible to cause nuisance are varied in nature and intensity. According to the World Health Organization, regular exposure to high levels of noise may have negative impacts on public health.

Aware that telecommunications stations cause noise and that may have impact on the quality of life of the surrounding communities, PT performs noise monitoring randomly. In the course of 2011, PT monitored the noise of 30 TMN stations and 51 PT Comunicações sites.

Whenever there are levels of discomfort and complaints, due to higher values than what is legally defined, PT prepares contingency plans for mitigation of the respective impact.

Landscape Impact

PT has sought to make a harmonious integration of their buildings, telecommunications stations, antennas and overhead cables, in rural and urban spaces, interpreting the organization of the landscape and even the history of each location. To do this, it develops partnerships with local authorities and other competent authorities that aim to identify the solutions best adapted to landscape harmony.

In this context, the following impact mitigation initiatives should be highlighted:

- Installation of towers disguised as trees;
- Antenna sharing with competing operators;
- Installation of masts on rooftops concealed with chimneys;
- Installation of hidden / underground container solutions;
- Conversion of container solutions into multi-purpose cabinets with use of solutions with remote carriers installed on masts of antennas.

In 2011, PT dissimulated 19 sites and shared 44 new sites with other operators, thus avoiding use of new areas.

Translocation of stork nests

In partnership with the Institute for Nature Conservation and Biodiversity, PT relocated three stork nests on average per year, since telecommunications antennas and masts are not ideal habitat for this species, and stork nests hinder access and technical maintenance of telecommunications masts.

Natural disasters

Summer fires, winter storms and other natural disasters have significant effects on PT's activity: they destroy communications equipment installed in the affected areas and restrain the population from communicating.

Therefore, PT has developed services and plans to minimize the consequences of such phenomena:

Natural disasters

Minimize the occurrence of natural disasters	. Tele-surveillance service that allows monitoring the landscape and detecting fire outbreaks
Resume communications in the shortest time	. Partnership with District and National Civil Protection authorities . Provide technical and human resources required to re-establish normal fixed, mobile and satellite communications quickly - Disaster Recovery and Business Continuity Solutions

In this three-year period, in 2010, the Madeira Island faced the worst storm of the last years and, subsequently, the whole country was plagued by several fires. To minimize the severity of the consequences of these disasters, PT has made available additional human and technical means and speedily restored normalcy in fixed, mobile, satellite and submarine cable communications, ensuring an effective intervention by the authorities and Civil Protection, ensuring communications inside and outside the affected regions to combat the isolation of populations. Firefighters associations, hospitals and Civil Protection authorities are the priority targets of these interventions.

3.6. TOTAL DIRECT AND INDIRECT EMISSIONS OF GREENHOUSE GASES, BY WEIGHT

CO ₂ emissions	(T)		
	2009	2010	2011
Scope 1			
Direct (petrol)	1,902	852	728
Direct (diesel)	15,585	16,381	16,122
Scope 2			
Indirect (electricity)	138,306	122,144	151,403
Scope 3			
Indirect (consumed by suppliers)	22,407	26,243	49,232
Total	177,390	165,620	217,486

The emissions of Greenhouse Gases had an irregular behaviour over the last three years, since they depend more on the weather conditions than on the energy efficiency of the company's activity. In fact, in years with more wind and rain, the mix of energy consumed (wind- and water-generated) is more favourable and consequently with lower levels of emissions.

Therefore, the correlation between energy efficiency and greenhouse gas emissions is very low in this case.

On the other hand, the traffic amount for each joule of energy consumed has increased by 89% during the last three years period, which clearly reveals the energy efficiency of PT.

Specifically, indirect emissions of CO₂ (scope 3), showed slight increases over the last three years, as each year they are monitored with increased levels of precision.

Aware of the international issues concerning GHG, PT has a program in progress for the reduction of the respective emissions, which in 2011 showed the following results:

GHG emissions avoided	(T CO ₂ e)
Removal of absolute equipment from network	532
Air-conditioning o administrative and technical areas with free cooling	1,268
Replacement of lightning systems and equipment	53
Migration of tradicional networks to next-generation networks	1,641
Automotive fleet management and monitoring	383

Emissions of NO_x and SO_x and other significant air emissions

Under Community and international commitments undertaken, Portugal shall submit annually, through the Portuguese Environment Agency, the inventory of greenhouse gases (GHGs) and other air pollutants. On the basis of this information, there is a verification of the fulfillment of the goals agreed in the EU Burden Sharing Agreement and Kyoto Protocol.

The reports submitted in 2011 present emission factors for calculating the emissions of NO₂ and SO₂. Therefore, in the following table, these values are reported.

Emissions of NO _x and SO _x and other significant air emissions	2009	2010	2011
NO ₂	-	-	70
SO ₂	-	-	3,704
Total	-	-	3,774.09

Other significant air emissions	2009	2010	2011
Greenhouse Gases (tCO ₂ eq)*	-	-	1,450
Ozone layer depleting gases (tR22)	-	-	0.4

* Includes data on emissions of CH₄ and N₂O

Total water discharge by quality and destination

The amount of water discharges into the domestic sewer network at PT was as follows:

Domestic water discharge	2009	2010	2011
Domestic water discharge *	335,183	228,754	236,760

*Estimated value in accordance with the conditions laid down in Decree No. 23/95 of 23 August

3.7. TOTAL AMOUNT OF WASTE BY TYPE AND DESTINATION

The implementation of PT's activities requires the incorporation of new or reused materials and/or equipment (M&E) and their subsequent withdrawal.

Thus, PT must ensure that waste is properly identified, registered and monitored as to its final destination. Whenever a Material or Equipment is withdrawn from service, it is classified by the company as “for re-use” or “waste”.

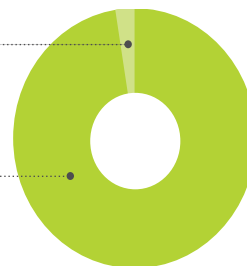
Material or Equipment identified as “waste” are delivered to municipal agencies or licensed waste management operators and forwarded to an appropriate final destination. Materials identified as hazardous are collected and treated by accredited entities – hired by PT – at the end of the respective life cycle.

The waste produced at PT is mostly classified as non-hazardous waste.

PRODUCTION OF HAZARDOUS AND NON-HAZARDOUS WASTES (%)

HAZARDOUS 4%

NON - HAZARDOUS 96%



Most of the waste produced at PT, as shown in the chart below, corresponds to activity support infrastructures.

WASTE PRODUCED PER TYPE (T)

WOOD

196

TONERS & INK CARTRIDGES

8

ACTIVITY SUPPORT INFRASTRUCTURE

1,632

RE&E (OTHER)

580

RE&E (UNDIFFERENTIATED)

0

SOLID URBAN WASTE
(UNDIFFERENTIATED)

99

PLASTICS

84

GLASS

9

PAPER/CARDBOARD

364

HYGIENE

4

USED OIL

0

FLUORESCENT LAMPS

9

BATTERIES (OTHERS)

96



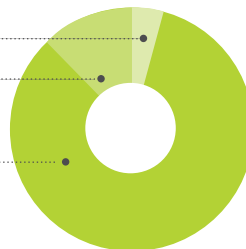
In 2011, 95% of the waste routed to an appropriate final destination was directed to recovery operations, while only 5% went to disposal operations. Of the 95% sent for recovery, 84% was accumulated for later recovery and 11% were subject to recycling/recovery operations.

FINAL DESTINATION OF THE WASTE (%) | 2011

ELIMINATION 5%

RECYCLING - R3/R4 11%

RECYCLING - R13 84%



Production of hazardous waste

(T)

	2009	2010	2011
Batteries (other)	235	71	96
Fluorescent Lamps	1	1	1
Used Oil	1	2	0
Hygiene	3	11	9
Total	240	85	106

Production of non-hazardous waste

(T)

	2009	2010	2011
Paper / cardboard	587	393	364
Glass	6	2	9
Plastics	80	66	84
Urban solid waste (undifferentiated)**	117	139	99
RE&E (mobiles)**	11	27	0
RE&E (others) **	177	241	482
Activity-support Infrastructure (*)	1,784	1,940	1,632
Toners and Ink Cartridges	9	10	8
Wood	626	372	196
Total	3,397	3,190	2,874

(*) Includes leaded copper cable, copper wire, self-supported copper cable, copper cable with plastic, armoured copper cable optical fiber, TEDS and TE1SE cable, and metals (iron, copper alloys, zinc and aluminum).

(**) Waste from electric and electronic equipments.

Costs with fines resulting from legal environmental non-compliances

Costs with fines resulting from legal environmental non-compliances

EUROS

	2009	2010	2011
Costs with fines resulting from legal environmental non-compliances	-	11,250	-

In 2011, there was no payment of fines related to environmental non-compliances.

Total investments and costs in environmental preservation

PT has been investing increasingly in its Environmental Management System, which allows the monitoring of various impact indicators generated by its operations.

From 2009, and following the standardization of data, it was possible to find the costs and benefits associated with the environment in the different PT companies.

Total investments and costs in environmental protection			
	2009	2010	2011*
Man/hour			
Internal labour (**)	8,121	6,657	7,359
Total investments and costs in environmental protection			
Internal costs	312,808	256,583	405,199
External costs	649,735	958,433	2,384,100
Total	962,543	1,215,016	2,789,298

(*) Includes data from PT Inovação. The costs of PT Inovação incorporated are for PT's Integrated Management system. The management system of PT Inovação is an integrated system that includes quality, environment, hygiene and safety at work, innovation and CMMI. It is not possible to identify the specific environmental costs because even the system audits are integrated so that costs are generic.

(**) Cost hours/man.

However, in the global balance of costs and income, environmental management shows a positive result, as can be seen in the table below:

Benefits associated with the EMS			EURO
	2009	2010	2011
Total income	1,187,492	5,640,367	5,842,094
Final result	224,950	4,425,351	3,052,795

This result is due mainly to the income from waste recovery and the collection of new data from the mobile network.





CREATING VALUE FOR SOCIETY



V.

CREATING VALUE FOR SOCIETY

1. RESEARCH, DEVELOP AND INNOVATE

1.1. R&DI Model

In the competitive context of the telecommunications universe, and taking into account the current social and economic environment in Europe, investment in Research & Development (R&D) and subsequent innovations adopted and implemented, have revealed to become value creation factors for the Group's companies, creating positive impact on shareholders, customers, employees, suppliers and on environment and society at large.

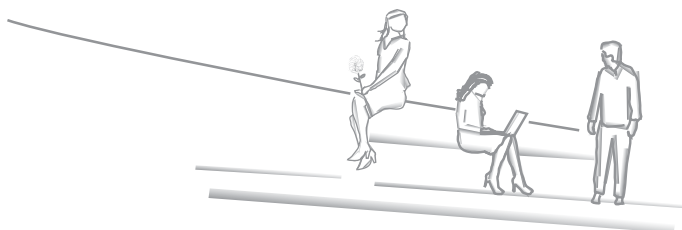
Research & Development, together with the partnerships established with domestic and international entities associated with science and knowledge, are fundamental pillars for PT in re-creating economic, social and environmental conditions capable of ensuring, day after day, a balanced future. In this three-year period, PT contributed to facing proactively the current social and economic situation by leveraging its competitiveness levels in the offer of products and services to the market, demonstrating an increased efficiency and sustainability in its process of implementation, distribution and use.

Taking into consideration the generalised access of the population to the information and communication technologies, several projects have launched aiming to extend high-speed internet access, improve rapidity and quality of service to customers and make available an increasingly broader range of services that responds to each one's expectations and to environmental balance.

