

Portugal Telecom

Sustainability report _ 2006

Methodological notes

The presentation of this report obeys the following criteria:

Global Reporting Initiative

Portugal Telecom's enterprise sustainability report is elaborated in accordance with the directives from the Global Reporting Initiative, B level. The index referring to the GRI indicators is at the end of this report and identifies the fulfilment of the level B requirements 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 2006. PT publishes the enterprise sustainability report yearly together with the annual report.

Scope of the report

The information available pertains to the activities of Portugal Telecom Group in Portugal where the Group has a participation 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 shareholders, evidencing the targets achieved and the policies adopted in order to guarantee the 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 according to the analysis of the information received from our stakeholders, through the adequate communication channels.

Auditing and truthfulness of the data

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

Changes occurred within the Group

During the 2005 and 2006 exercises, the main change occurred in the consolidation perimeter was the inclusion of Mobile Telecommunications Limited ("MTC") as a result of an acquisition of a 34% participation in this company in September 2006. Within the scope of this acquisition, Portugal Telecom has celebrated with the other shareholders a parasocial agreement, which entitles it to define and control the financial and operational policies of this subsidiary, and thus PT has met the conditions foreseen on IAS 27 for the integral of the active and passive assets of this subsidiary.

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 on the International Financial Reporting Standards – IFRS, the fiscal system, the labour and environment legislation and the principles of behaviour adopted by the Group.

Suggestions for improvement

This report incorporates the suggestions for improvement which are transmitted through the channel open for this purpose on www.telecom.pt.



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Principais ativos

Posição	Trimestre
32,18%	4
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20,03%	15947
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4,11%	115953
5,150%	115953

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para 29.805 mil
representar 80,7% da base

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Henrique Granadeiro
Chairman of the Board of Directors
and chief executive officer

One year ago, I accepted the challenge to lead the Portugal Telecom Group. This decision was taken with the utmost feeling of responsibility, taking into consideration the historical value of the Group and what it represents for the Portuguese society in economic, social and environmental terms.

Proud of our past, we are today a company that looks towards the future with the necessary determination, optimism and perseverance for the positive evolution of its businesses and the relationship with the market and the society in general.

The Portugal Telecom Group exists to deliver each time more sophisticated and complex telecommunications services from the technological point of view, yet simpler and accessible to all the consumers. The convergence of the services between voice, data, images and of the networks between fixed and mobile are the current reality, to which PT is totally committed.

PT's framework at the European level and its increasing participation in sector companies at international level has led us to take into consideration the questions that have worried the worldwide community relating to the sustainability of the future – human rights, ethics in the businesses, climate changes, respect for the community –, and to be an active party in the construction of change in order to guarantee a balanced society to the coming generations.

The response that we have tried to give to these questions is intrinsic and transversal to the strategy of the Group, is based on the successive approach to the best worldwide practices and is mirrored in this report that we publish for the third consecutive year, in an attitude of transparency and sharing to the stakeholders and society in general.

In 2006, the sustainability of PT Group at economic, environmental and social level, constituted one of the new management's priorities.

Having lived throughout the year in a context of a takeover bid – which was rejected – PT adapted its Governance Model to the expectations expressed by the shareholders, reorganised the Sustainability Committee, perfected the Group's code of ethics and the respective control mechanisms, and perfected its Model of Management of Risks and Opportunities, capable of having an impact on the activity of the company.

The climate changes and the consequent concern with the respect for the environment were also part of our agenda. Alongside the continuous management of consumptions, emissions and impacts, PT created a Sustainable Model of Supplier Selection and Contracting, and nominated a Task Force for the elaboration of the mid and long-term energy strategy of the Group.

At social level, we were motivated by issues that relate to the digital inclusion, the promotion of knowledge, the occupational health, hygiene and safety, the widening of the commercial offer to the population of lower income and the support to the society in general. In this context, we should point out the partnership with the Carnegie – Mellon University (USA) in favour of the promotion of knowledge, project PT Schools taking place all over the country and whose contours have contributed strongly to the digital inclusion of the population, the Portugal Telecom Foundation in the support granted to the culture, the information society and the development and integration of the people with special needs, and the perfecting of the customer relationship management model that aimed at approaching and making more efficient the relation between these and each business unit of PT Group.

The capacity to innovate and to become the most efficient company in technological, environmental, commercial, social and economic terms is an issue that will continue to mark the daily behaviour of the Group in a continuous process of learning and of strengthening of the relations that it establishes with the publics that constitute interested parties.

Conscious that the sustainability of society is a responsibility of all, in 2006, PT materialised the commitments assumed with all the stakeholders and the society and shared them by publishing this report – elaborated in accordance with the most recent directives of the Global Reporting Initiative – G3 – and which presents a balanced profile of the economic, environmental and social performance of our organisation.

To all those that have contributed to the construction of PT's enterprise sustainability, through their daily intervention, suggestions and opinions, I would like to express my recognition and gratefulness and to continue to count on your support to continue together on the path of a prosperous and balanced future.



Henrique Granadeiro
Chairman and CEO
27 April 2007



Creating long-term value

Portugal Telecom at a glance



Brazil	Kenya
Vivo	Kenya Postel
Mobile	Directories
UOL	Directories
ISP, Internet	Mozambique
contents	LTM
Mobitel	Directories
Call centre services	Teledata
Hungary	ISP and data
Hungaro Digital HD	Angola
VSAT operation	Unitel
São Tomé e Príncipe	Mobile
CST	Elta
Wireline, mobile	Directories
Internet and data	Multitel
Guinea-Bissau	ISP and data
Guiné Telecom	Namibia
Wireline	MTC
Guinetel	Mobile
Mobile	East Timor
Cape Verde Islands	Timor Telecom
CVT	Wireline, mobile
Wireline, mobile	Internet and data
Internet and data	Macao [MSAR-China]
Directel Cabo Verde	CTM
Directories	Wireline, mobile
Morocco	Internet and data
Médi Télécom	Directel Macau
Mobile	Directories

Portugal

Wireline	> Retail [PT Comunicações 100%]
Euro 2,072 million (revenues)	> Large corporates' voice and data [PT Corporate 100%]
	> SMEs' voice and data [PT Prime 100%]
	> ISP and broadband services [PT.COM 100%]
Mobile	> TMN 100%
Euro 1,502 million (revenues)	
Multimedia	> Pay-TV and cable Internet [TV Cabo]
Euro 666 million (revenues)	> Audiovisuals

Main international assets

			Revenues (Euro million)
> Vivo 31.38%	Brazil	> Mobile	2,105
> Médi Télécom 32.18%	Morocco	> Mobile	425
> Unitel 25%	Angola	> Mobile	517
> CTM 28%	Macao	> Wireline, mobile, Internet and data	209
> MTC 34%	Namibia	> Mobile	116
> CVT 40%	Cape Verde	> Wireline, mobile, Internet and data	63
> CST 51%	São Tomé e Príncipe	> Wireline, mobile, Internet and data	9
> Timor Telecom 41.12%	East Timor	> Wireline, mobile, Internet and data	18
> UOL 29%	Brazil	> ISP, Internet content	176

Support companies

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

Orienting principles

Mission

To deliver telecommunications and multimedia services of recognised value to our customers technologically updated on a permanent basis through qualified and motivated resources.

To keep generating long-term value to our shareholders and the communities where we develop our activity.

Values

Integrity, loyalty and honesty in the relationship with the stakeholders
 Solidarity, responsibility and accuracy among PT's employees
 Respect for the environment and the communities where we develop our activity

External principles and organisations

- ETNO (European Telecommunications Network Operators)
- United Nations Global Compact
- BCSD (member of World Business Council for Sustainable Development)
- UNI (Union Network International)
- Sarbarnes Oxley Act
- Portuguese Legislation

Internal principles and codes

- PT's code of ethics
- Code of ethics for financial officers
- Procurement manual

Relationship with stakeholders

Interested parties	Relationship touchpoints
Customers	Call centers Network of PT shops and agents Commercial managers Customer portal Market research Website Campaigns: above and below the line Bill
Financial community	General Meeting Quarterly and annual reports Roadshow Specialised team dedicated to dialogue Website
Media	Website Conferences and press releases Specialised team dedicated to dialogue
Regulatory and supervisory entities	Directives issued by entities Meetings Specialised team dedicated to dialogue
Employees	Employee portal Performance evaluation Organisational climate Helpline – é Directo
Suppliers	Website Specialised team dedicated to dialogue
Community	Public opinion research Website Meetings

Summary of the year

Main developments in 2006

Economic

Intensify interaction with small shareholders

- > Information published on site:
<http://www.telecom.pt/InternetResource/PTSite/PT/Canais/investidores/>
- > Information spread through financial community
- > Interaction with shareholders' Associations.

Leverage PT employee/satisfied customer relation

- > Customer satisfaction index – 6,5 (1 to 10).

Perfect the code of ethics and spread it to stakeholders

- > Approval of new code of ethics and dissemination through site www.telecom.pt and Group intranet

Environmental

Get environmental certification for another company within PT

- > PT Inovação was certified according to ISO 14001 standard.

Require environmentally friendly procedures from main suppliers

- > The Executive Committee prepared and approved a sustainable model for supplier selection and contracting.

Start study into definition of PT's mid/long-term energy strategy

- > A transversal team within PT Group was set up for the analysis, discussion and preparation of mid and long-term measures.

Social

To start preparation for OHSAS 18001 certification for Occupational Hygiene, Health and Safety

- > PT Comunicações and PT PRO certified according to standard OHSAS 18001.

Reduce Pension Fund deficit

- > Done. See annual report.

Establish partnerships with universities

- > Partnership between PT, the Portuguese State and Carnegie Mellon University.

The evolution of society and market characteristics, along with the environmental and human rights questions that assume prominence at worldwide level, induce PT to evaluate and to fit into its management's agenda the aspects that, in the long run, can contribute to influence their activity and consequently the direct and indirect impacts on the community where it is established.

Our concerns for the future

- > Sonaecom's unsolicited takeover bid in February
- > Risks and opportunities management
- > Value chain
- > Protection of children's and senior citizens' interests
- > Climate changes
- > Digital inclusion
- > Technological innovation and service development
- > Occupational health and safety
- > Talent attraction and retention

What we have done

At economic level

Net income _ Euro 866.8.

Revenue _ Euro 6,342.9.

EBITDA _ Euro 2,423.5.

Operational free cash flow _ Euro 1,599.

Growth of net income _ 33%.

Risk and opportunity management _ Implementation of integrated model.

Research and development _ Participation in 46 new projects and an investment worth Euro 4 million.

At environmental level

ISO 14001 _ PT Inovação – new certified subsidiary.

Suppliers _ Creation of the sustainable model for supplier selection and contracting.

Employee training _ Training in good environmental practices.

Climate changes _ Creation of a task force for the definition of the Group's energy strategy.

At social level

OHSAS 18001 _ PT Comunicações – new certified subsidiary.

Service development _ Widening of offer – fixed/mobile convergence and triple-play.

Employee training _ Training in occupational hygiene, health and safety.

Digital inclusion _ National programs for new Information Technology awareness – Knowledge workshops and Internet reaches you.

Organisational climate _ Employee satisfaction index – 6,9 (1 to 10).

Customer satisfaction index _ Satisfaction index – 6,5 (1 to 10).

Supplier satisfaction index _ Satisfaction index – 3,4 (1 to 5).

Social responsibility _ PT Foundation supported initiatives and projects worth Euro 6 million.

Code of ethics

Perfectioning of code of ethics which dates from 2002.

Dissemination and training.

Sustainability Committee

It started to integrate directors from several PT Group companies.

Societal impacts

Economic impact on the electronic communications sector

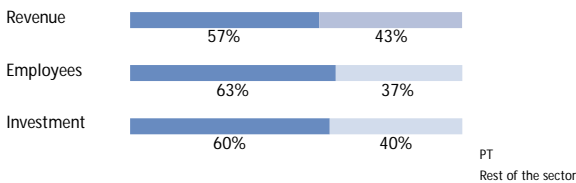
In Portugal, PT Group is contained in the electronic telecoms sector, an activity regulated by Anacom (regulation focuses on the wireline, mobile, TV Cabo, Cabo Açoriana and Cabo Madeirense).

PT is still the main company contributing to the revenue created, the employment generated and the investment in this sector. In 2006, PT's subsidiaries account for 57% share of the sector's total revenue. PT Group, through all its subsidiaries, is the most far-reaching operator at national level, delivering service to customers from all social levels.

At employee level, in spite of the workforce reduction, which has been taking place with the goal of raising the company's competitiveness at world level, PT is still the excellence employer in the Portuguese telecoms sector. PT's employees in Portugal account for 60%* of the employment in this sector.

PT knows that long-term strategical commitment is fundamental for the company's valuation with the investors, credibility with the customers and a sign of confidence with its employees. In 2006, PT was the telecoms company which invested most, accounting for 60%* of all investment in the sector, a value that is a clear message about the sustainability of the company's business.

Impact on the sector (%)



Source: Anacom, sector data pertaining to 2005

* The ratios pertaining to PT's impact on electronic communications sector were elaborated based on PT's economic data for 2006 relative to the data from the telecommunications sector for 2005. These were published in the latest Anacom report, pertaining to the year of 2005.

PT's impact on the national economy

In Portugal, PT has three lines of business: wireline, mobile and multimedia.

Over the last few years, the company has contributed consistently to the gross national product. PT's revenue accounts in 2004 for 3.14% of the domestic GNP, in 2005, 2.98% and in 2006, 2.73%

PT recognises the importance of its role in society. In 2006, through PT Foundation, it raised its contribution to society by 20% in philanthropic, patronage and other projects related to the digital inclusion of people with special needs. These Euro 6 million invested in society represent 0,7% of PT Group's net profit.

GNP contribution (%)



Source: Bloomberg

Commitments for 2007

At economic level

- > Raise shareholder return – distribution of dividends.
- > Risk and opportunity management model – Model perfecting.
- > Systems certification – preparation of PT's subsidiaries, which are not yet certified, for ISO14001 and OHSAS 18001 certification.

At environmental level

- > Climate changes – preparation of PT's long-term energy strategy.
- > Supply Chain – Integration of environmental clauses in future supplier contracts.

At social level

- > Digital Inclusion – Reinforcement of projects for new technology awareness and the good use of contents.
- > Delivery of telecoms services to people with special needs.
- > Social Responsibility – stimulation of digital inclusion programmes.

Prizes and distinctions received

Citizenship and social responsibility

- > Enterprise and organisation citizenship award (www.premiocidadania.com) awarded to PT in the category economic sustainability.
- > Remarkable company 2006 award (www.nercab.pt) awarded to PT Comunicações in the category social responsibility.
- > Effectiveness 2006 awards (www.apan.pt) awarded to PT in the category social responsibility effectiveness.

Relationship with investors' market

- > Institutional Investor Research (www.iiresearchgroup.com) points out PT as the best enterprise at national level and ranking 4th in the telecoms sector at European level.
- > World best IR Websites in the telecommunications sector 2006 (www.irwebreport.com) awarded to PT the 4th position at world level.

Relationship with customers

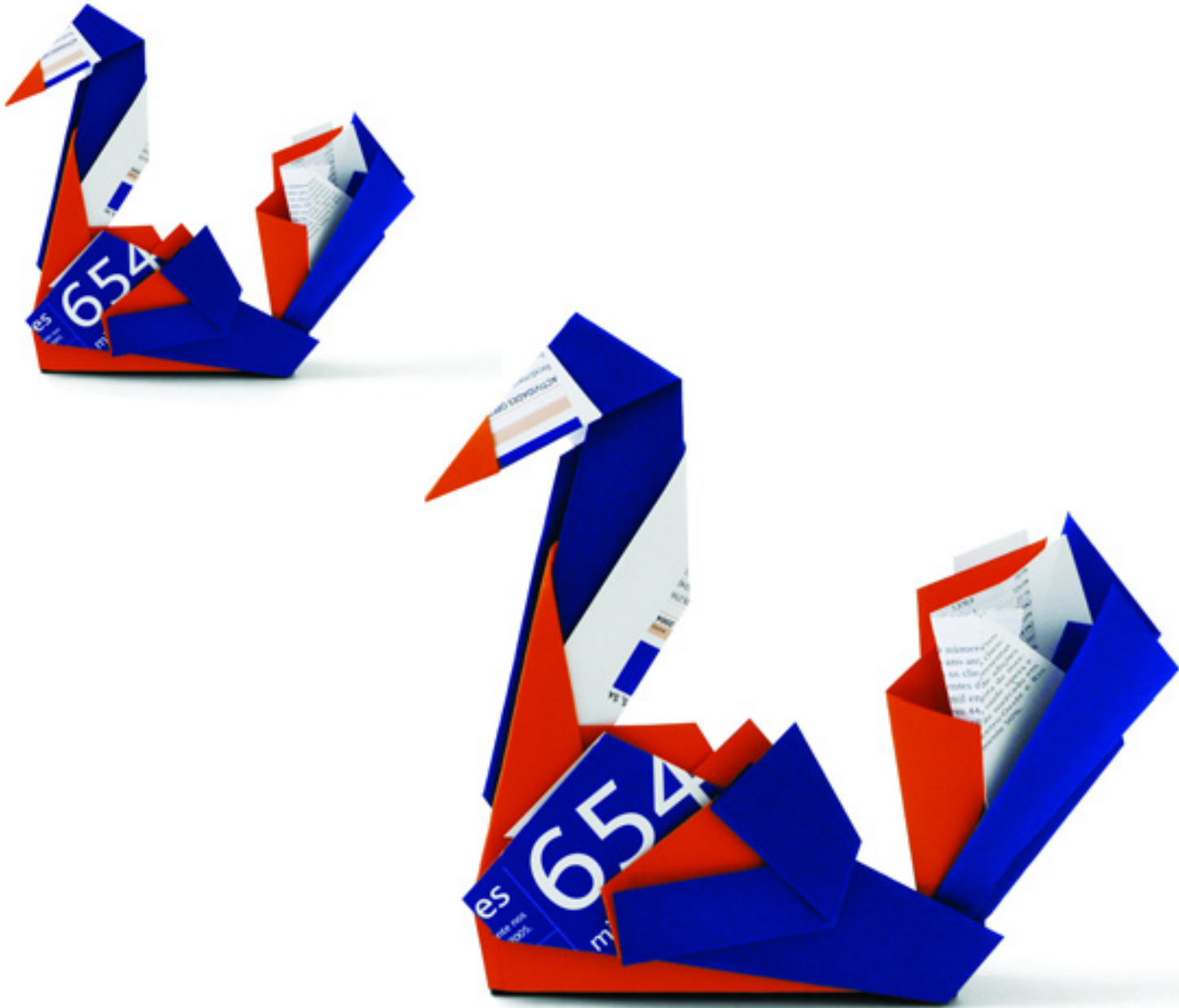
- > Call center 2006 awards (www.apcontactcenters.com) given to TMN in the category best call center management practices.
- > Cannes international advertising festival (www.canneslions.com) Gold Lion given to PT Prime.
- > Effectiveness 2006 Awards (www.apan.pt) given to TMN in the category advertising effectiveness in telecoms and media services and the category media effectiveness.

Services offer

- > PC Guia 2006 award (www.pcguaia.xl.pt) given to Sapo in the category best ISP.
- > GSM awards 2006 (www.gsmawards.com) given to TMN in the category best network quality initiative.



A sustainable governance model



Management policies

PT assumes sustainability and social responsibility as part of its enterprise strategy seeking to guarantee the long-term creation of value for shareholders in particular, and for all stakeholders in general.

Social, economic and environmental responsibility are cornerstones of this strategy that we expect to consolidate and renew in a systematic way transversally to PT Group's activity.

PT considers information transparency and accuracy as well as confidence levels in company management to be determining factors in investors' decisions.

Within PT shareholder remuneration is still a priority. Therefore, the code of ethics, the Sarbanes-Oxley Act directives, and business risk management are becoming more important considering the globalisation context as well as the high dynamism typical of the environment where the activities of PT's different business areas develop.

As we consider risk management as a responsibility of all employees, PT has been developing methodologies to create a risk awareness culture that sets a common language for the identification, prioritization, evaluation and control of the business-critical risks.

The adopted risk management strategies aim to guarantee that:

- > The control systems and procedures as well as policies allow an adequate response to the expectations of the management bodies, shareholders and public in general;
- > The control systems and procedures as well as policies are in accordance with the law and regulations applicable;
- > Financial and operational information is complete, reliable, secure and reported in a periodic and timely manner.
- > PT resources are used in an efficient and rational manner; and;
- > Shareholder value is maximised.

PT's model of governance has been subject to changes during 2006 as a consequence of decisions taken in the Shareholders' General Meeting.

The current governance model keeps the separation of powers between the Board of Directors and the Executive Committee and is based on four basic pillars: effectiveness, simplicity, transparency and accuracy.

The Executive Committee has mainly an operational role and the Board of Directors has the support of several Committees, created and nominated in the meantime, whose function is to analyse, recommend and supervise how the current legislation is applied as well as the principles and behaviours adopted by PT Group.

Principles and behaviour profiles

- > Code of ethics
- > Code of ethics for financial officers
- > Whistleblowing procedures
- > ETNO Sustainability Letter
- > United Nations Global Compact
- > Union Network International
- > Sarbarnes-Oxley Act
- > National and international legislation

The responsibilities and composition of PT's Sustainability Committee have also been redefined. The Executive Chairman chairs it and it now includes directors from each company within PT Group, the general-secretary and the heads of the main corporate units.

This Committee integrates PT's governance model, promoting transparency and accuracy in the relationship with the stakeholders, stimulating dialogue, preventing conflicts of interests and developing mechanisms for an anti-corruption culture. Consequently, PT does not develop any lobbying activity and/or contributes monetarily for organisations that do not fit into its sponsorship, philanthropy and patronage policies.

Internal regulation on transactions

In 2006, the regulation on transactions by PT Group executives was approved, replacing the previous internal regulation on private operations by high ranking executives, approved in the previous exercise. It regulates matters relating to market abuse prevention and transactions on financial instruments emitted by PT's subsidiaries and thus defines the relevant concepts of "privileged information", "market manipulation" and "relevant transactions", among others.

This Regulation was issued in accordance with the changes introduced by the Decree Law No. 52/2006 of 15 March, to the Securities Code, namely to increase the objective and subjective scope of the matters and definitions named above as subject to regulation in the document. In short, this Regulation aims to complement the rules of corporate management as well as the good practices of behaviour already implemented within PT to reinforce the prevention of market abuse.

Regulation on transactions with related parts

In 2006, a Regulation was approved aiming to implement a set of guided procedures to guarantee the correct identification and dissemination of transactions with related parties and to define the relevant concepts of "transaction" and "related parties".

The regulation has two objectives:

- > To allow PT's financial demonstrations to show, if and when applicable, the possibility of the corporate financial position and results to be affected by the existence of related parties, and outstanding transactions and balances with these;
- > To safeguard PT's interest in situations of potential conflict of interests regarding the interests of people or entities who have the possibility to influence, direct or indirectly, its management.

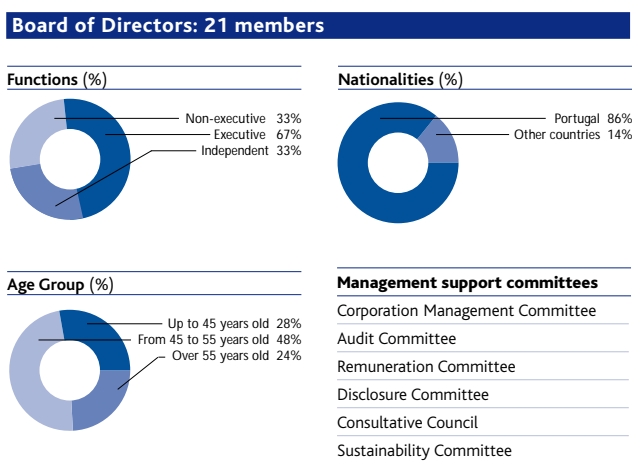
Sustainable management



Objectives and instruments of the management model oriented for the creation of long-term value integrating the triple viewpoint of sustainability.