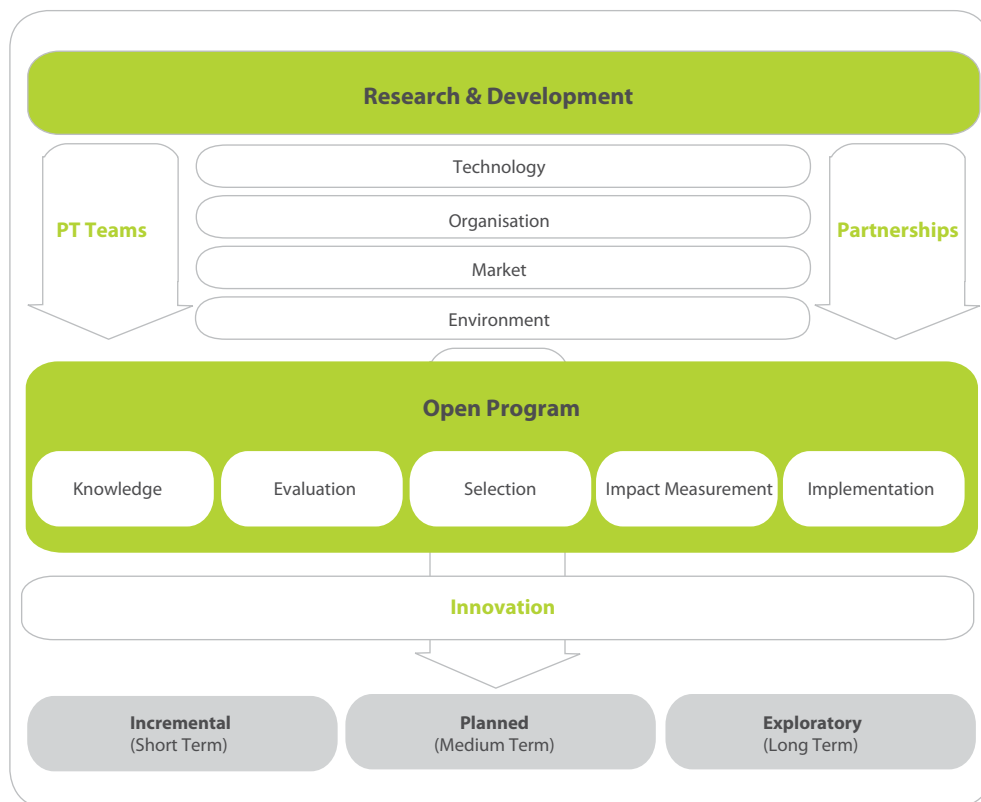
During this three-year period, the investment made by PT in R&DI totaled Euro 632.6 million, the largest investment in the country in terms of R&DI, distributed as follows:

AMOUNT INVESTED IN R&DI OVER THE LAST THREE YEARS (MILLION EUROS)

2009	213.6
2010	200
2011	219



The R&D model used at PT aims to be innovative and to mobilize the entire organisation. Apart from the structure units dedicated to Research & Development and the areas that implement projects, the genesis of this new model motivates and includes the initiative and participation of all employees:

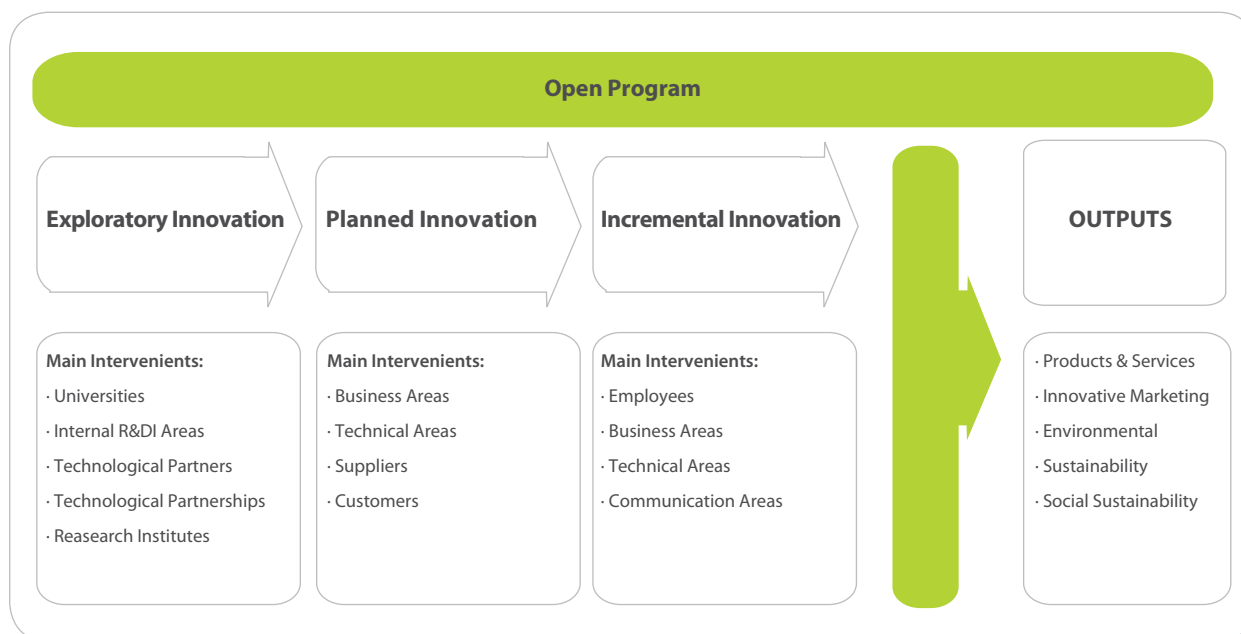


The OPEN Program, launched in 2009 to institute systematic practices and a culture oriented towards applied research and development, was consolidated in 2010. Besides contributing to technological innovation of products and services, the program started to leverage other R&D areas, identifying new ways to work, study and interact with customers, and to aggregate new functionalities and increased environmental sustainability in the market offering.

The management of the R&DI initiatives is done according to the respective timeframe:

- **Incremental Innovation** – short term measures for continuous improvement
- **Planned Innovation** – medium term developments in the offer of products and services
- **Exploratory Innovation** – analysis of the main technological, eco-efficient and behaviour trends that define long term sector evolution.

PT's Research & Development and Innovation model is part of a program where all employees are agents and contribute actively to its implementation. In addition to technological innovation, employees have been called upon to participate in the organizational, procedural, environmental and social domains, especially within the framework of incremental innovation.



1.2. PARTNERSHIPS FOR RESEARCH & DEVELOPMENT

PT has a network of strategic partnerships with other companies and institutions of international renown that surround it amidst a knowledge-based laboratory eco-system.

The partnerships defining this eco-system have different natures:

- **technological partnerships;**
- **strategic partnerships;**
- **partnerships with Universities**
- **partnerships with research institutes.**

a. Technological Partnerships

Following the strategy of innovation and delivery to their customers of next-generation services based on an increasingly comprehensive fiber-optic network, PT has maintained agreements with internationally renowned suppliers, such as Corning, Cisco, Huawei, Samsung, LG, ZTE, and Nokia Siemens Networks. With these partners, we were able to develop multiple solutions adapted to the national market, through the sharing of expertise and know-how in development.

b. Strategic Partnerships

PT continued to establish strategic partnerships to ensure the sharing of best practices at international level and for cooperation in innovation projects, with reference operators in this sector. In this context, PT and Singtel, Singapore's leading operator, maintained a joint participation in initiatives for knowledge sharing, benchmarks and best practices, at operational and commercial level.

c. Partnerships with Universities

International

PT has been working closely with various international universities, cooperating in exploratory projects such as the Universities Eduardo Mondlane and Carnegie-Mellon. An example of this type of partnership is the participation in the Carnegie-Mellon Portugal program, where PT is the reference industry partner.

Projects developed with Universities:

- **SENODs – Cyber-Physical Systems Technologies for Energy-Optimized Data Centres** – This project based on cyber-physical system technologies aims to address the energy efficiency challenges of Data Centres. The pioneering solution tested, based on a wireless sensory network, led to the identification of points of improvement in infrastructure management by reducing energy consumption and the TCO (total cost of ownership);
- **TRONE – Trustworthy and Resilient Operations in a Network Environment** – During the year of 2011 the following results have been achieved in the framework of this project: (1) adaptation of tools for failure diagnosis in virtualization systems; (2) development of a resilient architecture for monitoring (Fault Intrusion Tolerant Broker); and (3) prototype for hardened virtualization engine, with capacity for intrusion detection, use of recursive virtualization and reliable hardware components;
- **NeTS – Next Generation Network Operations and Management** – With the goal of developing a new operational framework to incorporate into the PULSO platform, enabling to infer real-time root causes of faults that may arise in IP networks and services of the PT Group (with special emphasis on IPTV services).

Still within the framework of the Carnegie-Mellon program, PT cooperated in the development and guidance of eight master's thesis projects with special focus on security associated with IPTV, IPv6 and mobile payments, and supported additionally 12 employees in the respective professional master's programs.

National

Simultaneously, PT has cooperated over the years with leading national Universities in various development projects (Aveiro, Porto-FEUP, Coimbra, Minho, Trás-os-Montes & Alto Douro, Beira Interior, Lisbon – IST and Faculty of Sciences). In this context, we highlight the following initiatives undertaken during the year 2011:

Institutional communication and marketing

- **VERBATIM Project:** development of modules for automatic processing of news in Portuguese, through the creation of methods for automatic extraction of quotations (direct and indirect) and identification and monitoring of news topics for later automatic classification of news;
- **REACTION Project:** Computational journalism with information recovery, extraction and aggregation technology, for news integration and aggregation organization by analysis of content available online;
- **SAPO Lists:** Construction of a linguistic resource composed of lists of words grouped into semantic categories providing lexical-semantic information to support the construction of systems for information extraction and text classification.

Education and knowledge

- **Integration of LTE in future network architectures in a perspective of mobility:** research of architectural support for LTE with focus on QoS mechanisms and parameters and study of mobility management processes defined by 3GPP;
- **Advanced Playground & Innovation:** creation of a portal that allows the aggregation of several API's available not only by SAPO products as well as their partners and not accessible to the general public. The portal will thus promote closer collaborations with university partners that in a more controlled environment, could develop prototypes of applications in various disciplines;
- **Context-aware distribution of content in social networks:** development of a context-aware application that enables the distribution of user generated content, based on the information obtained via Context Broker;
- **POLO II – Intelligent Personal Learning Environment:** exploration of techniques and methodologies for context-based information collection and extraction and consequent prototype development where these techniques are applied in a personal learning environment (supported by FORMARE);
- **WEB Technology:** application of new solutions to educational contexts, materialized in the launch of SAPO CAMPUS project, enabled the approximation of services of the new Web 2.0 (blogs, videos, photos, wiki, Messenger and widgets) to PLE concepts – Personal Learning Environment.

Health care and combat against isolation

- **DoctorMobile Project:** Development of a monitoring system for patients with chronic pain, through smartphones, by collecting regular information on the status of patients and automatic generation of alert messages to doctors and patients.
- **iNeighbour TV Project:** Promotion of the use of social networks applied to consumption contexts in the senior population and their information needs (e.g. content on health), based on the provision of new MEO-based technological solutions - Presentation Framework.

Entrepreneurship

- In order to promote a rapprochement between industry and academia, highlight should go to the SAPO Labs project, whose main goal is to develop innovative projects in the area of technology, with incubation environment for Start-Ups.

d. Partnerships with research institutes

To consolidate the exploration of new opportunities in the long run, PT has several protocols established with various research institutions such as INESC (Porto and Coimbra), the Telecommunications Institute and the Pedro Nunes Institute. Through these protocols, seeks to bring its areas of business research institutes, thus guaranteeing the development of projects related to network, optimization integration and security, IP multimedia systems development, creation of new platforms for exhibition and creation of cloud services and communication between machines.

Additionally, PT Inovação, as associated founder of the Telecommunications Institute, has funded a broad range of projects, of which we highlight the development of projects in the domains of context-aware computing, health care, cloud computing and machine-to-machine communication.

1.3. HIGHLIGHTS OF APPLIED RESEARCH PROJECTS OVER THREE YEARS

1.3.1. Products and services

New services and features on the MEO IPTV platform

- Widget availability on MEO (for example Facebook, Picasa and Flickr);
- Increase in the number of interactive channels (such as Canal Q and Secret Story);
- MEO Games kick-off, pioneer solution in the world of gaming on demand;
- Free application to provide customers with MEO control through their portable equipment – MEO Remote;
- New functionality to view already broadcast programs, even when not recorded on the MEO Box – Restart TV;

Multi-platform services

- Launch of MEO Online, which extends the MEO television access to any broadband-enabled computer or smartphone, called MEO GO;
- Launch of Music Box, multi-platform music service (PC, mobile phone and TV) that allows unlimited instant access to an online library with millions of songs and the offer of 10 songs per month in mp3 format, available to TMN, SAPO and MEO customers.

Ecoefficient equipment

- First SIM card in the world with ecologic characteristics;
- Commercialization of Samsung Blue Earth, a rechargeable mobile phone through solar panels.

Environmentally and socially responsible services

- Cloud computing solutions with strong potential for increase in the productivity and efficiency of customer companies, contributing to significant savings in terms of energy and hardware consumption as a result of its use. PT established a partnership with Cisco for the development of these solutions for the Portuguese market.
- Kick-off of the first Portuguese PHR – Personal Health Record – My SAPO Health that provides citizens with online recording and control of their health and well-being records, monitoring of indicators and management of medical agenda, accessible anytime anyplace;
- Medigraf Project (solution for remote health services, such as tele-consultation and tele-diagnosis) installed in developing countries such as Angola and São Tomé, under implementation in Cape Verde and, under study, for Timor;
- Training solutions in 3D environment;
- Custom commercial offers for SMEs : Office Box Cafés & Restaurants and Office Box Doctors and Clinics;
- Fleet management service to locate vehicles through collection of geo-referenced information. This solution has an optional innovative service exclusive on the market that enables fleet managers to extract indicators that enable the implementation of eco-driving actions.

1.3.2. Infrastructure

Network infrastructure

- Network optimisation in terms of quality of service and inter-technology mobility;
- Development of authentication, security, identity and privacy solutions for next generation telecommunications networks;
- Cloud computing solutions in terms of services (SaaS) and platforms (PaaS);
- Development of Content Delivery and interactivity solutions for TV platforms.

Sustainable Data Centre – one of the largest in Europe

PT kicked off a project to build a new data centre, one of the largest in Europe, with more than 45 m² and an installation capacity of 50,000 servers. This investment will allow positioning the company as an international player in terms of cloud computing, responding to growing customer demand, either in terms of transport and processing capacity for companies, or in new multimedia and info-communication services development.