Vector	Management objectives	Management instruments
Social	<ul style="list-style-type: none"> Maximise the value of human assets Promote digital inclusion and the knowledge society Have caution in the use of contents by minors Promote R&D Optimise the level of customer satisfaction Optimise the value chain (namely in the relationship with suppliers) Support the community 	<ul style="list-style-type: none"> Analysis and performance evaluation model OHSAS 18001 Training and career management model Enterprise agreement Market and opinion polls Digital inclusion programs Awareness campaigns for the adequate use of new technologies Partnerships with universities PT Foundation Communication channels
Environmental	<ul style="list-style-type: none"> Rationalise environmental impacts caused by its activity Assure respect for the environment at the origin of the value chain Create the conditions for later definition of PT's mid/long-term energy strategy 	<ul style="list-style-type: none"> Environmental policy Environmental management system ISO 14001 Procurement model Agreements with NGOs Training programs
Economic	<ul style="list-style-type: none"> Maximise shareholder return Grow with respect for the environment and society Perfect and monitor the code of ethics Change over from the risk evaluation model to the risk and opportunity management model Prepare the value chain monitoring systems 	<ul style="list-style-type: none"> Information systems certified by ISO 9001,ISO 14001 and OHSAS 18001 Code of ethics Code of ethics for financial officers Creation of a task force for the definition of energy strategy for the Group R&D Market and opinion polls Risk and opportunity management model Whistleblowing procedures

Governance model



Composition and functions of the governance model bodies

General Shareholders' Meeting and voting rights

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

During the 2006 financial year, the Board of the General Shareholders' Meeting of the company was composed as follows:

António Menezes Cordeiro (chairman)
 Jorge Luís Seromenho Gomes de Abreu (vice-chairman)
 Luís Sousa de Macedo (secretary)

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

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

Vote by correspondence and through electronic means

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

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

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

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

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

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

Shareholder representation

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

Availability of preparatory information

The proposals to be submitted to the General Shareholders' Meeting, as well as the reports that must be legally attached thereto and all other elements of preparatory information, are made available to shareholders at the company's registered offices for a period of no less than 15 days prior to the meeting. The content of such documents is also disclosed on the company's website, or on request, by mail, fax or electronic mail.

Composition and characteristics of the Board of Directors

PT's Board of Directors is composed of an uneven number of members, between 15 and 23, that are elected by the general shareholders' meeting by a majority of votes cast. Irrespective of the share capital held, any shareholder may individually submit proposals for the election of the Board of Directors.

On the other hand and according to the company's bylaw, a minimum of shareholders, representing at least 10% of the share capital that voted against the winning proposal in the election of the Board of Directors, may appoint a member of the management body. The directors are appointed for a three-year period, the election year being considered, as a full calendar year, and with no restrictions on the re-election of directors.

Executive Committee

To better ensure the performance of its supervision and control functions, the Board of Directors appointed an Executive Committee on which it delegated executive functions of current management.

According to the statutes, it is up to the Executive Committee, composed of 5 or 7 directors, to decide on PT's current management. The majority of votes of the Executive Committee members is necessary for the approval of its decisions, each member having equal voting rights. The Chairman has a quality vote, in case of a tie.

The current Executive Committee comprises seven directors.

Executive Committee	Corporate assignments	Executive assignments
Henrique Granadeiro Chairman	<ul style="list-style-type: none"> > Strategy > Regulatory management > Competition > Corporate communication and image > Human resource & talent management policies > Institutional relations > International relations > Internal auditing > Legal services 	<ul style="list-style-type: none"> > General coordination of the Executive Committee > PT Foundation
Zeinal Bava Vice-chairman	<ul style="list-style-type: none"> > Investor relations > Social model sustainability project 	<ul style="list-style-type: none"> > TMN > PT Multimédia > PT PRO > Previsão
Rodrigo Costa Vice-chairman	<ul style="list-style-type: none"> > Human resources > Open network project > Integrated strategies for information and innovation services 	<ul style="list-style-type: none"> > PT Comunicações > PT.COM > PT Corporate > PT SI > PT Inovação
Luís Pacheco de Melo Executive officer	<ul style="list-style-type: none"> > Management planning and control > Financial operations and treasury > Financial reporting > Corporate finance > Financial holdings 	<ul style="list-style-type: none"> > PT ACS
João Pedro Baptista Executive officer	<ul style="list-style-type: none"> > Business development > Convergence and distribution strategy > Holdings of PT Group companies operating abroad 	<ul style="list-style-type: none"> > PT Investimentos Internacionais > Vivo > Médi Télécom > Unitel > CTM > MTC > CVT > CST > Timor Telecom > UOL
António Caria Executive officer	<ul style="list-style-type: none"> > Quality and customer satisfaction > Strategies for services hiring > Integrated networks strategies 	<ul style="list-style-type: none"> > PT Compras > PT Contact
Rui Pedro Soares Executive officer	<ul style="list-style-type: none"> > Marketing > Security policies > Relations with regions, local authorities and Portuguese language communities > Real Estate > "One shop" project 	<ul style="list-style-type: none"> > PT Imobiliária

Governance Committee

João Mello Franco (chairman)
Joaquim Goes
Jorge Tomé
Franquelim Alves
Francisco Pereira Soares

Duties

- > Adoption, revision and permanent evaluation of: (1) the corporate governance model; (2) the rules and internal procedures relative to the structure and management of the company as well as to the principles and practices of behavior of PT Group in fulfillment of legal, regulatory and statutory dispositions; (3) and of the recommendations, patterns, and best practices, both national and international, in this matter;
- > Evaluation of Board of Directors' performance;
- > To propose to the Board of Directors the review and re-evaluation of the corporation management model, including its own organisational structure, operation, responsibilities and internal rules;
- > To study, review and re-evaluate the principles and practices of PT Group's corporation management, namely relating to (1) the relationship of the Group and the corporation with the market, shareholders, (2) and other stakeholders, the Board members' qualifications, independence and responsibility; and (3) the prevention of conflicts of interests and information rigour;
- > To assist the Board of Directors in the evaluation of its performance, in order to contribute to the effectiveness and transparency of this process;
- > To study, review and re-evaluate the values, principles and practices which should rule the behaviour of PT's employees, including the study, revision, interpretation and supervision of the application of the codes of ethics or behaviour approved or to be approved by the corporation.

Audit Committee

João Mello Franco (chairman)
Luís de Azevedo Coutinho
Thomaz Paes de Vasconcellos

Duties

- > To assist the Board of Directors and its Executive Committee (1) in the supervision of the quality and integrity of the financial information contained in the company's account rendering documents; (2) in the evaluation of the qualification and independence of the company's External Auditors; (3) in the evaluation of the quality, integrity and efficiency of the company's internal control system; (4) in the evaluation of the execution of the functions performed by the company's external auditors and of the Corporate Internal Auditing Department; and (5) in the evaluation of compliance with legal and regulatory provisions, and with recommendations and guidelines issued by competent authorities.

Compensation Committee

António Menezes Cordeiro (chairman)
Manuel Alves Monteiro
João Mello Franco

Duties

The Compensation Committee, elected by the shareholders, serves the purpose of determining the remuneration of PT's corporate body members. It must continuously monitor and evaluate the Board members' performance, regarding the defined objectives.

The choice of the Compensation Committee members has the underlying intention by the corporation of ensuring a larger share of independent members relative to the Board, but paying attention to the necessary articulation of this committee with the Board of Directors. Thus, this Committee is composed of two independent members and one integrating the Board of Directors.

Disclosure Committee

Luís Sousa de Macedo (chairman)
Francisco Nunes
Nuno Prego
Nuno Machado
Carlos Cruz

Duties

The purpose of this Committee is:

- > To define, document and spread the adequate procedures for the correct collection, treatment and reporting of information to be disclosed outside the corporation, and
- > To review all the information disclosed by PT to the market, namely: press releases, Annual, Half Year and Quarterly Reports, 20-F Forms, reports to CMVM (Securities Commission) and questionnaires sent to the press.

Consultative Council

Luís Todo Bom (chairman)
José Almeida Mota
Miguel Amaro
Aníbal Santos
João Confraria
José Tribolet
José Lamego
Rui Albuquerque
João Ribeiro da Fonseca
Amílcar Martins

Duties

This Council's activity is to discuss, together with the Executive Committee, matters of special relevance to PT, namely all issues regarding regulation and competition, international investments, mergers, acquisitions, and alienations. The purpose of the Consultative Council is to contribute, in alignment with the best international management practices, to the improvement of PT's governance model.

Sustainability Committee

Henrique Granadeiro (chairman)
João Pedro Guimarães
Luís de Sousa Macedo
José Pedro Pereira da Costa
Luís Avelar
Duarte Calheiros
Gonçalo Pinto Coelho
Graça Galvão
Luís Ribeiro
Miguel Amaro
Francisco Nunes
Nuno Prego
Luís Moura
Diogo Horta e Costa
Abílio Martins

Duties

It is the duty of the Sustainability Committee to guarantee that sustainability is integral and consistent with the Group's strategy and is transversal to all its subsidiaries.

The responsibilities of this Committee include:

- > To assure the creation, inside PT Group, of the necessary conditions for its sustained growth, using the three-dimensional viewpoint in the economic, social and environmental cornerstones, in accordance with international criteria;
- > To develop, promote and supervise the necessary projects and actions towards the goals in sight;
- > To identify, define and control the best teams for the accomplishment of those projects;
- > To reinforce the activities of PT Foundation, in its specific areas of activity, namely citizenship and philanthropy;
- > To guarantee internal and external communication, strengthening PT's activity as a sustainable company and making it recognised as such;
- > To control and evaluate the established action plan, integrated in the sustainability strategy.

The Committee is part of the Governance model of PT Group, reporting directly to the Executive Committee, meeting at least 4 times per year.

Remuneration policy of the Board members

The remuneration of PT's Board members is determined by the Compensation Committee, which takes into consideration:

- > The performance of the Board of Directors and of PT Group as a whole,
- > Benchmarks of other companies of similar dimension and business namely those integrating indexes PSI 20, IBEX 35, DJ Eurostoxx 50 and CAC 40, as well as the European telecommunications operators, comparable to PT.

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

The total amount received by the Board members in 2006 was as follows:

Remuneration	Euro thousand		
	Fixed	Variable	Total
Executive directors	4,670	3,813	8,483
Non-executive directors	1,612	300	1,912
Total	6,282	4,113	10,395

Number of meetings

- > Board of Directors – 17
- > Executive Committee – 48
- > Governance Committee – 3
- > Audit Committee – 9
- > Compensation Committee – 3
- > Disclosure Committee – 7
- > Consultative Committee – 6
- > Sustainability Committee – 3

Relationship with top management

The top management makes available a set of communication channels that enable the information exchange with employees and investors:

- > Whistleblowing procedures (confidential line) – 46
- > Code of ethics-related denunciations – 35
- > Helpline – é Directo (confidential line) – 5.524 contactos
- > Employee representatives – unions and workers' commission
- > Corporate investor relations unit
- > Corporate human assets unit

Risk and opportunity management

During 2006, the management of risks and opportunities occupied a prominent place in PT's agenda, and has been paid particular attention by the Executive Committee, and benefited from the perfecting of the model in operation that now includes the identification, analysis, report and audit of the processes that integrate it.

The adoption of this model will allow PT to anticipate solutions, minimizing the impact of the foreseeable risks and maximizing the impact of the identified opportunities, as well as promoting the long-term continuity of the Group and shareholder return in accordance with its expectations and commitments.

The management of risks and opportunities of financial nature are assured by the holding company; those of operational nature are the responsibility of each business unit of the Group. The final results are aggregated, validated at corporate level and integrated into the strategic decision-making of the Group.

The evaluation is carried out in accordance with a matrix of risks and processes previously identified and consolidated for the Group, and it is subject to an auditing process led by the Internal Corporate Audit Department.

Risk evaluation model



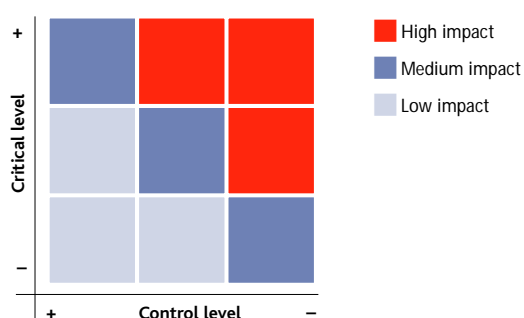
Identified risks	
1. Environment risks	Competition Shareholder relations Political and economic Legal and fiscal Regulation Activity sector Human asset management Innovation/technological evolution Lobbying groups Group articulation Natural catastrophes
2. Operational risks	Customer satisfaction Communication Development of products/services Inefficiency Capacity Provisioning Non-conformity Image and reputation Revenue assurance and billing Outsourcing
3. Empowerment risks	Human assets Leadership Authority/limits Performance incentives Pension funds
4. Technological risks	Access/confidentiality Systems integrity Information availability
5. Integrity risks	Fraud Information leak
6. Financial risks	Evolution of financial markets Liquidity Credit
7. Decision-making risk	Price determination Contractual commitments Planning Accounting/financial and fiscal information Investments Business portfolio/life cycle
8. Environmental risk	Activity impacts

Related processes and systems	
1. To understand markets and customers	Market expectations Customer satisfaction
2. To develop products and services	Development and planning Monitoring
3. Marketing and sale	Strategy Relationship Procurement orders Communication and image
4. To deliver service	Service delivery Card management
5. Service assurance	Wireline Mobile Multimedia Internet International traffic
6. Customer care and billing	Billing system Customer relationship management
7. To develop and manage human assets	Strategy Skills identification Career management Performance evaluation Organisational climate
8. To manage information	Systems monitoring Information technology Information security
9. To manage financial resources	Financial resources Material resources Economic-financial processes Fiscal function Planning
10. To manage legal support	Process management
11. To manage external relations	Communicate with shareholders Relations with regulatory entities Relations with partners
12. To control environmental impacts	Environmental policy Monitoring systems

For PT, the management of business risks and opportunities is every employee's responsibility.

The assessment matrix of the identified risks, subject to an internal and/or external auditing process integrates variables which relate impact/probability of occurrence/degree of control:

Risks and opportunities assessment matrix



The auditing process of the risks and opportunities evaluation model presumes the validation of the following aspects:

- > Risk assessment;
- > Identification of process-related risks;
- > Evaluation of the risks associated with processes selected in terms of probability and impact;
- > Evaluation of the degree of control associated with selected processes and risks.

In 2006, there were 121 evaluations in 22 sessions where the executive officers and heads of the operational units were present, through the corporate internal Audit. There were also environmental audits in every certified PT subsidiary carried out by the teams with the necessary skills in each business unit.

Internal control

The internal control, aligned with the best international practices and the dispositions of the Sarbanes-Oxley Act, is implemented in every PT subsidiary and includes a set of internal control procedures, its revision, verification and continuous improvement. It is a process in which the Board of Directors, heads of department and employees are involved and is based on the objectives described below:

- > To guarantee conformity with objectives, policies and procedures;
- > To guarantee the reliability of the financial information;
- > To minimize the possibility of fraud;
- > To contribute to the creation of shareholder value.

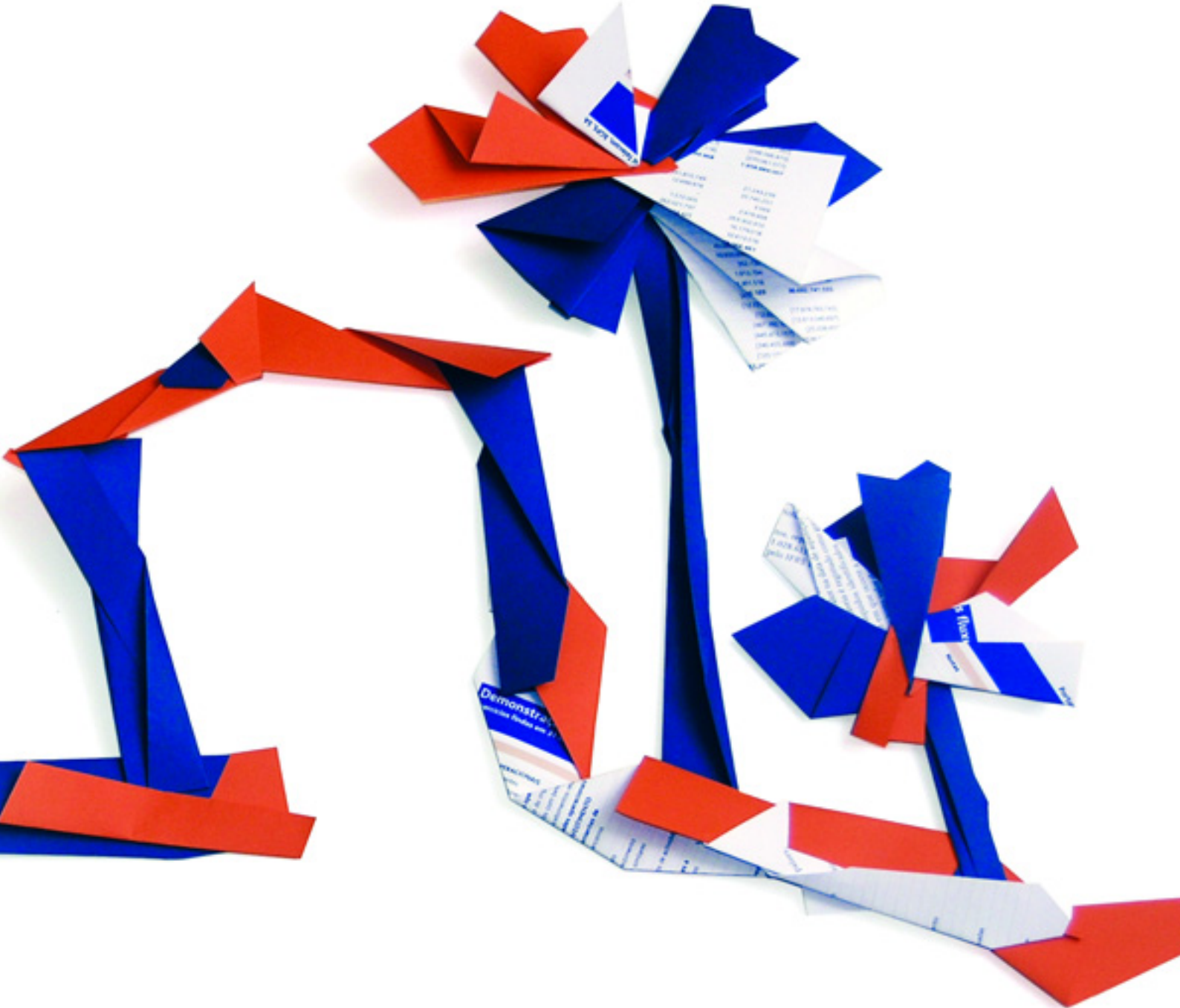
The internal audit department assures the supervision of the execution of the defined policies and control procedures.

In 2006, the following strategic guidelines should be highlighted:

- > Creation of a sustainable model for the selection and contracting of suppliers;
- > Certification of the management systems of PT's subsidiaries in accordance with the OHSAS 18001 e ISO 14001 standards;
- > Creation of a task force for the definition of PT's energy strategy;
- > Perfectioning of the code of ethics;
- > Perfectioning of the risks and opportunities management model;
- > Partnerships with internationally recognised universities in the R&D area.



Environment preservation



The environmental impact of telecommunications

PT Group is committed to environmental responsibility by assessing all the aspects related to the development of its activity and associated impacts. The essential vectors for the implementation of sustainable management policies and programs are embedded in the management structure.

We can identify the environmental impacts associated to PT's activity according to 4 essential vectors:

- > Consumption of resources
- > Environmental loads
- > Landscape impacts
- > Electromagnetic fields

The preservation and valuation of the environment have been for some years a concern for PT, which tries to integrate its policies of business development, not only in accordance with all the legal requirements associated to these questions, but also with directives and/or recommendations of European Law concerning this subject.

In terms of major commitments, PT signed the ETNO¹ Sustainability Letter, thereby committing to produce a set of sustainable goods and services, with significant social, economic and ambient benefits, with a view to continuous improvement.

Thus in the course of our activity we try to identify the major environmental impacts resulting thereof. To complement this survey the role of environmental certification of our companies is of paramount importance. This process started with the certification of PT Comunicações, PT Inovação and TMN. PT PRO was certified in 2006.

Municipalities covered by environmental intervention programs

Cascais/Sintra

Intervention in Sintra historical zone

Change from aerial to underground duct

Torres Novas

Intervention in Constância historical zone

Coimbra

Change from cables on walls to ducts

Viseu

Intervention in historical zone (requalification of Rua Formosa – city's ex libris)

Nelas

Change from aerial to underground duct

Sernancelhe

Change from aerial to underground duct

Albergaria-a-Velha

Recovery of historical centre

The impact on landscape is one of the environmental aspects caused by PT's activity. Most properties used by PT are located in urban perimeters; only a small proportion of the telecommunications infrastructures (antennas and cables) is located in natural parks.

Even though there is no significant impact on the changes to natural habitats, PT has developed several programs for the protection and valuation of the ecosystems and natural species in some of the more degraded zones. An example of the measures to minimize these impacts is the development of infrastructures to support nest building.

During the planning process to locate new antennas as well as other support structures PT's subsidiaries establish different partnerships at the local level in order to find the most adequate solutions for all the interested parties. The dialogue processes have been harmonized through a protocol with the National Association of Portuguese Municipalities.

¹ European Telecommunication Network Operators Association.

The negative perception of the interested parties concerning the potential risk for human health inherent in the placement of telecommunications antennas is subject to a rigorous process of analysis by PT's subsidiaries. The placement of antennas has two environmental impacts in terms of public opinion: visual (or landscape) impact and the alleged impact on public health.

Whenever the installation of a new antenna is planned, we analyze the alternatives for its placement trying to reconcile different criteria in terms of coverage, economy, landscape and respect for safety restrictions, preservation of ecological area and protection of national archaeological and historical heritage. This analysis is made after a consultation with all the credited experts and institutions². Whenever technically viable we consider camouflaging these antennas.

PT also supports the monIT project through TMN. Its objective is to make available to the public all the relevant information about levels of exposure to electromagnetic fields, namely those generated by telecommunications antennas³.

² Instituto Português de Arqueologia, Instituto de Conservação da Natureza, etc.

³ For further information look up site www.lx.it.pt/monit.

Environmental impact

Consumption of resources

Energy

- > Diminishing availability of natural resources (non-renewable)
- > Atmospheric pollution (indirect CO₂ emissions)

Water

- > Diminishing availability of natural water resources
- > Contamination of receiving water courses

Fuel

- > Diminishing availability of natural resources (non-renewable)
- > Atmospheric pollution (direct and indirect CO₂ emissions)
- > Atmospheric Pollution and rarefaction of ozone layer
- > Ground contamination by precipitation
- > Contamination of surface and ground waters by flowing water courses
- > Disturbance of land and marine ecosystems
- > Accumulation of pollutants on food chains
- > Material corrosion due to acid rain

Environmental loads

Waste production

- > Soil occupation and contamination.
- > Reduction of landscape and visual quality.
- > Reduction of soil value.
- > Contamination of surface and ground waters by flowing water courses.