The new data centre will have a new efficiency level that will create jobs directly and indirectly for circa five hundred people, save money in terms of energy and cooling of the space and save 144,000 tons of CO₂, through a 40% reduction in electric consumption:

- Use of renewable energies (data centre with own eolian park and covered by solar panels);
- Free Cooling ventilation system – uses low outside temperatures as an aid to data centre cooling;
- Monitoring of consumption habits allows selecting the most suitable price plan;
- Use of LED lighting.

1.3.3. Market | Relational efficiency

Several structuring projects were launched to improve the relational efficiency and effectiveness of the organisation. Some of these projects have already produced significant results during 2010. In this domain, it is worth highlighting:

Projects

PT Customer:

Specific portal for customers for access to their portfolio of products and services via an online platform through multiple channels (web, tablet PC, smartphone and TV);

CRM:

Custom CRM solution to achieve quality of service improvements, optimise efficiency in customer interaction, intensify commercial focus and leverage knowledge of customer needs (cross-selling, customer capture and retention);

SIT-E:

Evolution of order entry software to support B2B (Business to Business) services to a new platform with impact essentially in terms of time-to-market of new products and services, revenue assurance and improvement of the inventory of business products and services;

Residential FOT-BOT:

Increase in wireline service fault repair efficiency through the consolidation, from an end-to-end perspective, of the organisational structure, processes and know-how. The project allowed an increase in the fault repair rate at the technical front-office and back-office and a reduction in recurring faults.



1.3.4. Environmental Sustainability

Initiatives for energy consumption and CO₂ emission rationalization

Free cooling systems:

Reduction in energy consumption in small and medium-sized exchanges by blowing outside cold air by low energy consumption ventilator, avoiding the use of current air conditioning equipment over long periods of time avoiding existing air conditioning equipment;

Application of cold paint on technical cabinets

Application of cold paint, composed of ceramic particles, avoiding heat absorption by solar exposure by outside multi-service cabinets, reducing the use of external cooling sources;

Lighting systems:

Replacement of lights by T5 bulbs and electronic ballasts with flow regulation, with detection of presence and adjustment of lighting level;

Use of virtual PCs in Call Centres:

Use of VDI – Virtual Desktop Infrastructure, with significant energy savings.

1.4. REGISTRATION OF PATENTS

In terms of intellectual property, PT Inovação filed two provisional patent applications and converted other four provisional applications into definitive filings, from which two are international patent applications (PCT):

Provisional patent applications:

- Nonlinear equalization method of the optical channel in the frequency domain;
- Selective filter of television channels integrated in a fiber-optic terminal.

Conversion of provisional patent filings into definitive:

- “Concentrator for networked sensors and remote meters, supporting diverse network access technologies with automatic fallback strategies, and sensor access security support” (PCT);
- Managing link layer resources for media independent handover, also co-requested by the Aegean University and the ‘Demokritos’ National Centre for Scientific Research;
- Information System for Public Attendance, also co-requested by UTAD;
- Reflective optic component integrated in a fibre-optic terminal.



2. STRATEGY FOR DIGITAL INCLUSION AND LITERACY

2.1. AREAS OF INTERVENTION

The construction of a more digitized society is, in our view, the guarantee of greater access to information and, consequently, knowledge – essential to progress and the promotion of a more responsible citizenship.

In the context of promoting digital literacy and knowledge access, PT has focused its work on three key areas:

Education

We are engaged in a large number of initiatives in all geographies where we operate, to promote access to education, info-inclusion and generation of talent, using communication technologies as a lever for change and progress.

- Networking – National Broadband Network
- Networking – connecting schools with broadband
- Schools – e-school program – awareness-raising and promotion of good practices in computer and online content use.
- Training – in ICT safety
- Training – about computer and internet use
- Training – in entrepreneurship
- Tele-class – adapted to people with protracted diseases
- Platform of educational programs – adapted to projects development
- Musical education – social integration of misfits

Health

We are pioneers in the introduction of pilot solutions that narrow the doctor- patient relationship, that eliminate the geographical factor as an element of social discrimination in health care access and introduce new diagnostic valences, clinical follow-up and process simplification.

- Telemedicine – online patient and consultation management
- Tel-consultation – remote consultation with voice and image
- Tel-assistance – service for the elderly in situations of isolation
- Remote monitoring of newborn premature babies
- Health Portal – health content

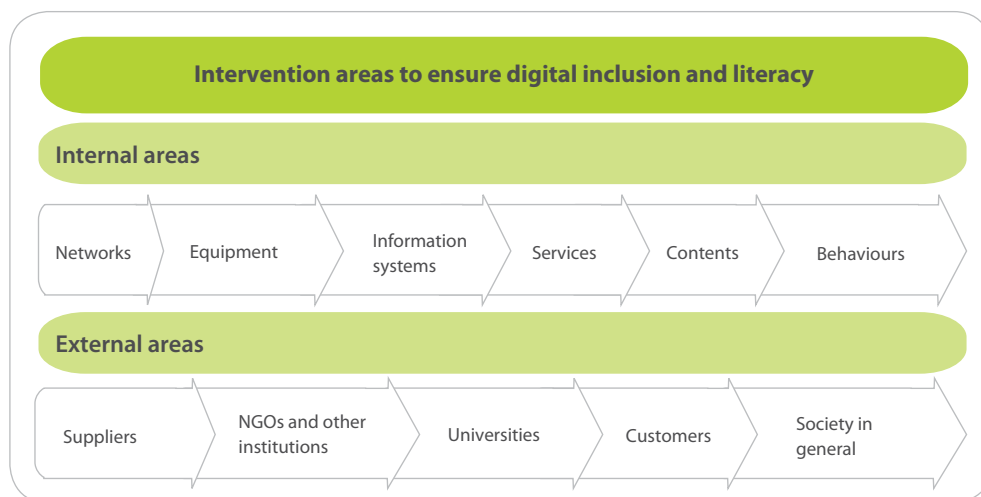
Digital inclusion

To ensure equal access to ICTs has been a priority for us. PT has been developing a large number of initiatives ranging from making available a nationwide network, ensuring service to every citizen irrespective of their location, up to the products and services dedicated to citizens with special needs.

- Universal service – telephone service for all
- Network – National Fiber-optic Network - FTTH
- Disaster Recovery – contingency plans for disasters
- Pricing plans - tailored to the unemployed and pensioners
- Services – tailored to people with special needs
- Equipment – inclusive design
- Fundraising – improving the health of sick and needy children

2.2. INTERVENTION MODEL

For effective implementation of the strategy, PT counts with the synergies developed through the cooperation of specialized entities. The intervention model followed is in accordance with their activities in the following areas::

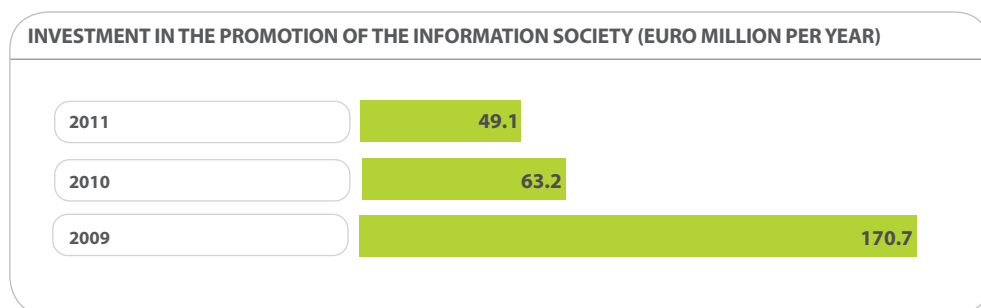


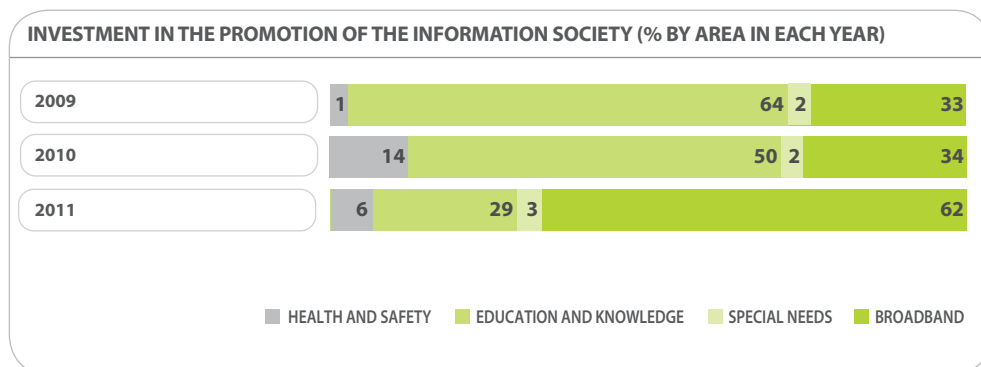
The generalisation of the use of the information and communication technologies, the increasing range of solutions and broadband services, as well as the programs of support for the community and groups of citizens with special needs, are examples of PT's involvement in the construction of the Information and Knowledge Society.

The application of new technologies and, in particular of the new fiber-optic network, to the universe of education, health and digital inclusion, enables the creation and use of solutions that promote social sustainability.

To facilitate access to knowledge is essential for PT as an ethical, cultural, social and economic value.

Thus, in the last three years, the investment in PT's initiatives to stimulate and promote the information society amounted to Euro 283 million, divided as follows:





More information on this subject at:

http://www.telecom.pt/InternetResource/PTSite/UK/Canais/Sustentabilidade/knowledge_society/digital_inclusion/

3. DIGITAL INCLUSION

3.1. FRAMEWORK AND IMPACT AT NATIONAL LEVEL

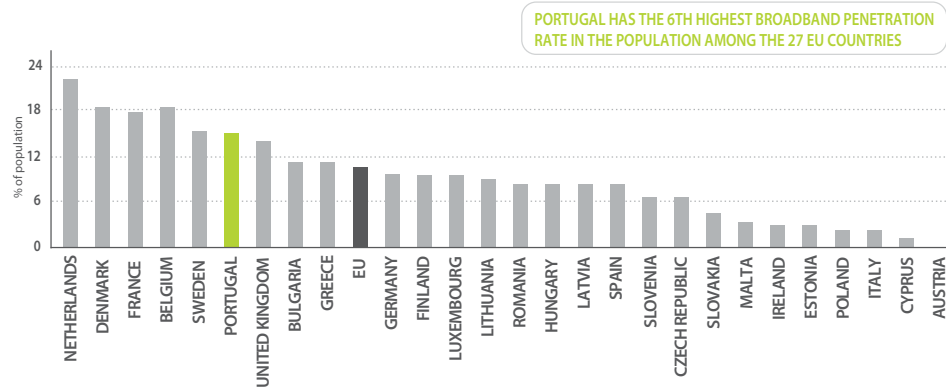
Portugal is one of the European countries with better access to broadband infrastructure, fixed and mobile, telephony, internet and television services, accessible from different devices: mobile phone, television, PC, Tablet, etc.

PT has contributed heavily to this reality, since, being the leader in cross-platform in broadband internet access, it has maintained a high level of investment in the network upgrading and the launch of services tailored to the different consumer profiles. And this, in turn, has contributed to the accelerated growth of users and the use that each one makes with these new information and communication technologies.

Today, Portugal is the sixth country in the European Union with a higher penetration rate of broadband over 10Mbps in the population, standing above the European average.



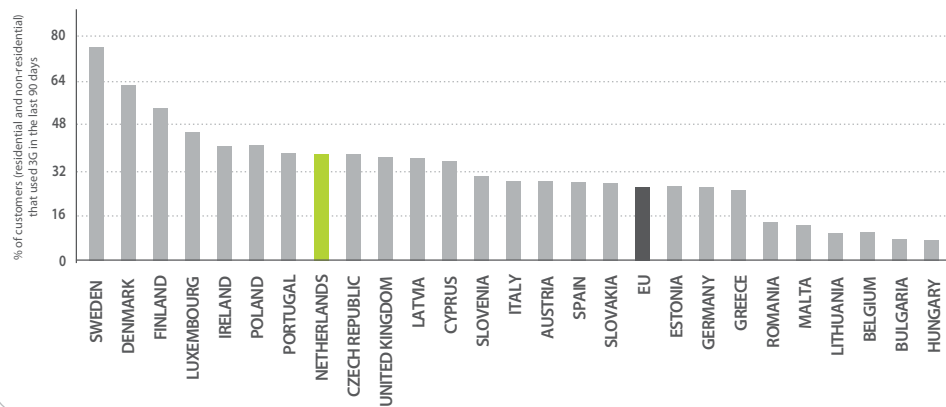
POPULATION PENETRATION OF ≥ 10 MBPS BROADBAND IN EU MEMBER STATES (1 JANUARY 2011)



Note: Data for Austria from July 1, 2009 (latest data available).
Source: COCOM, DG INFSO, European Commission, June 2011.

In a similar way, Portugal is one of the countries with higher percentage of customers, residential and non-residential, with active mobile broadband.