Noise emission

- > Degradation of quality of life of affected communities due to the disturbance of their typical activities with possible physiological, psychological and/or social effects.

Landscape impact

- > Reduction of the quality of both natural and urban landscape.

Electromagnetic fields

- > Negative perception by interested parties of potential risk for human health.

Climate changes

Climate changes are, without a doubt, a concern of all PT's subsidiaries. The responsibility that our activities may have of contributing to this problem is weighed in all our activities.

At present, we already have an itemized account of all the direct and indirect carbon dioxide (CO₂) emissions, associated to the fuel consumption of PT's automobile fleet and the electricity consumed in the course of our activities. In the short-term, it is our objective to establish an intervention plan to minimize the impacts caused by these emissions, either through reduction plans, or through measures to minimize and/or compensate for the emissions.

PT's response to the possible impacts on the climate changes includes areas related to the consumption of fuel and energy, of water and of materials (paper, batteries, and plastics, among others), the recycling or reuse of the produced residues that result in the implementation of a set of good practices, in general.

In this context, a task force was created in 2006, across the Group, to define PT's mid and long-term energy strategy in order to systemize in every company, the best way to minimize the impacts caused by energy consumption, to implement measures to optimize consumptions and guarantee the energy certification of buildings.

Functions of the task force

- > To give visibility to the energy questions inside the organisation.
- > To integrate the energy procedures of the Group's companies.
- > To schedule the energy certification of the main buildings.
- > To evaluate the preferential use of renewable energies, whenever there are identified economic and environmental reasons that justify it.
- > To assure that the energy suppliers are the most adequate ones, from the viewpoint of the Company's environmental commitments.
- > To identify opportunities and to make recommendations and action proposals aligned with the market's best practices of the market
- > To monitor economic and environmental impacts.

In order to spread our environmental management policy, all the relevant information deriving from our activities in this area is updated periodically on the site www.telecom.pt.

We are conscious that it is also our responsibility to promote good practices of environmental management adopted by PT's subsidiaries across our value chain, namely our suppliers.

Therefore, we have developed several environmental awareness campaigns and, in the selection process, we follow, among others, a set of requirements that make the good practices of the candidates evident.

Criteria in supplier selection and contracting

With their proposals, suppliers must submit documentation demonstrating the existence of good environmental practices, compliant with the law, in order to allow PT to evaluate the alignment of the developed activity with the environmental protection standards.

Contracts celebrated with each supplier will include a set of specific environmental clauses adapted to the type of supply, related with environmental practices and waste management.

Within the scope of the sustainable management of the waste produced by PT's subsidiaries, by our buildings and shops, several containers were placed to collect printing consumables – toners, ink cartridges – and damaged or old telecommunications devices that are out of use. This action to foster equipment recycling was done according to a protocol with AMI and the sale of the collected equipment reverted in favour of this non-for-profit institution. In 2006, we increased the number of collection points throughout the country.

Waste management partnerships

Sociedade Ponto Verde – valuation and recycling of package waste

AMI – collection of computer consumables

PT is also associated to the Sociedade Ponto Verde (Green Dot Society), managing entity of SIGRE⁴, whose objective is the valuation and recycling of package waste, deviating them from landfills.

PT has undertaken its efforts to minimize the impacts derived from its activity, beyond waste production. At the consumed materials level – paper, copper cabling, batteries, among others – we have promoted several actions aiming at its recycling and reuse. In the case of paper, as the electronic invoice is getting more widespread among consumers, a significant reduction in the consumption of white paper is archived.

⁴ Integrated Waste Package Management System

Environmental performance

PT's main climate change related impacts have to do with the direct and indirect consumption of energy.

In 2006, PT's fuel and electricity consumption amounted to about 1,995,094 GJ. Of this total, the technical areas accounted for the largest share.

The carbon dioxide (CO₂) emissions associated to energy consumption have been inventoried, total emissions (direct and indirect) amounting to about 220,950 tons. Indirect carbon dioxide emissions, for electricity consumption and distribution diesel, represented about 93.5% of PT's total emissions in 2006.

Energy consumption		
	giga joules	
	2006	%
Total consumption	2,006,356	100%
Administrative consumption	152,583	7.61%
Technical areas consumption	1,509,610	75.24%
Petrol consumption	172,109	8.58%
Diesel consumption	26,355	1.31%
Indirect consumption (diesel distribution)	144,664	7.21%
Indirect consumption (electricity production)	1,035	0.05%

CO ₂ emissions		
	tons	
	2006	%
Total emissions	222,173	100%
Direct (petrol consumption)	1,691	0.76%
Direct (diesel consumption)	12,841	5.78%
Indirect (electricity consumption)	205,934	92.69%
Indirect (diesel distribution)	1,708	0.77%

Environmental performance of PT Comunicações

As PT Comunicações is environmentally certified since 2003, every year new targets for environmental management are defined that imply an effort in the reduction of energy, water and materials consumption as well as an effort to increase waste recycling within the company.

Energy consumption			
	giga joules		
	2006	2005	Variation
Administrative consumption	118,910	114,070	4.2%
Technical areas consumption	1,181,018	1,031,825	14.5%
Fuel consumption (petrol and diesel)	160,573	172,903	-7.1%
Indirect consumption (diesel and petrol distribution)	121,527	141,977	-14.4%

CO ₂ emissions			
	tons		
	2006	2005	Variation
Direct (petrol consumption)	894	1,949	-54.1%
Direct (diesel consumption)	10,895	10,676	2.0%
Indirect (electric energy+petrol+diesel)	167,022	149,796	11.5%

Quantity of ozone – depleting substances present in the equipment			
	tons CFC11 eq		
	2006	2005	Variation
Ozone depleting emissions	17	17	0.0%

Other emissions			
	tons		
	2006	2005	Variation
Other emissions – NO _x	16.9	18.7	-9.6%

Water consumption			
	m ³		
	2006	2005	Variation
Water consumption	277,337	267,684	3.6%

Waste production ⁽¹⁾			tons
	2006	2005	Variation
Fluorescent bulbs	0.14	2.60	-94.6%
Infrastructure waste	1,788.3	1,312.6	36.2%
Paper/cardboard	95.5	144.0	-33.7%
Plastic	19.47	9.64	102.0%
Solid municipal waste (undifferentiated)	134.0	125.9	6.4%
REEE	50.61	40.36	25.4%
Toners and ink cartridges	2.17	1.81	19.89%
Used oil	1,870.0	1,870.0	0.0%
Batteries	28.1	116.0	-75.8%
Muds from oil/water separators (spill)	ne	2.13	

(1) The data in this table is obtained based on the waste declaration forms ie only waste disposed of. This table does not show produced waste, as some of it is in temporary storage until it can be disposed of favourably.

Consumption of materials			tons
	2006	2005	Variation
Batteries	62	134	-53.7%
Electrical and electronic equipment	142.40	164	-13.2%
Infrastructure to support the activity	11,909	10,855	9.7%
Fluorescent bulbs	0.14	2.60	-94.6%
Paper/cardboard	2,041	118,819	(1)
Plastic	1,069	435	(1)
Toners/ink cartridges	3.60	4.70	-23.4%
Recycled paper	155	212	-26.9%
Recycled paper (%)	89.71	90.28	-0.6%
Recycled copper	205	161	27.3%
Recycled copper (%)	39.86	34.37	16.0%

(1) PT's purchasing policy was changed in 2006, which caused meaningful changes in the consumption of these materials. The variation between 2005 and 2006 might therefore be misleading.

SGA – related costs and benefits ⁽¹⁾			Euro
	2006	2005	
Internal manpower (activities in hour/man)	19,018	9,498	
External manpower (activities in hour/man)	0	126	
Internal costs	672,110	346,050	
External costs	212,330	210,475	
Total revenue	3,055,704	488,446	
Final result	2,171,264	842,810	

(1) The difference in the final number for external manpower relates to different accounting of audioconferencing methodology.

Environmental performance of TMN

TMN is, in principle, PT's subsidiary that has most associated environmental impacts, mainly on the landscape as well as the negative public perception of possible impacts on human health caused by the telecommunications antennas. Other relevant impacts associated with this company have to do with placing on the market of several tons of materials such as paper and cardboard, plastics, electric and electronic equipment each year, whose final destination is one of the concerns of TMN's environmental management policy.

Since 2003, that TMN's management system is certified environmentally, continuously developing activities to minimize these impacts. In the case of electromagnetic radiations, all transmission stations are monitored periodically in order to measure electromagnetic fields, in accordance with the national and EU legal requirements. Moreover, TMN supports monIT project whose objective is to make available to the public the relevant information on the exposition levels the electromagnetic fields, namely those generated by the communications antennas.

In the case of landscape impacts, whenever the installation of a new transmission antenna is planned, all viable impact minimization measures are analyzed, case by case, as well as the existence of sensitive zones (hospitals or schools, for example) in the surroundings.

Energy consumption			giga joules
	2006	2005	Variation
Administrative consumption	16,437	15,705	4.7%
Technical areas consumption	328,575	271,124	21.2%
Fuel consumption	27.381	28,256	-3.1%
Energy consumed by suppliers when supporting TMN's activity	24.171	6,568	-(1)

(1) The methodology for calculating 2005 and 2006 values were different, therefore the variation might be misleading.

CO ₂ emissions ⁽¹⁾			
	2006	2005	Variation
Direct (petrol consumption)	596	941	-36.6%
Direct (diesel consumption)	1,383	1,079	28.2%
Indirect (electricity consumption)	36,808	35,057	5.0%
Indirect (diesel distribution)	1,708	448	- (2)

(1) The conversion factor used to convert electricity into CO₂ indirect emissions was 0.386 tCO₂/MWh.
 (2) The methodology for calculating 2005 and 2006 values were different therefore the variation might be misleading.

The energy consumption increase in 2006 is due to the inclusion of the Marconi Building where about 60% of the consumption in this building comes from the technical areas.

As to the administrative areas, the energy consumption increase is derived from the inclusion, in 2006, of all TMN stores (in 2005 only the two mega stores – Lisbon and Porto had been considered). In 2006, 232 transmission stations have also been added.

In the case of fuel consumption, the differences come from the fact that in 2006 there was a 46% increase in the number of diesel vehicles and a 25% reduction in the number of gasoline vehicles.

As to water consumption, there was a 30% increase in 2006 (22,889 m³) comparing to 2005 (17,646 m³). This increase was related to the purchase of new data archiving equipment that due to its power must be in duly acclimatized places.

Considering the products it places on the market, TMN presents some impacts in terms of waste production, so we try to implement measures aiming at the reduction of this waste and directing it to adequate destinations, throughout our value chain.

These measures consist, for example, of cellular equipment change programs, during the purchase of new products – the recovered mobile equipment is directed for reuse or recycling. This way the amount of REEE directed for recycling has increased significantly.

Waste production			
	2006	2005	Variation
Fluorescent bulbs	0.23	0.37	-37.8%
Infrastructure waste	41.90	67.04	-37.5%
Paper/cardboard – recycling	28.50	199.73	-85.7%
Paper/cardboard – reuse	30.09	-	(1)
Plastic	17.77	27	-34.2%
Solid municipal waste (undifferentiated)	11,861.09	78.60	(1)
REEE (mobile phones) – recycling	0.04	0.31	-87.1%
REEE (others) – reuse	40.17	9.69	314.6%
REEE (mobile phones) – reuse	22.97	19.95	15.1%
Toners and ink cartridges	1.42	2.04	-30.4%
Used oil	0.00	0.34	-
Batteries (mobile phones) – recycling	2.19	1.71	28.1%
Batteries (others) – recycling	37.71	36.46	3.4%
Batteries – reuse	3.24	2.46	31.7%

(1) The methodology for calculating 2005 and 2006 values were different therefore variation might be misleading.

To date, only the solid municipal waste from the administrative activities has been reported. In 2006, it started to include the production warehouses.

In 2006, 232 transmission stations were installed, a value much above the level of previous years. This led to an increase in the following materials, as a function of the type of implemented station: batteries, electrical and electronic equipment, and infrastructures to support the activity.

Materials consumption			tons
	2006	2005	Variation
Batteries (mobile phones)	28.9	106.3	(1)
Electrical and Electronic Equipment (mobile phones)	126.8	361.4	(1)
Infrastructures to support the activity ⁽²⁾	660.1	206.1	(1)
Paper/cardboard	205.9	159.0	29.5%
Plastics	74.1	328.2	-77.4%
Toners/ink cartridges	1.9	1.6	18.8%
Recycled	60.4	9.9	(1)
Recycled paper (%)	29.3	84.1	-65.2%

(1) The methodology for calculating 2005 and 2006 values were different therefore, variation might be misleading. (2) Includes batteries and EEE which are not part of the products: UPS and networking equipment.

The significant variation of recycled paper is associated with the reduction of plastic consumption. The change of TMN's product packaging that started to include 80% of recycled paper versus 20% of plastic, justifies the presented difference.

Environmental performance of PT Inovação

In 2006, PT Inovação joined the other companies of the Group and obtained the Environmental Certification (NP EN ISO 14001:2004). This process was only a natural step towards the recognition of the work that this PT subsidiary had done, after the conclusion, still in 2005, of the implementation of the environmental management system (SGA).

In 2006, the practices and measures developed for the management system made it possible to reduce significantly the energy consumption from the technical areas of the company by nearly 30%, as well as the carbon dioxide emissions associated with these consumptions.

Energy consumption			giga joules
	2006	2005	Variation
Administrative consumption	8,123	7,600	6.9%
Technical areas	17	24	-27.8%
Fuel consumption (petrol)	633	-	nd
Fuel consumption (diesel)	2,489	-	nd

CO ₂ emissions			tons
	2006	2005	Variation
Direct (diesel)	184	157	17.2%
Direct (petrol)	44	45	-2.2%
Indirect electricity	995	1,030	-3.4%

In 2006, there was a reduction of circa 5% in water consumption, which amounted to 4.423 m³.

Waste production			
	2006	2005	Variation
Batteries (tons)	n/a	0.13	
Lamps (unit)	452	n/a	
Óil (kg)	0	n/a	
Paper/card (tons)	39	21	85.7%
Plastic waste (tons)	3.8	2	90.0%
RSU (tons)	n/a	n/a	
REEE (tons)	7.5	4	87.5%
Toners (unit)	226	214	5.6%
Ink cartridges (unit)	139	318	-56.3%
Copper (tons)	0.3	n/a	
Plastic – packages placed on the market (tons)	1.14	0.803	42.0%
Paper/card – packages placed on the market (tons)	7.19	7.92	-9.2%
Telecoms Equipment (tons)	10.9	n/a	

Materials consumed			
	2006	2005	Variation
Recycled paper (tons)	2.7	1.5	80.0%
White paper (tons)	3.05	4.89	-37.6%
Recycled paper/white paper (%)	88.5	30.7	–

In terms of benefits associated with the environmental management system (SGA), the following table shows some targets defined for 2006. One can conclude that some targets seem not to have been reached. However, it should be mentioned that:

- > **Water consumption:** the increase is due to a leakage which led to an unforeseen waste of this resource; as the global consumption is low this leakage had a great effect on this indicator.
- > **Electricity consumption:** The workspace renewal has led to an increase in the installed capacity of the air conditioning systems;
- > **Paper consumption:** we consider we have met the target, as the previous value for 2005 was incorrect. The real value in 2005 was 5.3 reams per capita so 3,3 reams per capita in 2006 means an excellent performance.

Plan 2006			
	Target	Total	Deviation
Water consumption per capita per month (m ³)	0.63	0.78	23.8%
Electricity consumption per capita per month (KWh)	375	397.55	6.0%
Efficiency in electricity use (KWh/K€)	40	33.62	-15.9%
Paper consumption per capita (reams in 2006)	3.1	4.85	56.5%
Consumption of recycled paper (%)	50	46.96	-6.1%

Environmental performance of PT PRO

The success of the environmental management system implementation is evidenced by PT PRO's certification. Having PT Group as its only customer, there were no commercial reasons for the company to get the certification. However, a general policy included in the Quality Manual and supported by environmental management policies, has naturally led to this certification. PT PRO became the first PT subsidiary certified in accordance with three standards: quality, environment and health and safety at work.

Energy consumption		giga joules	
	2006	2005 ⁽¹⁾	Variation
Administrative consumption	9,113	9,272	-1.7%
Petrol consumption	2,257	2,069	9.1%
Diesel consumption	5,131	4,325	18.6%

(1) These values differ from those presented in the 2005 sustainability report, which did not include the Medium Voltage value.

CO ₂ emissions		tons	
	2006	2005	Variation
Direct (petrol consumption)	156.2	148.9	4.9%
Direct (diesel consumption)	378.8	319.3	18.6%
Indirect (electricity consumption) ⁽¹⁾	1,108	1,127.6	-1.7%

(1) The conversion factor used to convert electricity into CO₂ indirect emissions was 0.44 tCO₂/MWh.

In 2006, there was an energy audit to the building carried out by an external entity, in order to establish an action plan for consumption reduction. Still in 2006, a few awareness actions by our employees, dedicated to the rationalization of energy consumption, have been developed. These actions have induced the consumption reduction of almost 2% in administrative areas, surpassing the objectives defined for this: 1% reduction. The increase in fuel consumption is because in 2006 the automobile fleet increased by 21 vehicles, representing an 18% increase.

Water consumption		m ³	
	2006	2005	Variation
Water consumption	9,980	11,509	-13.3

As to water consumption in 2006, the implemented measures, mainly derived from employee awareness actions, led to a reduction of about 13% compared to the previous year. The defined objective for 2006 was a 1% reduction in the water consumption.

All PT PRO employees are involved in the company's environment management, as the evolution of environmental data is made available and through several awareness raising actions. Another awareness action, involving the employees, had to do with the management of several types of waste.

The 33% increase in the amount of waste from fluorescent light bulbs, derives from the change in the company responsible for the maintenance of one building, which carried through, in this year, the renewal of all the lighting of this building. The same happened with the renewal of several obsolete electric and electronic equipment which caused a 14% increase in the amount of REEE waste, from 2005 to 2006.

Costs associated to the Environmental Management system come from internal audits, follow up audits (in the scope of the certification maintenance), consultancy actions and implemented actions relative to eventual correction measures to the environment management program. Other costs derived from fines or sanctions will be able to exist, but it did not happen, as there were, in 2006, no environmental compliances to obey.

Waste production ⁽¹⁾		tons	
	2006	2005	Variation
Fluorescent Bulbs	0.230	0.173	32.9%
Metal waste	0.97	n.a.	n.a.
Paper/cardboard – recycling	312.0	316.8	-1.5%
Plastic	0.069	0.085	-18.8%
Solid municipal waste (undifferentiated) m ³	1,058	1,056	0.19%
REEE – recycling	0.16	0.14	14.3%
Toners and ink cartridges	0.265	0.438	-39.5%
Used oil	0.65	0.08	712.5%

(1) The data in this table is obtained based on the waste declaration forms ie the waste disposed of. This table does not show the produced waste, as some of it is in temporary storage until it can be disposed of favourably.

Relationship with the stakeholders



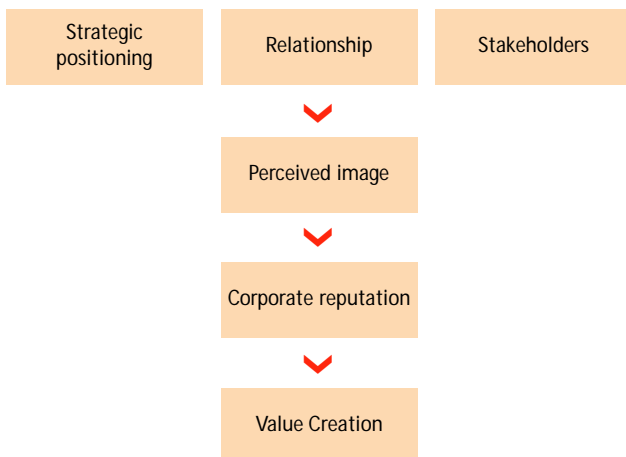
Corporate reputation

The management of PT's image is done through the identification and segmentation of the most critical audience in the course of its activity: financial community, customers, employees, suppliers, shareholders, media, regulatory entities and community at large.

The interaction with each one of these audiences requires respect, planning, rules and availability of the most adequate communication channels. Only in this way, we believe it is possible to respect the expectations of each one and to guarantee the maximization of the company value.

Within PT, apart from the behaviour codes that guide the company's relation with each one of the interested parties, we have created and we continue to perfect the communication supports with each public.

PT is the largest listed Portuguese group of enterprises and its activity has direct and indirect repercussions on the country's economy. Therefore, PT has dedicated more and more interest and persistence to its corporate identity and reputation, in order to form a model that allows to identify, anticipate and integrate the expectations of the interested parties in the Group's business strategy.



Corporate identity

PT views its brand as a signature, which is associated to the personality of the Group's enterprises. It is an intangible company asset which should be managed to project the company values, attitude and commitments towards business and society in general.

PT's code of ethics and the attitude that guides its institutional and commercial relations are strong allies in building and constant valuation of the brand and, consequently, in consolidating its identity.

In 2006, the process of financial valuation of the brand started. This valuation will produce the preliminary assessment results during this year.

Brand image

Brand functions

- > Identity and differentiation
- > Identification of products and services
- > Customer attraction
- > Retention
- > Quality and consumer defence

Brand valuation

- > Economical
- > Commercial
- > Technological Innovation
- > Social responsibility

PT was elected by Superbrands – independent worldwide entity – as one of the excellence brands in 2006. The selection criteria were: commercial reputation, acceptance, market domination, longevity and retention. The election was based on a survey of 2,300 consumers.

For PT, the brand image is the mirror of the emotional and rational relationship that the company establishes with society in its multiple exchanges of experiences.

From PT's viewpoint, the brand must reflect the characteristics of its personality in terms of values, attitudes and commitments that cross all its businesses – fixed, mobile and cable – and, in this way, contribute to the adequate company positioning in each sector of the market and the society.

With 91% recognition index in the telecommunications sector, PT considers that it is fundamental to systematically survey the image vectors by which it is perceived by the stakeholders.

For this purpose, every two years, surveys are carried out both of qualitative and quantitative nature. The main objectives are:

- > To identify image attributes;
- > To identify market positioning;
- > To identify both the strong and weak points in PT's image.

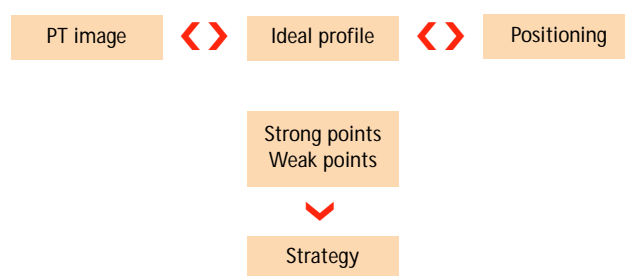
The survey universe consists of the stakeholders, segmented below, with the following average evaluation of PT:

- > Residential market – average evaluation – 6.5 (between 1 and 10)
- > Business market – average evaluation – 6.4 (between 1 and 10)
- > Institutional public – average evaluation – 6.7 (between 1 and 10)

Each business unit analyses the survey results and the conclusions are presented and discussed in the Executive Committee, in accordance with the following model:

Alongside those biyearly image surveys, PT's business units also undertake frequent customer satisfaction surveys. The results from such surveys are equally subject to analysis which results in the incorporation of adjustments into the business strategy and the relationship of those businesses with the market.

The average evaluations achieved in 2006 places PT on the second evaluation platform in relation to the image of national communications brands.