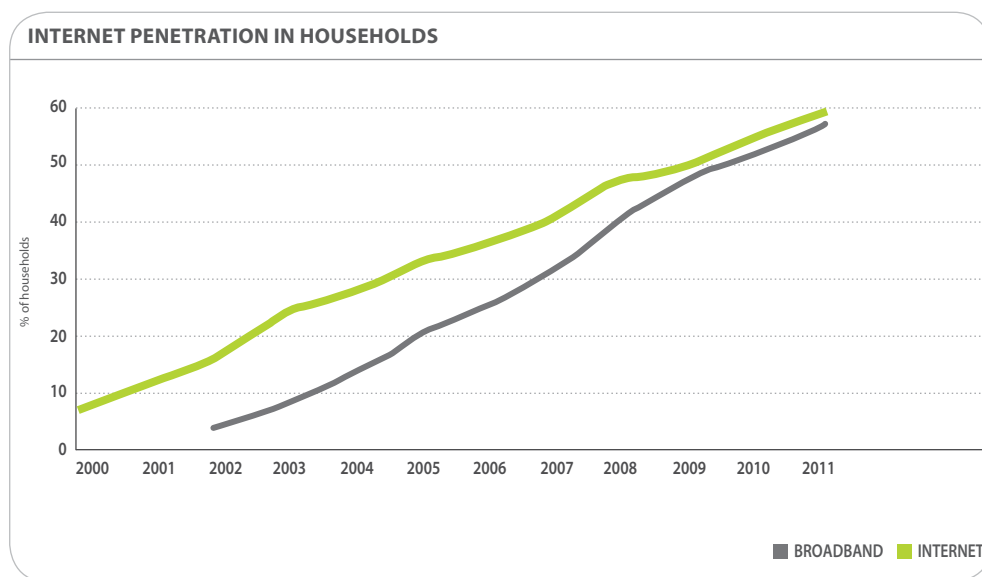
POPULATION PENETRATION OF ACTIVE MOBILE BROADBAND IN EU MEMBER STATES (1 JANUARY 2011)



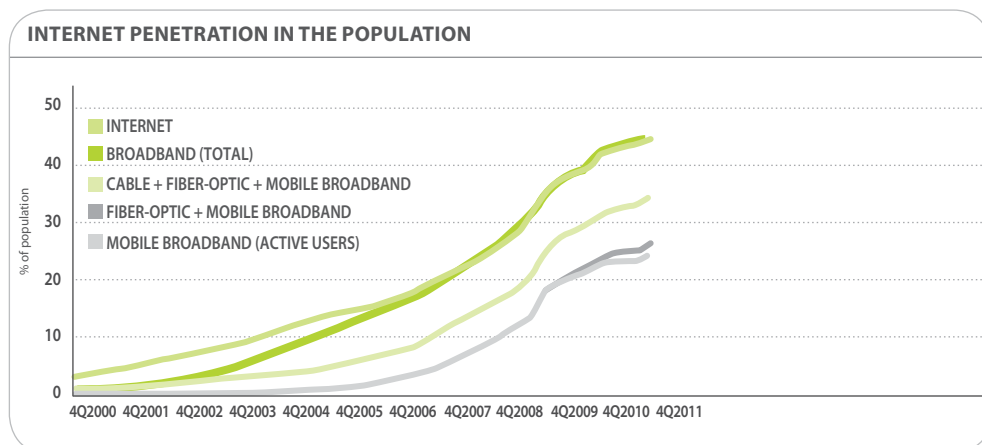
Note: Data for Austria from July 1, 2009 (latest data available).
Source: COCOM, DG INFSO, European Commission, June 2011.

Over the past 10 years, the percentage of the Portuguese population with internet access has grown quite substantially. While in the year 2000, less than 10% of households had access to the internet, now almost 60% of the households have internet access.





Source: EUROSTAT.



Note: Active mobile broadband users means customers that can access the Internet via mobile broadband and set up at least one Internet connection in the last month of the reporting quarter.

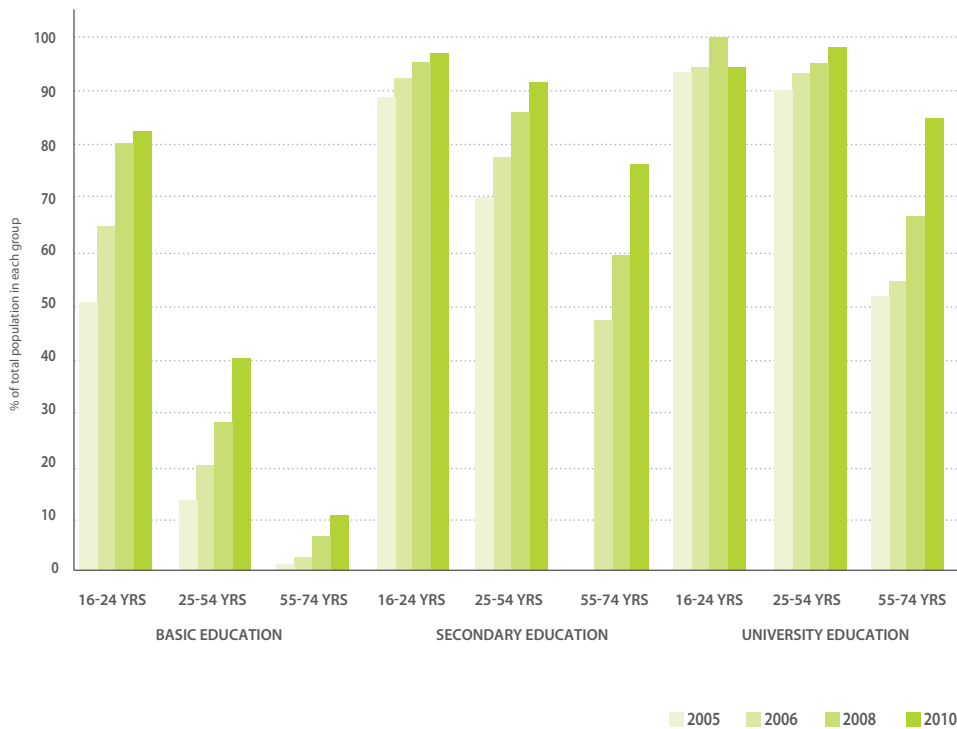
Source: ANACOM.

Still with regard to digital inclusion, there has also been an increase in the rate of internet penetration in all age groups, regardless of the level of schooling.

It is worth noting a high rate of internet penetration among young people (between 80 and 95% for the various levels of schooling). For this reason, it should be highlighted the e-Schools Program to which PT joined via their mobile operator – TMN –, distributing more than 780 thousand laptops with mobile broadband connection at subsidized prices (25% of market value).

Similarly, internet penetration in the group that covers persons between 55 and 74 years of age has also increased. In 2011, the percentage of the population between 55 and 74 years of age that used the internet was around 50% among those who received basic education, 77% in people with secondary education, and 85% among the population with university education.

INTERNET USERS, BY AGE GROUP AND LEVEL OF SCHOOLING COMPLETED

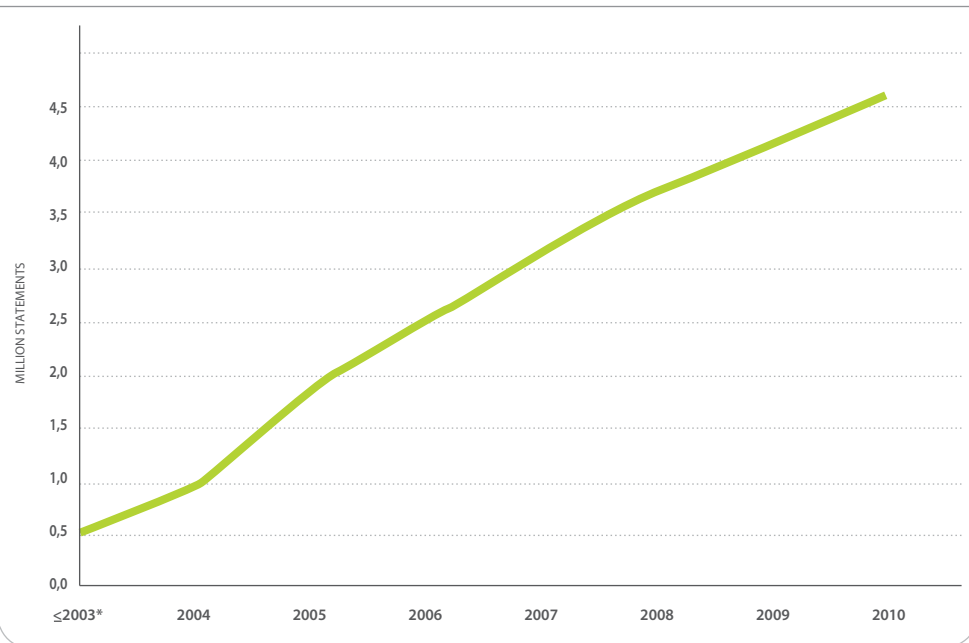


Note: data for the first quarter of each year.
Source: EUROSTAT.

Widespread internet use among the various age groups of the population has allowed, in general, making life easier for Portuguese citizens. Example of this is the increasing popularity of the submission of declarations of the Income tax on Individuals (IRS) through online services. In 2010, an estimated 4.2 million people (approximately 42% of the national population) submitted their IRS statement over the internet, an increase in the order of 740% over 2003.



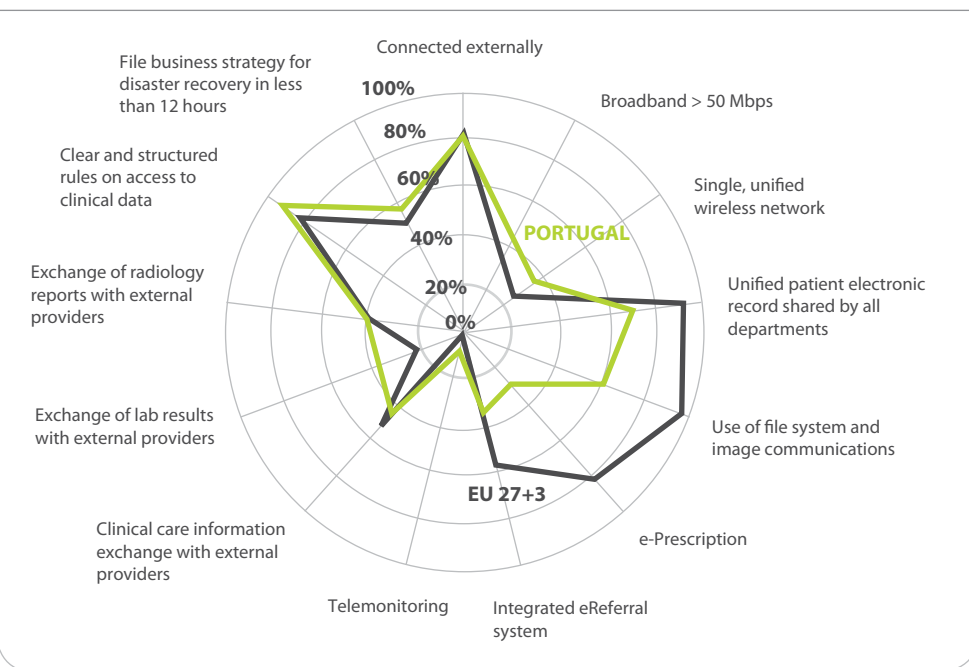
NUMBER OF STATEMENTS OF INCOME TAX ON INDIVIDUALS (IRS) SUBMITTED VIA INTERNET



Source: Direção-Geral de Impostos.

PT's performance to improve e-health, creating technological solutions that help improve health services and thus contributing to the improvement of the quality of life of patients, have also contributed to placing the country on a high level in Europe with regard to the e-health profile of hospitals.

E-HEALTH PROFILE OF HOSPITALS (% , 2010)



Note: +3 EU27 means 27 EU Member States along with Croatia, Iceland and Norway.

Source: eHealth Benchmarking III, Commissioned to Deloitte by DGINFSO, European Commission.

In short, we live at a turning point in a wide number of areas of our life. We are contemporaries of a world increasingly dematerialized where we can multiply time and resources. To transfer information at a speed of 400 Mbps is not just another evolution in the industry – it is a change of paradigm with repercussions on our daily life: at home, at school, in health and lifestyles.

PT's ambition is to continue to play an active role in this change, promoting digital literacy and access to knowledge, which it sees as fundamental and complementary pillars for a more sustainable society.

3.2. ACCESS AND SERVICE FOR ALL

As the largest telecommunications operator in Portugal, one of the central concerns of PT is to ensure access to telecommunications services to as many people as possible, regardless of their motor skills, geographic location, or social condition. In this sense, PT has ensured the provision of services and price plans tailored to all customer profiles.

Public Payphones

At national level, PT telephone and/or Internet service with the following public payphones:

- Public payphones – 26,443
- Public payphones with Internet access– 62 (37 of which at Public Payphone stores)
- Public payphones in public roads streets accessible by users with special mobility needs – 313
- Public payphones in areas considered of particular interest social by the regulator – 2,368
- Public payphones installed in places with less than 1,000 inhabitants – 9,941

Universal Service

Within the framework of the provision of universal service, PT continued to ensure access to telecommunications services to communities of lower purchasing power and/or geographically further away from the big cities, ensuring that all citizens have access to a basic set of general interest services regardless of their location and/or consumer profile.

Contingency plan to ensure the continuity of service provision

For situations of lack of service due to acts of vandalism, natural disasters (floods, fires) or other situations, PT has a set of contingency plans that could be triggered, ensuring service resumption in the shortest time under acceptable conditions.