Customers

PT's business units are committed to respond efficiently to the market, adjusting all service offers and solutions to the needs revealed by each customer and ensuring the continued delivery of subscribed services.

The strategic orientation of customer focus and the subsequent introduction of the best practices in customer management remain a reference for behaviour within the Group. In 2006, there were significant improvements in customer care, service installation and fault repair areas – as these have been considered priority areas by the customers in market surveys.

In its home market, PT has 4,4 million customers in the wire-line network, 5,7 million in the mobile network, 1,5 million in subscription TV and 1,1 million in broadband.

Customer focus	Priority areas in 2006
<ul style="list-style-type: none"> To know the market needs To personalise customer relationship 	Customer care and customer relationship
<ul style="list-style-type: none"> To innovate the market offer To offer quality services To guarantee the continuity of service delivery 	Service installation and fault repair
<ul style="list-style-type: none"> To ensure transparency and honesty in the commercial relationship 	Efficiency and effectiveness of our shop network as well as the points of contact with customers

Diversity of offers

In 2006, we extended our offer of products and services to make available to customers a larger diversity of solutions and tariffs that might simultaneously reach a larger number of customers and increase the satisfaction level in the use of products and services

The presented solutions are related mainly with broadband products/services and convergent fixed/mobile services, as can be observed on the website www.telecom.pt.

The segmentation of products/services offers includes solutions adapted to the different customers' profiles. We should point out those suitable for the business segment ie SMEs and large companies, and the residential segment where the technologically advanced families can be included, as well as those of lesser income, the ones with special needs and those integrating minors and/or seniors.

In order to ensure the clarity of the tariffs associated to the acquisition, subscription and use of our services, PT discloses each tariff and makes simulators available online.

To build a lasting proximity, respect and confidence relationship with each customer is the attitude that guides the daily activity of the Group's business units.

Policy of respect for consumer privacy

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

Besides the scrupulous fulfilment of the national and European legislation that regulates the protection of personal data, PT performs legal reviews to all the identified situations capable of rendering the protection of personal data more vulnerable as well as regular audits with the support of security specialists.

Therefore, the data pertaining to each customer is only made available by request of the customer or through an order from the judicial authorities within the terms of the law.

Communication with the customer

PT makes use of a multiplicity of communication channels that ensure the relationship and the exchange of information with each Group customer.

Channels	
Customer portal	Call centres
Website	Focus groups
Shop and agent network	Satisfaction surveys
Commercial managers	Advertising campaigns
E-mail	Bill
SMS	Newsletter



Customer care

Every PT subsidiary has a customer support centre available 24 hours per day, 365 days per year and whose contacts are available on the corporate website www.telecom.pt.

PT also makes use of a network of 100 PT-owned shops and 500 authorized agents all over the country alongside a network of commercial managers whose mission is to identify the needs and expectations of the business customer portfolio assigned to them.

Through the customer care lines customers can interact with PT's business units being able to subscribe services, present claims, give suggestions, define usage profiles, consult their bill as well as their current account.

Customer care	
Total contacts received/ 1000 customers (monthly average)	307
Contacts replied (monthly average)	91.3%

Service installation	
Total installation requests (monthly average)	70,881
Bookings missed (monthly average)	13%

Complaints	
Total complaints received/1000 customers (monthly average)	20
Time spent addressing each one (monthly average)	3.1 dias

Faults	
Total reported faults/1000 customers (monthly average)	32.8
Time spent repairing each one (monthly average)	1.9 days

Base: Residential and SOHO customers – telephone fixed service + mobile voice cards + ADSL accesses + netcabo accesses + TV accesses.

Customer relationship management

With a large customer base, PT knows that the success of the relationship with each one depends on the quality of the information it records on the respective consumption profile, the capacity of evaluation of this information and of the interpretation of the market expectations vis-à-vis the Group.

Over the last years, PT has been implementing a set of good practices in customer relationship which are based on the life-cycle management of each one, in order to materialise the dual approach maximisation of shareholder value/maximisation of customer satisfaction.

From this perspective, customer management obeys the 4 basic pillars, based on the Peppers & Rogers methodology:

Customer management	
Identify/know	To have available information to characterise each customer's needs
Differentiate	To create solutions suitable to each one's needs
Interact	To dialogue with the customers better to perceive its needs
Personalise	To respect each customer's individuality

Considering the legal framework that the telecommunications activity is subject to, each PT business unit makes use of a Customer Relationship Management (CRM) platform, that contains each customer's specific characteristics and expectable value, in the short and long-term.

Apart from those platforms, PT has opted to regularly survey the market in order to collect its perceptions and the expectations relative to PT's activity.

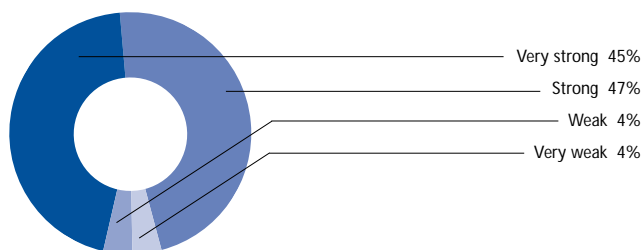
These surveys evaluate the customers' satisfaction level and comprise all market segments, obeying the following generic criteria:

- Segments surveyed**
- > Residential customers
 - > Business customers
 - > Institutional customers

- Types of survey**
- > Global satisfaction
 - > Welcome call
 - > Complaint resolution
 - > Fault repair

External, idoneous and experienced market research companies conduct these surveys in order to get rigorous, neutral and impartial information as a valid base for the decision-making processes and the introduction of corrective measures. The methodology adopted in these surveys uses statistically significant samples for each market segment. The global results collected in 2006 present the following profile:

Loyalty to PT (%)



Excellence (6,5 – 10) ■
 Satisfaction (4,0 – 6,4) ■
 Dissatisfaction (0 – 3,9) ■

Axis Evaluated	Total average	Residential segment	Business segment	Institutional segment
Solidity and Innovation	7,0	7,1	6,8	6,7
Enterprise value	6,6	6,7	6,5	6,1
Competence	6,5	6,7	6,5	6,3
Customer focus	5,8	6,5	5,8	5,5
Pricing	5,2	5,3	5,1	5,0

Council of quality and customer relationship

PT started a new paradigm of action in 2006, when it defined the existence of a strategic orientation of customer focus, centred on satisfaction, a deeper understanding of their needs and in the establishment of a lasting relationship.

The new management team implemented, in a decisive way, a set of initiatives whose objective was to induce a greater proximity to the market and the customers, as well as a new attitude, trying to introduce in business new proactive behaviours and a larger concern with the quality of service given to all those that constitute the universe of PT customers, both at national and international level.

Therefore, the Council of Quality and Customer Relationship was created. The Council is co-ordinated by the Executive Chairman, the Director of this area and the corporate Head of Unit who has this assigned responsibility. It is composed of the directors responsible for the commercial areas of PT Group's business units. This Council met 4 times throughout 2006 and its action principles are described below:

Orienting principles	Council's scope of action
Customer-centered organisation	Adoption of a set of totally customer-oriented measures and excellence practices.
Implementation of a global quality policy for PT Group	Definition of the global quality policy for PT Group.
Definition of the set of operational KPIs	Consensual identification of the set of indicators to measure and to evaluate the operations in the different products and services and ways to act.
Coordination of the implementation of continuous improvement actions	Identification of measures of improvement opportunities to correct the problems and to improve the customers' satisfaction perception.
Sharing and implementation of the best customer care business practices	To implement a set of good practices in customer care, sharing what is done best among PT's subsidiaries and similar companies at international level.
Definition of a policy training in quality for PT Group	Acquisition of skills through training of the different agents intervening in the customer relationship processes and creation of specific incentive systems to reward the best performances, including the business partners in outsourcing.

Advertising campaigns

The advertising campaigns of PT's subsidiaries try to respect the beliefs and the values of the target public whilst giving rigorous information on the features and ways of use of the announced services/products.

All the campaigns are disclosed containing at least one or more ways of contact – an electronic address, a site and/or a telephone number – through which the customer or potential customer will be able to clarify doubts, request detailed information or subscribe the promoted product/service.

In order to safeguard the interests of the youngest, in 2005 PT signed the Code of Good Practices in the Commercial Communication for Minors from the Portuguese Advertisers' Association. This code foresees a set of sanctions applicable to the subscribers that violate it and prescribes, among others, two fundamental principles:

- > Advertising should be legal, honest, decent and true and should be seen as part of the minors' sustained development process as current and future consumers;
- > Advertising should be unequivocally recognised as such, whatever the means of diffusion.

The messages used in the campaigns are built in a conscious and responsible way, appealing to the benefits of the brand, the product and/or service. Messages establishing comparisons with the competitors or showing situations capable of damaging the values and beliefs in the Portuguese society, are always avoided.

The products and services sold by PT have instructions manuals explaining their correct usage and the product labelling is done in accordance with current legislation.

During 2006, Euro 155,4 million were assigned to PT's marketing and advertising campaigns.

Forms of payment of PT's services

Easiness, convenience, comfort, clarity and transparency are the values that PT wants to guarantee to every customer through the invoice presentation and the multiple forms of payment available.

Forms of payment

- > PT Shops
- > Post office
- > ATM
- > Bank transfer
- > Electronic invoice

On the invoices presented by PT, customers find their consumption and the amounts corresponding to the service delivered.

Since 2005, customers may also use the electronic invoice, a legally valid document, replacing paper invoices with Internet consultations. The electronic invoice is available online for 3 months, and it is sent out in electronic format after a valid email address has been indicated.

Future perspectives

In 2007, the Customers' Council and the Customer Day will be created as initiatives leading to the improvement of the relationship and, subsequently, the satisfaction of the customers.

Customers' council

Its objective will be to hold periodic meetings between the business-related members of the Executive Committees and a set of customers to create a constructive forum for the discussion of ideas, reflection, exchange of opinions, identification of actions to improve the quality of service and identification of new products and services adequate to the emerging market needs.

Customer day

This initiative will target PT's customers and its goal will be to get them acquainted with PT's daily activities, its way of working, the teams, the processes, the concerns, the objectives and above all, the way we commit to constantly improve our relation with each customer, in particular, and the market, in general.

Financial community

The financial community PT has a relationship which incorporates both the shareholders and investors (reference investors and small shareholders), and the analysts from the investment banks and consultancy companies who support them through studies and national or international benchmarks.

The dialogue established with this community is permanent and based on the rigour and transparency of the information disclosed be it of strictly economic-financial nature or of social or environmental nature.

The financial community's expectations have undergone an evolution over the last few years with an added need for more information contributing to explain PT's financial and operational performance.

Therefore, besides the annual report and the quarterly reports, PT started to disclose information about its direct and indirect impacts on society, publishing information about its economic, environmental and social responsibility performance through the Sustainability Report and the surveys in which it participates.

Relationship with the financial community

Segments

Shareholders and investors
Reference investors
Small shareholders

Analysts
Financial
Sustainability

Forms of relationship

- > Shareholders' General Meeting
- > Website – www.telecom.pt
- > Annual report
- > Sustainability report
- > Surveys
- > Roadshows
- > Teams specialised in dialogue
- > Press releases

Principles, duties and norms of behaviour in the relationship with the market

The behaviour pattern assumed in the relationship with the market is aligned with Group's principles and values, identified and published in its codes of ethics.

Code of ethics

The code formalises the principles orienting the employees' behaviour. The following aspects should be pointed out:

- > Behaviour following rigorous principles of honesty, integrity, dignity, professional correction and diligence, exemption and equity;
- > Observance of a duty of loyalty to the Group company to which one is attached, committing to safeguard its credibility and good image in every situation, safeguarding its prestige. The employees must still act with verticality, exemption and objectivity in the analysis of business decisions taken on behalf of their companies;
- > Scrupulous fulfilment of the legal and regulatory rules applicable to the activity of the group namely those relating to the secrecy of the communications and the information one has access to;
- > Principle of loyalty to Group's companies, having the employees to commit to safeguard its prestige and the scrupulous fulfilment of the legal and regulatory rules applicable to the activity of the group, namely in what concerns the obligation of secrecy relative to the relevant information that has not yet been publicly disclosed and that may influence the stock quotes;
- > Fulfilment of the limits of the responsibilities assigned;
- > Fulfilment of certain rules in the relationship with suppliers, competitors, shareholders and regulatory entities.