Special solutions for citizens with special needs

In programs targeting ICT accessibility by institutions and bodies working in the field of disability according to their the statutes, or by citizens with special needs, PT continues the development and provision of a variety of products and services (mobile or fixed Special Solutions) addressed to people with disabilities or impairments, with severe disease or elderly at risk, considering the particularities inherent to the following areas of disability:

- Vision
- Speech-Communication;
- Cognition;
- Neuro-motor Dysfunction;
- Hearing.

The composition of these solutions requires customized adjustments according to each identified need and can be found at http://www.lojapt.pt/PT/Pages/SolucoesEspeciaisPT_Visual.aspx

4. INNOVATION TO ENSURE SOCIAL SUSTAINABILITY

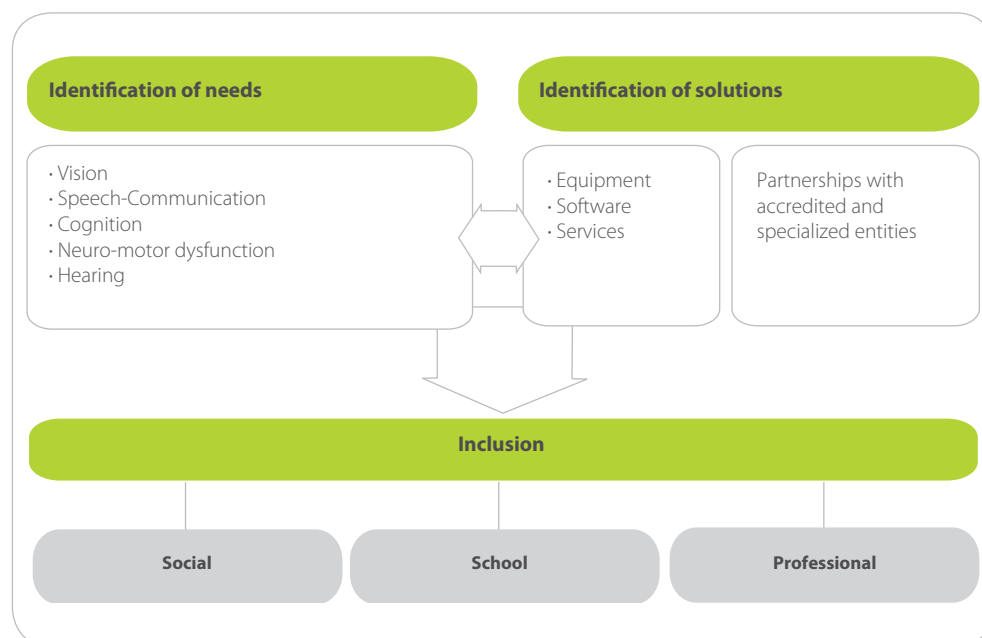
Access to the information and communication technologies and the skills for its use are factors that differentiate social opportunities and, consequently, of the utmost importance nowadays. They are a powerful tool for social and professional inclusion, which opens up new horizons for the economy and the environment.

PT directs their research, development and innovation programs to the identification of solutions that contribute to the affirmation of a modern citizenship, informed, conscious and responsible.

The solutions identified over the last three years address either the universe of society at large, their customers and users, or the universe of their employees and, in a wider context, their families.

4.1. INNOVATION AT THE SERVICE OF THE POPULATION WITH SPECIAL NEEDS

PT's corporate social responsibility leads it to put innovation at the service of people with disabilities by developing in each case a solution - equipment, software and services (special solutions) – adapted to disability, incapacity or limitation of each person.



In the context of innovation at the service of the population with special needs, we highlight the following solutions:

- **Tele-class** – aimed at children or young people deprived of physical attendance of classes because they are in a situation of disease and hospital inpatients for reasons of convalescence or in prolonged treatment;
- **Call Centre for the deaf** – Service Centre for deaf people where service is effected in Portuguese sign language;
- **Equipment adapted to augmentative communication** – intended for people with neurological diseases or degenerative disabilities.

4.2. SOLUTIONS FOR SENIOR PEOPLE IN SITUATIONS OF ISOLATION AND/OR PROLONGED ILLNESS

- **Remote households management:** centralized system for senior supporting organizations, with integrated programming of home visits and volunteers, user health clinic files, schedule of treatments, among others, allowing, on the one hand, the efficiency of resources allocated to households, and ensuring, on the other hand, the quality of service provided to users;
- **Tele-care:** in order to combat isolation and provide greater security for seniors, a tele-care solution was created – permanent telephone medical support service supported by a phone that allows them, in case of urgency, to get in touch directly with the care services 24 hours a day during the 365 days of the year;
- **Senior Age Portal:** development of a SAPO portal with dedicated content and services targeted to the active life of the senior segment. It shows very positive results, counting with more than 700 people already registered and about 650 thousand visitor;

4.3. E-HEALTH | SOLUTIONS FOR THE GENERAL POPULATION IN HEALTHCARE

- **Tele-consultation:** electronic platform that allows distance consultations with sound and image, avoiding movements of patients and which of course brings patients closer to their doctors. This solution has been adopted for example between hospitals in Portugal and hospitals in Cape Verde and São Tomé and Príncipe.
- **Baby Care:** pioneering service in the world, developed by PT, that allows parents of babies who are in the intermediate or intensive care rooms of hospitals, equipped with this system, a permanent contact with their children from any location, or country, that have fixed or mobile access to the Internet.

4.4. SOLUTIONS FOR SAFE COMMUNICATIONS FOR CHILDREN AND TEENAGERS

- **TMN Kids:** new service that allows parents to define the phone numbers that may contact their children. It addresses the growing appetite of this segment for mobile communications, focusing its service on the concerns in terms of safety and cost control of parents and tutors;
- **MEO Kids and Sapo Kids:** Channels with content specifically directed at children and with manuals of good practices for online media use;
- **Communicate Safely:** awareness-raising program for young people and teachers towards the safe use of online media in terms of equipment protection, personal data privacy and proper use of contents. This program is being carried out in basic and secondary schools throughout the country, counting with the support of PT's volunteering and GNR police force;
- **Parental Control:** identification and dissemination (online) of manuals of good practices on the use of each item of equipment and/or services offered by PT.

4.5. SECURITY SOLUTIONS FOR THE GENERAL POPULATION

- **TMN Drive:** navigation application for smartphones, which turns your phone into a real navigator. TMN Drive provides access to thousands of points of interest, maps of Portugal (includes Atlantic Islands) free of charge;
- **Localizz:** allows sharing the location of a person and knowing in real-time via mobile phone or PC where are the children, friends or other persons with whom you want to interact;
- **Car control:** allows locating and locking your car at a distance, receiving alarms, triggering the alarm button, and the access to an emergency telephone line (accident and theft).

4.6. MARKETING SOLUTIONS

- **SPOTYAD** - innovative service that offers advertisers the opportunity to promote among the customers of PT's mobile service, in a quick and easy way, their products, by sending texts about various promotions and discounts for their favourite brands.

4.7. SOLUTIONS ADOPTED WITHIN PT

- **Creation of a laboratory of ideas, called OPEN** - it aims to foster a new culture among employees and involve them in identifying new improvement opportunities for the market, for environment and business sustainability.
- **Line of support for the studies of employees' children with lower income** - this line comprehends the subsidization of studies and/or computer equipment with internet access;

4.8. STIMULATING ENTREPRENEURSHIP

- **Support for entrepreneurship by sponsoring MOVE** - Move is a charity, founded mostly by Portuguese university students, with the goal of promoting economic development in emerging countries, through training and micro-credit assignment. The project develops in Portugal as well as in countries where PT has operations.

5. CORPORATE INVESTMENT IN THE COMMUNITY

5.1. COMMUNITY IMPACTS

Portugal Telecom's corporate investment in the community has as its fundamental premise the respect for the values of the societies in which it operates and bases its action on the commitment to contribute to the improvement of the conditions of life for all, namely through awareness-raising programs for social, educational and professional inclusion and the inherent promotion of knowledge, health and safety of persons and property and the environment.

The response to the promise of social intervention and corporate support to the community made by the group is fleshed out, externally, by means of its trade names and through the PT Foundation, which over the last three years has made an investment in society of Euro13.8 million.

This activity is primarily directed towards the most needy population, and, among these, children, youth and seniors.

This investment remained at the same levels over this last three-year period.

€ 13.8 MILLION
CORPORATE INVESTMENT IN THE COMMUNITY
(2009-2011)

€ 4.4 MILLION
CORPORATE INVESTMENT IN THE COMMUNITY
(2011)

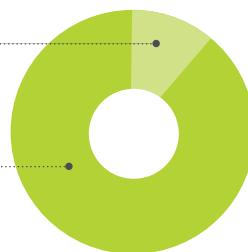
DISTRIBUTION OF THE TOTAL INVESTMENT IN EACH YEAR OVER THE LAST THREE YEARS



BREAKDOWN OF THE TOTAL INVESTMENT OVER THE LAST THREE YEARS BETWEEN THE PT FOUNDATION AND PT'S TRADE NAMES

BRAND NAMES 11%

PT FOUNDATION 89%



INVESTMENT BREAKDOWN BY TYPE OF SUPPORT IN EACH YEAR OVER THE LAST THREE-YEAR PERIOD

ACTIONS OF CITIZENSHIP
PRODUCTS & SERVICES

ACTIONS OF CITIZENSHIP
VOLUNTEERING

ACTIONS OF CITIZENSHIP
CASH

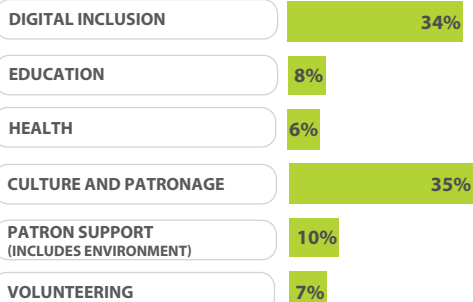


2009 2010 2011

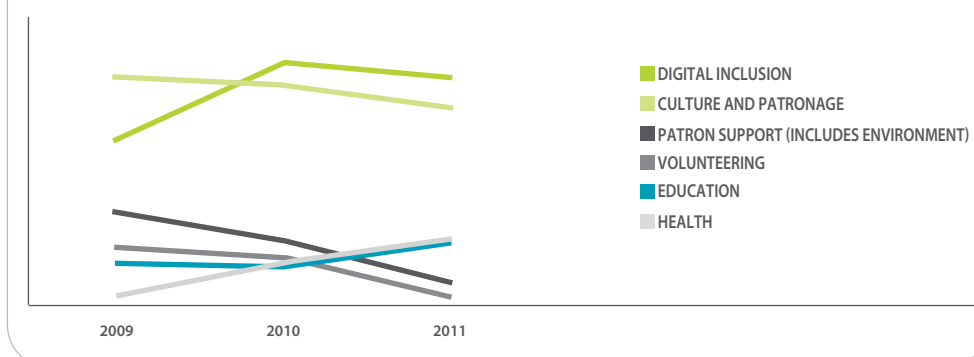
Digital inclusion and the safeguarding of national heritage and culture have been the main targets of investment in the community.

Health and education are areas that have increasingly been deserving attention, since they are fundamental levers for better social and professional integration of needy citizens and/or with special needs.

INVESTMENT BREAKDOWN IN THE FOLLOWING INTERVENTION AREAS, OVER THE LAST THREE-YEAR PERIOD



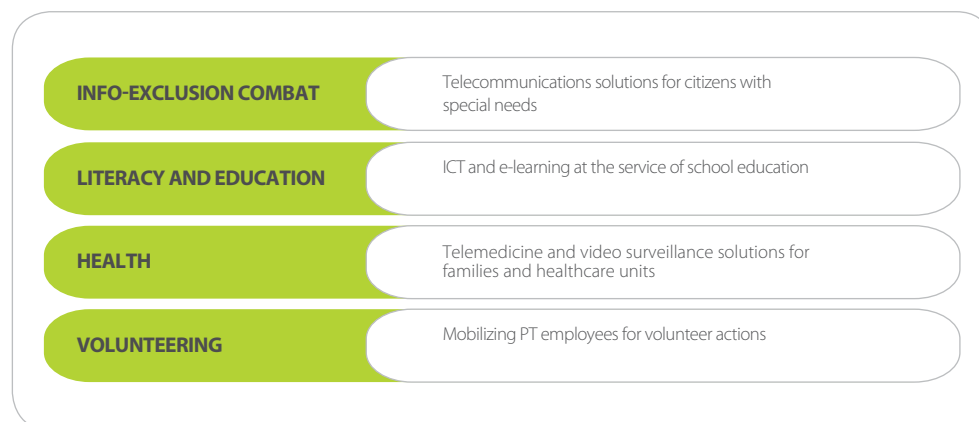
DEVELOPMENTS IN EACH AREA OF INTERVENTION TOOK THE FOLLOWING PROFILE OVER THE THREE-YEAR PERIOD



Note: PT is a member of the London Benchmarking Group and seeks to assess the impact of their social intervention according to the respective methodology.

5.2. AREAS OF INTERVENTION

The fields of activity on which PT focuses relate primarily to those areas where it has expertise. We believe that through them we contribute to enhance society as a whole, improving access to telecommunications services, the knowledge and culture of citizens or organizations that represent them or support them, and who are in a situation of deprivation or with disabilities.



PT believes that it is important to establish strategic partnerships with other industry players and work side by side with nonprofit organizations in order to understand clearly the existing needs.

Technology partners – PT and Qualcomm have worked together to improve and increase the mobility of the portfolio dedicated to citizens with special needs. Together with Portuguese hospitals and rehabilitation clinics, this partnership has focused mainly on users with paralysis and cerebral palsy.

NGOs – for more than 20 years, PT has worked side by side with organizations connected to people in need, with special needs and/or with disabilities, to identify the best solutions in order to ensure adequate services to all.

5.3. PT FOUNDATION (Details at <http://fundacao.telecom.pt>)

The PT Foundation is a public charity whose mission is to contribute to the development of society by supporting individuals and or institutions. Their initiatives in terms of community intervention in 2011 involved Euro 3.8 million, distributed as follows in terms of areas of intervention, development of support solutions and respective recipients and beneficiaries:

Intervention area	Recipients	Beneficiaries in 2011
Tackling info exclusion (Euro 1.37 million)		
Equipment, platforms and services adapted for people with special needs, disabilities or impairments related to: <ul style="list-style-type: none"> • Vision • Speech • Cognition • Neuro-motor dysfunction • Hearing 	Organizations in support of needy and/or disabled citizens or directly to citizens with these characteristics	Directly, 3,669 citizens – that is about 1 per each 3,000 residents in the country; Indirectly, more than 45 organizations.
Education (Euro 0.45 million)		
Equipment, computer platform and service adapted to teaching via Tele-class	Special Education Centres and Hospitals where there are people with mobility impairments or suffering from a protracted illness.	23 students in a situation of prolonged hospitalization.
Computer equipment (PCs) reused and recycled by PT volunteers	Educational institutions in Portugal and in Portuguese-speaking Countries, with lack of computer equipment	Donated 768 items of equipment to 43 educational institutions in Portugal; Donated 215 items of equipment to educational institutions of Timor, Guinea-Bissau and Mozambique.
Preparation and implementation of an awareness course on good use of ICT by minors – protection of minors against harmful content, on safety and privacy of personal identity and equipment	Students and teachers from basic and secondary schools across the country. PT's volunteers were trained prior to their participation as monitors	63 educational establishments 10,243 students 131 volunteers
Access to high-performance and reliability services and research grants	Universities and other institutions with researchers in the field of inclusion	6 scholarships with research projects
Collection and distribution of Portuguese literature books	National and international institutions, responsible for citizens in need	18,990 books collected and sent to institutions in East Timor; and, 1,080 books for national institutions.
Health (Euro 0.36 million)		
Equipment and services for remote monitoring of premature newborns who need stay in hospital	Hospitals and families with premature neonates	172 familie* *estimate
Electronic platform and content for personalized health information management	Online portal customizable by any citizen	3,351 registered users
Electronic equipment and platform adapted to telemedicine and tele-consultations	Medical institutions and patients at national and international level	Prevents movement and evacuation of patients to distant locations. Example: São Tomé sent to Portuguese hospitals 60% less patients compared with the previous year
Tele-care and emergency solutions for seniors suffering from disease and/or isolation	Seniors and organizations that assist elderly at risk	296 seniors citizens
Protocols with universities and scientific research institutes in the field of health	Researchers and providers of support services in the area of health care	5 new protocols
Culture and heritage (Euro 1.33 million)		
Support for the conservation of documentary and technological heritage related to the company and the industry	Foundations, museums and specialized domestic institutions	3,628 visitors
Patronage support (Euro 0.21 million)		
Donations to institutions supporting citizens in situations of manifest lack, especially young people and seniors	Institutions that receive and support youth and seniors in situations of manifest lack	41 institutions

5.4. VOLUNTEERING

PT has several volunteering programs that aim to not only support projects for deprived areas of the community or the environment, but also motivate the employees and respective families to participate in citizenship activities.

AREAS OF INTERVENTION OF VOLUNTEER WORK

SHARING

Collection of clothes and food distribution to homeless

CULTURE

Provision of entertaining experiences to underprivileged children

TRAINING

Micro-computing training and website construction

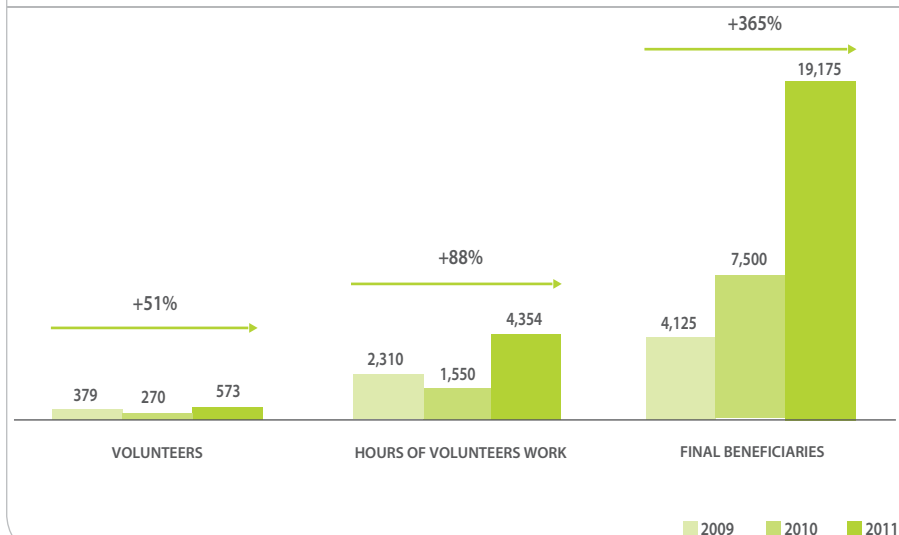
ENVIRONMENT

Civic and environmental training actions

Employees may participate up to 6 per annum without affecting absenteeism rate

Globally during the last three years, PT has contributed to the Portuguese society and to some Portuguese-speaking countries, including East Timor, Guinea-Bissau, Cape Verde, São Tomé and Príncipe and Mozambique, with at least 1,222 volunteers, with more than 8,200 hours of volunteer work and reached more than 30,000 beneficiaries.

EVOLUTION OF CORPORATE VOLUNTEERING IN THE LAST THREE-YEAR PERIOD



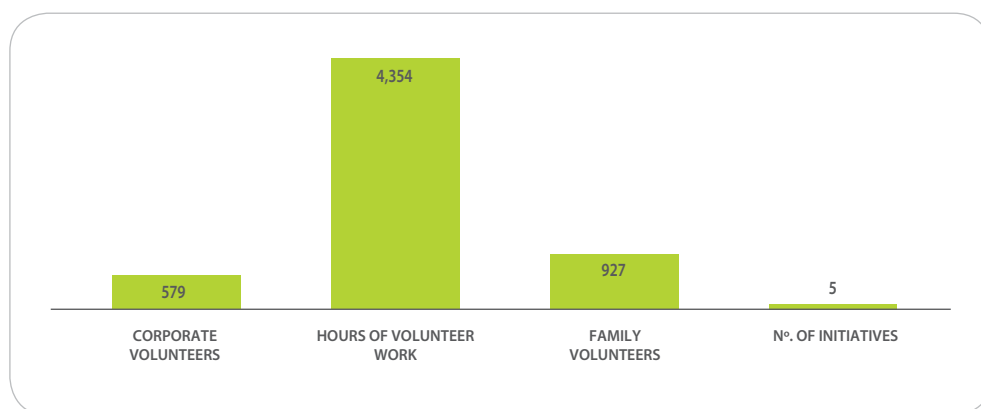
The volunteer programs are divided according to the times in which they run:

- Corporate volunteering – it offers the possibility to each employee to donate six days of volunteer work, during regular working hours, without affecting the respective remuneration and/or work attendance.

In the year 2011, 573 PT volunteers provided approximately 4,354 hours of volunteer work to a set of 115 institutions (private social solidarity institutions, schools and other institutions of support to socially deprived people), having been benefited a universe of about 19,175 direct recipients.

- Family volunteering – organized in leisure hours with the participation of employees and their families.

In 2011, around 927 volunteers participated in 5 initiatives of social and environmental volunteering.



Aurora Program – Corporate Volunteering

The Aurora program is a corporate volunteering database of hours that allows PT Group employees to participate in social development projects, up to 35 hours per year during normal working hours. By the number of hours involved, this is a unique program in terms of Corporate Volunteering, which allowed the PT Foundation to carry out the following initiatives:

- **Communicating Safely.**
- **How to be an Entrepreneur:** A Junior Achievement Portugal program.
- **Right Arm Program** - Also organized by Junior Achievement Portugal, it is addressed to secondary school students and aims to provide them with a contact with a professional reality of their interest.
- **Action Helpo** - In this action, school supplies (notebooks, pens, pencils, erasers, pencil-sharpener, backpacks, cases, etc.), toothbrushes and toothpaste, polar blankets, books for children and teenagers, encyclopedias and dictionaries, didactic games, and flip-flops (Hawaiian type) were collected for Helpo, a NGO that promotes continued support programs, assistance projects, humanitarian aid, community development, education for development and human development, in Portugal, Mozambique, and São Tomé.
- **Action "Hello, are you OK?"** - Telephone contact with elderly citizens suffering from social isolation, living in downtown Lisbon, in order to minimize their solitude
- **Action Paint Volunteering:** To mark the European Year of Volunteering 2011.

- **Action Solidarity Fair Rastrillo:** Collection of funds to help children and young people.
- Christmas party of the Life and Peace Community: For three days, access is ensured to various support services: shows, clothes, shoes, showers and toilets, hairdresser, "Citizen's Shop", health care, dentistry, legal assistance, food and Christmas supper for homeless citizens.
- **Action Round:** Improvement of the quality of life of groups at risk in socially depressed areas or in the shelter institutions.

In 2011, 499 volunteers participated in the Aurora program, with a total of 3,538 working hours, which benefited 94 institutions and around 17,908 direct recipients.

Hand-in-Hand Program – Corporate volunteering

Coordinated by the Portugal Telecom Foundation, the Hand-in-Hand program – inter-enterprise volunteering movement - currently counts with the participation, willingness and commitment of the following companies: Allianz, BP Portugal, Sacoor Brothers, Cisco, DHL, INOV Inovação, Jason, Nova Delta, Opway, SAS, Siemens, Xerox, Prosegur, BNP Paribas, Fundação PT, PT Comunicações, TMN, PT Contact, PT Inovação, PT PRO and PT SI.

This program is directed to private social solidarity institutions, Misericórdias, as well as hospitals and schools that support socially excluded citizens, and its initiatives comprehend the execution of specific tasks, and the signatory companies are committed to providing staff to participate during normal working hours.

In 2011, the Hand-in-Hand program developed the following initiatives:

- **Project 8 to 80:** This initiative benefited several institutions - Association for an Autonomous Future; National Pastoral Work of Gypsies; Legion of Goodwill (Porto) and Cáritas of Beja - and various types of activities were undertaken, including: painting posters with the kids of the Autonomous Future; recovery of the walls of the Gypsy Work; food hampers distribution through the Legion and an entrepreneurship action with Cáritas.
- **Action 10 Years:** This initiative took place in two institutions: at Association Vitae and at the Basic School of Apelação. The first action was the painting of the courtyard of the Association. The second action comprised the painting of the living room/exterior wall of the school and scientific experiments with students.
- **Sea shells:** Summer action at Tamariz beach with children and young people who attend the Rehabilitation Centre of Alcoitão, aged between 3 and 17 years. In 2011, this action benefited 20 children with neuro-motor or intellectual disabilities, consisting of mornings at Tamariz Beach, walks and games at Parque da Gandarinha, and horse riding and games at the Equestrian Village Fonte Caspolina.
- **A week in prison:** Action structured together with the General Directorate of Prison Services. Several activities were developed, from the improvement of spaces, reading sessions, execution of handicraft works to online visits to Portuguese museums.
- **A sailing day:** in the north of the country there was a sailing lesson, a boat trip along the *ria de Aveiro* on the boat of PT Inovação, as well as traditional games, facial paintings and sculptures with balloons. The event was aimed at children in need that participated together with the volunteers in the painting of three canvases, which were offered to the participating institutions as a souvenir of this day.
- **Senior Action:** The initiative consisted of three actions with elderly people with the aim of improving the conditions of the spaces that they attend on a daily basis and provide them with a few moments of joy and pleasure of which they are typically deprived because of the absence of family follow-up.

In 2011, considering all actions undertaken in the context of the Hand-in-Hand program, 75 volunteers from the PT Group participated, totaling 704 hours of work, and other companies in the program contributed with 1,288 hours. 20 institutions and 1,256 direct recipients benefited from these initiatives.

Share Program – Corporate volunteering

This is a corporate long-term volunteering program, born out of a protocol with Santa Casa da Misericórdia de Lisboa, which provides for computer equipment and training actions for young and elderly people supported by that institution. Contacts are underway with Santa Casa da Misericórdia to recast this initiative, as mentioned above.

In 2011, 5 participants were involved in this program making a total of 112 hours of work and reaching 11 beneficiaries.

Volunteer programs in family (outside working hours)

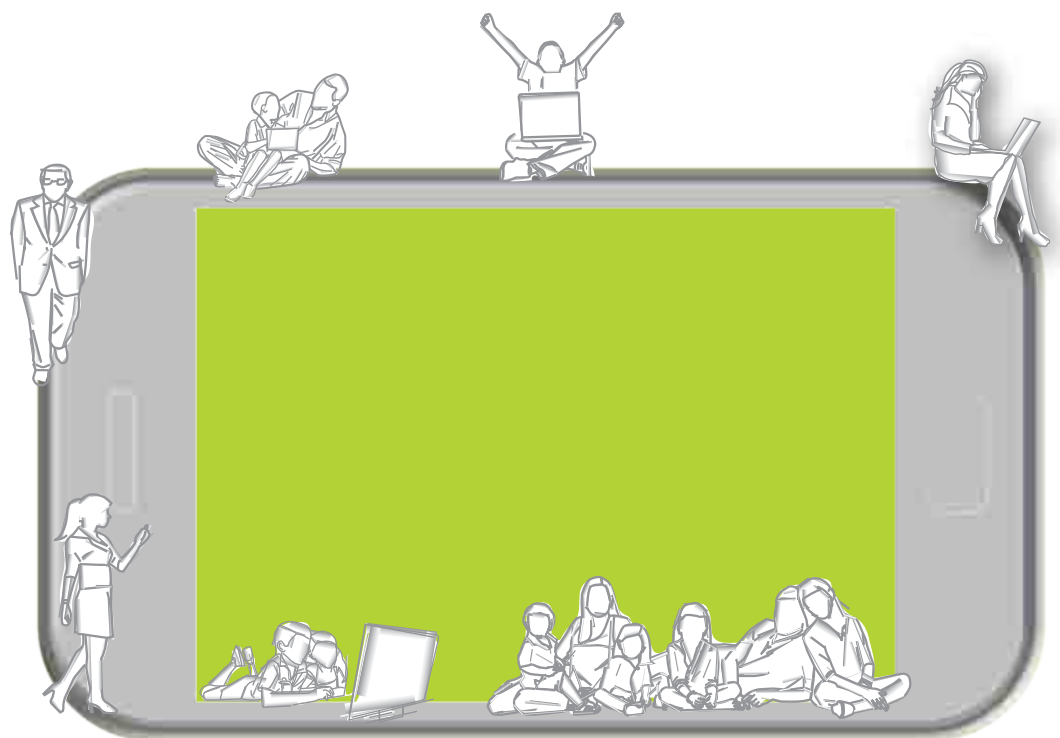
Solidary House

Solidary Walk

Giving hands No Age

Food Bank

Help Environment







GRITABLE AND GLOBAL COMPACT



TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
1. STRATEGY AND ANALYSIS				
	1.1 Declaration of the person with greater decision power in the organization (i.e. General-Director, Chairman of the Board or position of equivalent importance).	T	12-15	1, 7, 9
	1.2 Description of main impacts, risks and opportunities, related to the activity of the company.	T	18-24, 32, 136-140	
2. ORGANIZATIONAL PROFILE				
-	2.1 Name of the reporting organization.	T	2	
-	2.2 Main brands, products and/or services.	T	9	
-	2.3 Operational structure of the organization, including main departments, participated companies in operation and joint ventures.	T	55	
-	2.4 Location of the headquarters of the company.	T	2	
-	2.5 Countries where it is present and name of those with significantly relevant operations for the sustainability issues handled in the report.	T	5, 10-11	
-	2.6 Type and legal nature of ownership.	T	2	
-	2.7 Markets covered (including a detailed geographic analysis, the sectors covered and the types of beneficiaries/ customers).	T	9-11	
-	2.8 Dimension of the organization, including number of employees, net sales (for organizations of the private sector) or net revenue (for organizations of the public sector) and the amount of products provided and services rendered.	T	81, Consolidated Annual Report (CAR) p. 127, 129, 132-135, 158-159, 227	
-	2.9 Main changes occurred, during the period covered by the report, in terms of dimension, organizational structure or the shareholder structure.	T	68-69, 81	
-	2.10 Prizes received during the period of the report.	T	25-26	
3. PARAMETERS OF THE REPORT				
-	3.1 Period covered (i.e. civil/ fiscal year) for the information presented in the report.	T	5	
-	3.2 Date of the latest published report (if applicable).	T	5	
-	3.3 Report Publication cycle (annual, biennial, among others).	T	5	
-	3.4 Person(s) to be contacted for clarifications relative to the report or its content, including electronic address and the Internet site.	T	2	
-	3.5 Process for the definition of the report content, including: the process to determine the relevance, the definition of priority issues in the scope of the report.	T	5	
-	3.6 Boundaries of the report (countries or regions, products or services, departments, installations, joint ventures or participated companies, as well as other limitations of specific scope).	T	5	
-	3.7 Mention any relative specific limitations to the scope and the boundaries of the report	T	5	
-	3.8 Base for report elaboration in what concerns joint ventures, participated, partially controlled companies, leasehold installations, subcontracted operations and other situations that can significantly effect the comparability between distinct periods or with reports from other organizations.	T	5	
-	3.9 Data measurement techniques and calculation bases, including underlying hypotheses and techniques to the estimates applied to the compilation of the indicators and other information contained in the report.	T	5, 19, 24	
-	3.10 Explanation of the effect of any reformulations of existing information in previous reports and the reasons for such reformulations (i.e. fusions/acquisitions, change of period or year, nature of the business, methods of measurement).	T	Most financial data for 2010 were remade due to acquisition of Oi and Vivo's recognition as a discontinued operation.	
-	3.11 Significant changes, in relation the previous reports, in terms of scope, boundary or applied methods of measurement.	T	Not applicable.	
-	3.12 Table that identifies the place of the standard-information in the report.	T	Current table.	
-	3.13 Policy and current practice relative to the search of an independent process of reliability assurance for the report.	T	5	
4. GOVERNANCE, COMMITMENTS AND INVOLVEMENT				
-	4.1 Structure of governance of the organization, including committees subordinated to the hierarchically highest governance body and with responsibility for specific tasks, such as the definition of the strategy or the supervision of the organization.	T	54-55	
-	4.2 Indicate if the Chairman of the hierarchically highest governance body is simultaneously an executive director (and in this case which are its functions in the scope of the management of the organization and the reasons for this composition).	T	57-58	
-	4.3 Indicate, in the case of organizations with a unitary administration structure, the number of members of the hierarchically highest governance body who are independent and/or non-executive members.	T	56	
-	4.4 Mechanisms that allow the shareholders and employees to transmit recommendations or orientations to the hierarchically highest governance body.	T	29, 68, 93	
-	4.5 Relationship between the remuneration of the members of the hierarchically highest governance body, top directors and executives (including decision making agreements) and the organization performance (including social and environmental performance).	T	60-64	
-	4.6 Processes available to the hierarchically highest governance body to prevent the occurrence of interest conflicts.	T	50-53, 56	
-	4.7 Process for the determination of the qualifications and skills demanded to the members of the hierarchically highest governance body to relatively define the strategy of the organization relative to the issues connected to the economic, environmental and social performance	T	Elected directors are evaluated based on the plurality of their competence in management, including financial and non-financial criteria. However, there are specific procedures defined for such an evaluation.	
-	4.8 The internal development of declaration of principles or mission, codes of conduct and principles considered relevant for the economic, environmental and social performance, as well as the implementation phase	T	49-65	1 to 10
-	4.9 Processes of the hierarchically highest governance body, to supervise the form how the organization carries out the identification and the management of the economic, environmental and social performance, the identification and the management of relevant risks and opportunities as well as the adhesion or compliance with the internationally accepted standards, codes of conduct and principles	T	58	
-	4.10 Processes for the evaluation of the performance of the hierarchically highest governance body, especially in relation to the economic, environmental and social performance	T	59	
-	4.11 Explanation on whether the precaution principle is handled by the organization and how it is done	T	35-43	7
-	4.12 Letters, principles or other initiatives developed externally of economic, environmental and social nature that the organization subscribes to or defends	T	48-49	1 to 10
-	4.13 Significant participation in associations (such as industrial associations) and/or national/ international defense organizations where the organization: holds positions in the governance bodies; participates in projects and committees; contributes with substantial financings that exceed the normal obligations of the participants; faces the participation as strategical.	T	111	
-	4.14 Relation of the groups that constitute the interested parties involved by the organization	T	29	
-	4.15 Base for the identification and selection of the interested parties to be involved	T	29	
-	4.16 Methods used to involve the interested parties including the frequency of the involvement, by type and groups, of the interested parties	T	29, 68, 72, 87	
-	4.17 Main issues and concerns identified through the involvement of the interested parties and the measures adopted by the organization in their treatment, namely through the reports.	T	30-31	

TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
MANAGEMENT APPROACHES				
-	Economic management approach.	T	43, 45, 71	
-	Environmental management approach.	T	46-48, 110-113	7, 8, 9
-	Social management approach - Labour practices and decent work.	T	45, 86-88	2, 3, 4
-	Social management approach - Human Rights.	T	45, 48-49, 88, 103	1
-	Social management approach - Society.	T	48-50, 134-135	
-	Social management approach - Product responsibility.	T	45, 48, 76-80	
ECONOMIC PERFORMANCE INDICATORS				
E	EC1. Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core)	T	83, 23, 102, 136, 144, CAR p. 127	
E	EC2. Financial implications and other risks and opportunities for the organization's activities due to climate change. (Core)	T	110	
E	EC3. Coverage of the organization's defined benefit plan obligations. (Core)	T	CAR p. 163-167	
E	EC4. Significant financial assistance received from government. (Core)	T	PT did not receive any government support	
ASPECT - MARKET PRESENCE				
C	EC5. Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	T	85	1
E	EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	T	102	
E	EC7. Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. (Core)	T	PT has no quota policy with recruitment principles such as local hiring and the existence of a minimum number of expatriates (with emphasis on financial functions).	
ASPECT - INDIRECT ECONOMIC IMPACTS				
E	EC8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)	T	147	
C	EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	T	32-34, 18-24, 136-140	
ENVIRONMENTAL PERFORMANCE INDICATORS				
ASPECT - MATERIALS				
E	EN1. Materials used by weight or volume.	T	116	7, 8, 9
E	EN2. Percentage of materials used that are recycled input materials.	T	116	7, 8, 9
ASPECT - ENERGY				
E	EN3. Direct energy consumption by primary energy source.	T	116-117	7, 8, 9
E	EN4. Indirect energy consumption by primary source.	T	117	7, 8, 9
C	EN5. Energy saved due to conservation and efficiency improvements.	T	114-115, 118	7, 8, 9
C	EN6. Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	T	114-115, 118	7, 8, 9
C	EN7. Initiatives to reduce indirect energy consumption and reductions achieved.	T	114, 118	7, 8, 9
ASPECT - WATER				
E	EN8. Total water withdrawal by source.	T	118	7, 8, 9
C	EN9. Water sources significantly affected by withdrawal of water.	T	The water consumption of PT does not affect any water resource, since the amount of water is negligible.	7, 8, 9
C	EN10. Percentage and total volume of water recycled and reused.	P	It is not yet possible to quantify the amount of reused water.	7, 8, 9
ASPECT - BIODIVERSITY				
E	EN11. Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	T	118	7, 8, 9
E	EN12. Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	T	119	7, 8, 9
C	EN13. Habitats protected or restored.	T	119	7, 8, 9
C	EN14. Strategies, current actions, and future plans for managing impacts on biodiversity.	T	33-119	7, 8, 9
C	EN15. Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	N.R.	Information not available.	7, 8, 9

TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
ASPECT - EMISSIONS, EFFLUENTS, AND WASTE				
E	EN16. Total direct and indirect greenhouse gas emissions by weight.	T	120	7, 8, 9
E	EN17. Other relevant indirect greenhouse gas emissions by weight.	T	121	7, 8, 9
C	EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved.	T	114-115, 121	7, 8, 9
E	EN19. Emissions of ozone-depleting substances by weight.	T	121	7, 8, 9
E	EN20. NOx, SOx, and other significant air emissions by type and weight.	T	121	7, 8, 9
E	EN21. Total water discharge by quality and destination.	T	121	7, 8, 9
E	EN22. Total weight of waste by type and disposal method.	T	122-123	7, 8, 9
E	EN23. Total number and volume of significant spills.	T	There were no significant discharges.	7, 8, 9
C	EN24. Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	T	Dangerous materials used by PT are, at the end of their life cycle, collected and processed by accredited entities.	7, 8, 9
C	EN25. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	N.R.	Information not available.	7, 8, 9
ASPECT - PRODUCTS AND SERVICES				
E	EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	T	114, 118-119	7, 8, 9
E	EN27. Percentage of products sold and their packaging materials that are reclaimed by category.	T	115	7, 8, 9
ASPECT - COMPLIANCE				
E	EN28. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	T	123	7, 8, 9
ASPECT - TRANSPORT				
C	EN29. Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	N.R.	Information not available.	7, 8, 9
ASPECT - OVERALL				
C	EN30. Total environmental protection expenditures and investments by type.	T	124	
SOCIAL PERFORMANCE: LABOUR PRACTICES & DECENT WORK				
ASPECT - EMPLOYMENT				
E	LA1. Total workforce by employment type, employment contract, and region.	P*	81, 83, 84	7, 8, 9
E	LA2. Total number and rate of employee turnover by age group, gender, and region.	T	86	7, 8, 9
C	LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	T	87	
E	LA15. Rate of return and retention after parental leave, by gender.	P*	83	
ASPECT - LABOUR/MANAGEMENT RELATIONS				
E	LA4. Percentage of employees covered by collective bargaining agreements.	T	82	3
E	LA5. Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	T	87, 94-95	
ASPECT - OCCUPATIONAL HEALTH AND SAFETY				
E	LA6. Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	T	80, 99	1
E	LA7. Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	T	83, 100	1
E	LA8. Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	T	96, 99-100	
E	LA9. Health and safety topics covered in formal agreements with trade unions.	T	94-95	1, 3
ASPECT - TRAINING AND EDUCATION				
E	LA10. Average hours of training per year per employee by employee category.	T	90	1
E	LA11. Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	T	87, 91-92	1
E	LA12. Percentage of employees receiving regular performance and career development reviews.	T	91	1

TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
ASPECT - DIVERSITY AND EQUAL OPPORTUNITY				
E	LA13. Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	P*	56, 84	1
E	LA14. Ratio of basic salary of men to women by employee category.	T	84	1
SOCIAL PERFORMANCE INDICATORS: HUMAN RIGHTS				
ASPECT - INVESTMENT AND PROCUREMENT PRACTICES				
E	HR1. Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	T	All due diligences are made from a financial, social and environmental viewpoint.	
E	HR2. Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	T	105-108	1 to 6
E	HR3. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	T	49, 91	1 to 6
ASPECT - NON-DISCRIMINATION				
E	HR4. Total number of incidents of discrimination and actions taken.	T	51	1, 2 and 6
ASPECT - FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING				
E	HR5. Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	T	Given the nature of activities there is no risk of impediment to the free exercise of freedom of association and collective bargaining agreements. The activity of PT is guided and strictly complies with SOX and CMVM guidelines and implements best practices of risk management, as well as the strategic guidelines relating to respect for human rights, in particular those of the United Nations Global Compact, which PT endorses.	
ASPECT - CHILD LABOUR				
E	HR6. Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	T	51, 88	1, 2, 5
ASPECT - FORCED AND COMPULSORY LABOUR				
E	HR7. Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	T	Given the nature of the activities there is the risk of forced or compulsory labour. The activity of PT is guided and strictly complies with SOX and CMVM guidelines and implements best practices of risk management, as well as the strategic guidelines relating to respect for human rights, in particular those of the United Nations Global Compact, which PT endorses.	1, 2, 4
ASPECT - SECURITY PRACTICES				
C	HR8. Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	N.R.	Not relevant for the activity of PT.	
ASPECT - INDIGENOUS RIGHTS				
C	HR9. Total number of incidents of violations involving rights of indigenous people and actions taken.	T	Not applicable to the operations of the PT Group in Portugal.	
ASPECT - EVALUATION				
E	HR10. Percentage and total number of operation subject to reviews related to human rights and impact evaluations.	T	50	
ASPECT - RESOLUTION				
E	HR11. Number of complains related to human rights approached and solved through formal mechanisms.	T	51	
SOCIAL PERFORMANCE INDICATORS: SOCIETY				
ASPECT - COMMUNITY				
E	SO1. Percentage and total number of operations that have carried out impact assessments on the local community and that implemented programs of involvement or local community development.	T	148-151	
E	SO9. Transactions with potential for negative effects on local community.	T	119	
E	SO10. Measures to prevent and mitigate the negative effects on the local community.	T	33, 119	

TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
ASPECT - CORRUPTION				
E	SO2. Percentage and total number of business units subject to risk analysis to prevent corruption.	T	The risk assessment process, risk factors and the respective management are applied to all businesses of PT. The analysis of the risk of corruption, being included in the Code of Conduct is one of the aspects/ risks analysed.	10
E	SO3. Percentage of employees trained in organization's anti-corruption policies and procedures.	T	49	10
E	SO4. Actions taken in response to incidents of corruption.	T	50	10
Aspect - Public Policy.				
E	SO5. Public policy positions and participation in public policy development and lobbying.	T	50	
C	SO6. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	T	50	
ASPECT - ANTI-COMPETITIVE BEHAVIOR				
C	SO7. Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	T	They did not occur.	
ASPECT - COMPLIANCE				
E	SO8. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	T	54	
SOCIAL PERFORMANCE INDICATORS: PRODUCT RESPONSIBILITY				
ASPECT - CUSTOMER HEALTH AND SAFETY				
E	PR1. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	T	79	
C	PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	T	79	
ASPECT - PRODUCTS AND SERVICE LABELING				
E	PR3. Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	T	79	
C	PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	T	79	
C	PR5. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	T	75-76	
ASPECT - MARKETING COMMUNICATIONS				
E	PR6. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	T	80	
C	PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	T	80	
ASPECT - CUSTOMER PRIVACY				
	PR8. Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	T	They did not occur.	
ASPECT - CONFORMIDADE				
E	PR9. Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	T	79-80	
PERFORMANCE INDICATORS OF THE ICT SUPPLEMENT				
ASPECT - INTERNAL OPERATIONS				
C	IO1. Capital investment in telecommunication network infrastructure broken down by country/region.	T	13, 21, 32, 44	
C	IO2. Net costs for service providers under the Universal Service Obligation when extending service to geographic locations and low-income groups, which are not profitable. Describe relevant legislative and regulatory mechanisms.	T	Issues relating to the universal service obligation are governed by ANACOM, the entity with which PT keeps regular contact within the scope of its activity. PT has held negotiations with this entity that you will allow in the near future to report the value of the investment in suppliers in the scope of the universal service.	
C	IO3. Practices to ensure health and safety of field personnel involved in the installation, operation and maintenance of masts, base stations, laying cables and other outside plant. Related health and safety issues include working at heights, electric shock, exposure to EMF and radio frequency fields, and exposure to hazardous chemicals.	N.R.	100-101	
C	IO4. Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) standards on exposure to radiofrequency (RF) emissions from handsets.	T	119	
C	IO5. Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) guidelines on exposure to radiofrequency (RF) emissions from base stations.	T	119	
C	IO6. Policies and practices with respect to Specific Absorption Rate (SAR) of handsets.	N.R.		
C	IO7. Policies and practices on the siting of masts and transmission sites including stakeholder consultation, site sharing, and initiatives to reduce visual impacts. Describe approach to evaluate consultations and quantify where possible.	T	119	
C	IO8. Number and percentage of stand-alone sites, shared sites, and sites on existing structures.	T	119	

TABLE OF GRI INDICATORS

NATURE	INDICATORS	LEVEL OF REPORTING	PAGE/ DIRECT REPLY	UNGC PRINCIPLES
ASPECT - ACCESS PROVIDING				
C	PA1.Policies and practices to enable the deployment of telecommunications infrastructure and access to telecommunications products and services in remote and low population density areas. Include an explanation of business models applied.	T	141	
C	PA2.Policies and practices to overcome barriers for access and use of telecommunication products and services including: language, culture, illiteracy, and lack of education, income, disabilities, and age. Include an explanation of business models applied.	T	46	
C	PA3.Policies and practices to ensure availability and reliability of telecommunications products and services and quantify, where possible, for specified time periods and locations of down time.	T	13, 44, 120, 141-143	
C	PA4.Quantify the level of availability of telecommunications products and services in areas where the organization operates. Examples include: customer numbers/market share, addressable market, percentage of population covered, percentage of land covered.	T	19, 138	
C	PA5.Number and types of telecommunication products and services provided to and used by low and no income sectors of the population. Provide definitions selected. Include explanation of approach to pricing, illustrated with examples such as price per minute of dialogue/bit of data transfer in various remote, poor or low population density areas.	T	141	
C	PA6.Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief.	T	120	
C	PA7.Policies and practices to manage human rights issues relating to access and use of telecommunications products and services.	T	67-78	
C	PA8.Policies and practices to publicly communicate on EMF related issues. Include information provides at points of sales material.	T	119	
C	PA9.Total amount invested in programmes and activities in electromagnetic field research. Include description of programmes currently contributed to and funded by the reporting organisation.	N.R.	119	
C	PA10.Initiatives to ensure clarity of charges and tariffs.	T	32, 79	
C	PA11.Initiatives to inform customers about product features and applications that will promote responsible, efficient, cost effective, and environmentally preferable use.	T	45, 79-80	
ASPECT - TECHNOLOGY APPLICATIONS				
C	TA1.Provide examples of the resource efficiency of telecommunication products and services delivered.	T	33, 114-115	
C	TA2.Provide examples of telecommunication products, services and applications that have the potential to replace physical objects.	T	114-115, 134	
C	TA3.Disclose any measures of transport and/or resource changes of customer use of the telecommunication products and services listed above.	T	113-115	
C	TA4.Disclose any estimates of the rebound effect (indirect consequences) of customer use of the products and services listed above, and lessons learned for future development.	T	91, 11, 114-115	
C	TA5.Description of practices relating to intellectual property rights and open source technologies.	T	133	
E	- Essential indicator			
C	- Complementary Indicator			
T	- Indicator - total reply			
P	- Indicator - partial reply			
N.R.	- Indicator - no reply			

* The more detailed information on these indicators , in particular its discrimination by gender or age was not available at the time of reporting. PT will provide full reporting of these indicators on 2012.



Statement GRI Application Level Check

GRI hereby states that **Portugal Telecom (PT)** has presented its report "Sustainability Report 2011" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 18 May 2012

A handwritten signature in blue ink, appearing to read "Nelmar Arbex", is written over a faint, large, stylized "G" watermark that serves as a background for the entire page.

Nelmar Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because **Portugal Telecom (PT)** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.
www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 14 May 2012. GRI explicitly excludes the statement being applied to any later changes to such material.



VERIFICATION STATEMENT

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 2011. The scope of the verification, based on SGS' methodology for Sustainability Reports Verification, included the text, data, charts and declarations contained herein.

RESPONSIBILITY

The Board of Directors of the 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 2011.

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 in order to inform all stakeholders of Portugal Telecom (hereinafter referred to as PT).

VERIFICATION CRITERIA AND METHODOLOGY

SGS Group developed a set of protocols for the verification of sustainability reports (*Sustainability Report Assurance*) based on best practices established by the Sustainability Reporting Guidelines of the *Global Reporting Initiative* (GRI), the *AA1000 Assurance Standard* (2003) and the *International Standard on Assurance Engagements 3000* (ISAE 3000). These protocols are classified into different verification levels, according to the reporting history and the capacity of the reporting organization.

The Sustainability Report 2011 was verified in accordance with the 2008 AA1000 Assurance Standard (Type 2) with a moderate level of control, in terms of:

- Evaluation of content accuracy;
- Evaluation of report content and support management systems in accordance with the AA1000 AccountAbility Principles (2008);
- Evaluation of the report according to GRI G3.1 Guidelines for Sustainability Reporting (2011);
- Evaluation in accordance with the Telecommunications Sector Supplement (2003).

The verification consists of a combination of prior research, interviews with relevant staff, analysis of records and documentation and validation with external entities and/or stakeholders, where relevant. Data directly from financial reports, subject to legal certification, was not verified at the source in the course of verification.

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, of quality, environmental and social management systems, and 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, OHSAS 18001 occupational safety and health management systems, and SA8000 social responsibility management systems.

CONCLUSIONS OF THE VERIFICATION

Based on the methodology identified above and the work carried out, it is the opinion of SGS ICS that the information and data included in the verified report are accurate, comprehensive, reliable and provide an adequate representation of the activities of PT, throughout a period of twelve months ended as at 31 December 2011.

The verification team considers that the Sustainability Report 2011 can be used by the stakeholders of PT.

AA1000 ACCOUNTABILITY PRINCIPLES (2008) – CONCLUSIONS AND RECOMMENDATIONS

In our opinion the Sustainability Report 2011 demonstrates a strong commitment of PT to the AA1000 Accountability, Completeness, Materiality and Responsiveness Principles, as findings below:

Completeness - The Sustainability Report 2011 demonstrates the commitment of PT with to Principle of Completeness. There are methodologies for identification, involvement and participation of stakeholders defined and implemented, and communication channels established that allow knowing their concerns and expectations and identifying the relevant issues.

Materiality – Annually PT establishes its materiality matrix, identifying the relevant and important critical issues to be included in the Sustainability Report.

The analysis of relevance of the materiality of the issues is taken into account for the definition of improvement opportunities.

Responsiveness - PT has the necessary mechanisms to respond to the concerns and expectations of stakeholders. Our recommendation is that PT, considering the challenges of the next three-year period, consolidate the processes of dialogue and response, so as to keep in line with the expectations of stakeholders.

GUIDELINES OF THE GLOBAL REPORTING INITIATIVE G3.1 (2011) – CONCLUSIONS AND RECOMMENDATIONS

In our opinion, the Sustainability Report 2011 of PT was prepared in accordance with GRI G3.1 Guidelines (2011) and Telecommunications Sector Supplement (2003), fulfilling the Level A+ requirements necessary for that purpose.

Based on the verification carried out, we identified areas of progress as compared to previous reports, and areas for improvement that will allow for the strengthening of the sustainability context of PT. The observations identified were object of the Internal Management Report directed at the Board of Directors of the Portugal Telecom Group.

IN REPRESENTATION OF SGS ICS


Isabel Berger


Patricia Pereira

Certification Department

LISBOA, 8 MAY 2012
WWW.PT.SGS.COM



AA1000
Licensed Assurance Provider
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