The code of ethics is available on www.telecom.pt

Code of ethics for financial officers

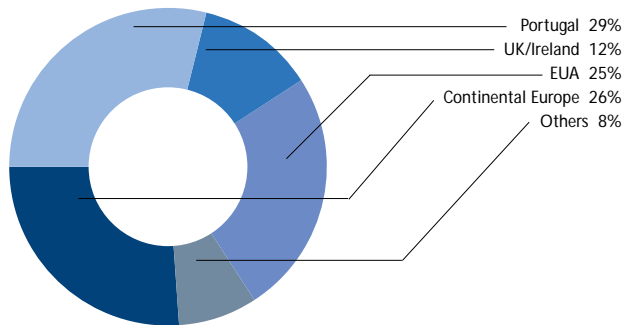
Approved since 2004, the code of ethics for financial officers came to strengthen the importance of the specific ethical norms applicable to all PT's employees who are, directly or indirectly involved in the elaboration, analysis and disclosing of financial demonstrations, press releases or any other information to disclose to the markets related to any of the entities integrating the Group.

This code strengthens the principles of honesty and responsibility and regulates aspects such as the report of the conflict of interests, the ability and professionalism, the professional secrecy, the fulfilment of the laws applicable to the Group and the responsibility for the disclosing of information. Its scope was made know to all relevant employees, by means of annual signature of a declaration of fulfilment.

This code is also available on www.telecom.pt

Shareholder structure

Geographic distribution (%)



Qualified holdings on 31 December 2006

Institutions	No. of shares	% of capital
Telefónica	112,473,826	9.96%
Banco Espírito Santo	87,734,177	7.77%
Brandes Investment Partners	83,649,255	7.41%
Caixa Geral de Depósitos	57,740,600	5.11%
Telmex	38,460,000	3.41%
Ongoing Strategy Investments ⁽¹⁾	34,012,746	3.01%
Paulson & Co.	26,385,303	2.34%
Fidelity Group	23,592,185	2.09%
Fundação José Berardo	23,357,466	2.07%
Barclays	23,216,664	2.07%
UBS	22,779,481	2.02%

⁽¹⁾ Includes Insight Strategic Investments' holding.

The raw dividends per share in the last three exercises were as follows:

2005 > Euro 0.475

2004 > Euro 0.35

2003 > Euro 0.22

Financial investment banks and analysts who issue opinion about PT

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

Corporate Social Responsibility and/or Sustainability Analysts

EIRIS	Aranzazu Romero
Euronatura	Ana Rovisco
KPMG	Cristina Tomé
OEKOM Research	Kristina Rueter
Pricewaterhouse&Coopers	Rui Loureiro
SAM Group	Edoardo Gai
Trucost	Anastassia Filimonova
VÍGEO Group	Olivier Bonnet

Main indexes that include PT

Euronext Top 100
PSI 20
PSI Geral
Dow Jones Stoxx Large 200 Price
Dow Jones Euro Stoxx Price
Dow Jones Euro Stoxx Telecom Price
Dow Jones Stoxx 600 Price
Dow Jones Euro Stoxx Total Market Large Price
FTSE Eurotop 300
FTSE Eurobloc 300
FTSE Eurotop 300 Telecom Services
FTSE Eurotop 300 non cyclical
FTSE Eurofirst 80
FTSE 4 Good
MSCI Europe
MSCI pan Euro
NYSE Composite
S&P Europe 350
S&P Euro
S&P Europe 350 Industrial
S&P Europe 350 Telecommunications Services
Industry Group
S&P Europe 350 Telecom Services
S&P Euro Telecom

Employees

PT's human asset management takes into consideration the Portuguese law, the principles of the United Global Nations Compact and the social responsibility principles of UNI (Union Network International).

In 2006, The Executive Committee decided that every PT subsidiary should prepare for a certification according to standards OHSAS 18001 related with Hygiene, Occupational Health and Safety. Both PT PRO and PT Comunicações are already certified.

The management model is supported on an integrated information system which crosses PT Group – Performance.pt – and integrates a vast set of instruments and policies.

Since 2005, PT is recognised as the most family-responsible company in accordance with the criteria evaluated by AESE and Deloitte related to good practices of human resources, family policies, social benefits and professional support.

Means of relationship with the employees

Employee portal
Performance.pt
Feedback meetings for performance evaluation
Corporate Intranet
É Directo (helpline)
Workers' Commission, Unions and Paritary Committee
Internal magazine and newsletter
Organisational climate survey
Welcome Programme

Human asset management model

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 Letter

Management and evaluation tools

Organizational Climate Survey
Individual Performance Analysis system (objectives/management and technical skills)
Employee Portal
Feedback meetings

Development instruments

Recruitment model
Welcome programs
Mobility programs
Training programs
Business Intelligence System
Talent retention programs
Corporate Intranet

Benefits

Working time flexibility
Health Plans
Cultural, leisure e eating spaces
Internal communication channels (intranet, newsletter, helpline, sms, e-mail)
PT Club
Discount card for purchasing services
Social Support Association
End of career support

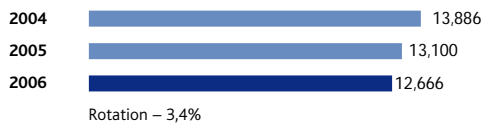
* The company agreement, among others aspects, ensures the equality of opportunities and the remunerations equity for identical functions between men and women.

PT chose its employees as a priority public, critical for the success and competitive continuity of the company.

Employee profile

PT's employees have the following profile:

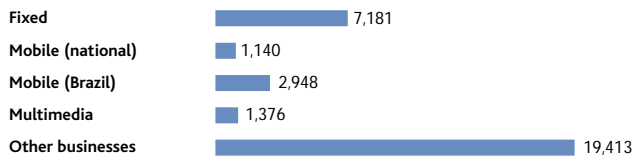
Portugal



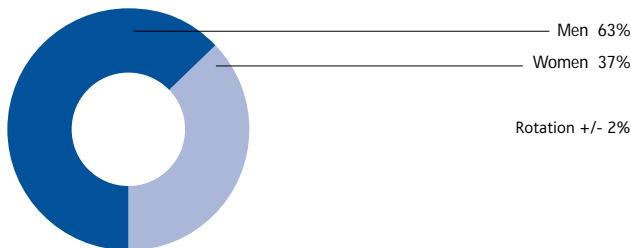
International



Business



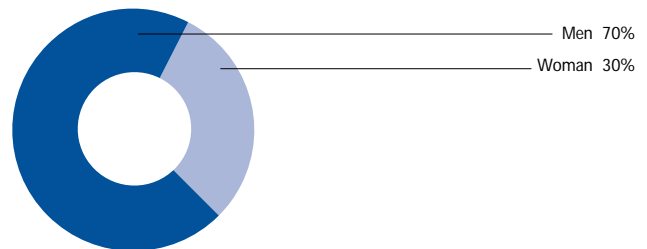
Gender (%)



Disabled employees 1%

Unionised employees 85%

Managers (%)



Employees' age average in the main businesses



Employees' average term in service (years)



Absenteeism in PT's main business areas 4,4%

Dismissed with just cause (violations of the codes of ethics related with fraud, lack of fulfilment of working instructions, and violation of the equipment of colleagues) 8

Employee Reduction Programme – decrease of 614 employees, attaining a ratio of 613 lines per employee.

Contract type	%		
	Permanent	Fixed term	Total
Individual	5.2%	23.3%	28.5%
Collective	3.4%	68.1%	71.5%
Total	8.6%	91.4%	100%

Employee management and evaluation

The strategic human assets management is based on the Individual Performance Analysis model – Performance.pt – and intends to contribute to create alignment within the Group, with strategic and competent teams and with employees who know the businesses and technologies, their individual objectives, their individual development plan and their career perspectives.

This model includes ascending, descending and self-evaluation and feedback meetings between the unit head and the employee. This platform is online on the PT Group's corporate Intranet, making it possible for each employee to follow his/her performance throughout the year.

The model covers the following areas:

Individual performance analysis model	
Processes	
Forms	
Creation of a new year	
Intermediate evaluation	
Year end	
Calculations	
Data loading	
Structures	
Indicators	
Data update	
Parameters	
Indicators	
Skills	
Training	
Team survey	
Bonus matrices	
Reference remunerations	
Weights	
Data	
Graphics and evaluator reports	
Graphics and global reports	
Complementary support information	
Evaluated employees – 100%	

Organisational climate

To ask in order to get answers, to hear in order to understand, to analyse in order to improve. These have been the basic foundations of the Employee Satisfaction Survey that completed, in 2006, five years of existence and became part of the of the Group's culture

Carried through in every PT subsidiary, the results of this survey have contributed to adjust the human assets management to the strategy of the Group.

The results of the V Employee Satisfaction Survey denotes a supported evolution of the organisational climate: with a spontaneous participation stabilized at 60% and an average satisfaction index of 6,9 (in a scale of 1 to 10).

Employee adherence to survey (%)



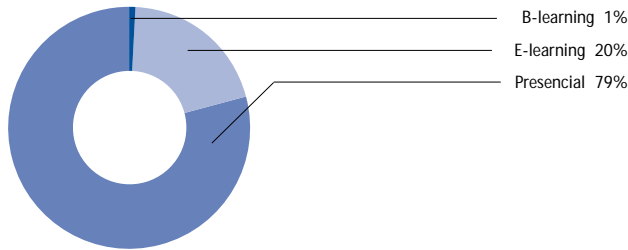
Organisational climate (scale 1 to 10)



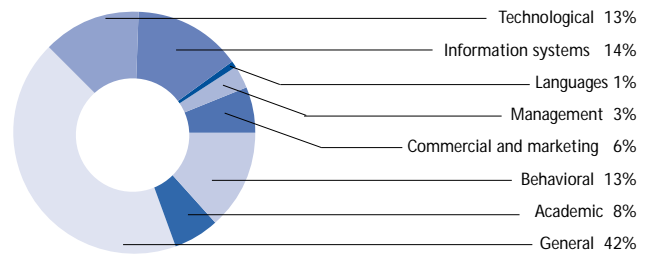
Average by analysed area

Group image	7.2%
Image of the company where you work	7.3%
Communication processes	6.7%
Working environment	6.8%
Leadership	6.9%
Performance evaluation system	7.2%
Fulfillment of individual expectations	6.1%
Market positioning	7.1%
Ethics and social responsibility	6.8%

Training type (%)



Training areas (%)



No. of employees already trained in internal control and code of ethics 4,160

Training programs

PT's training programs have the objective to attract, develop and hold back the best talents in the market and in the company.

During 2006, the technical and management training was complemented with programs in the areas: behaviour, environment, ethics and occupational health, hygiene and safety. This way we try to promote skills that go beyond the normal technical and management skills adequate to the performance of each one's functions.

Although not included in the figures below, PT provides a training programme for the employees of its callcentres.

No. of training actions



Total training investment (Euro million)



Participants vs employee universe (%)



Average training time per participant (hours)



Talent management and mobility programs

Throughout 2006, continuity was given to the programs that PT has already been implementing over the last few years.

Top students recruitment program

Its objective is to attract for the Group, in a highly selective form, high quality talent by means of direct recruitment in a very restricted number of Portuguese schools of recognised prestige.

The program consists of one roadshow with high-ranking PT representatives and employees selected in previous years together with finalist students of the selected schools.

In average terms, of the boarded pupils, about 15% of the contacted students are selected to integrate PT's welcome program and a possible contract with one of PT's units.

JEP program – (high potential young employees)

This program develops from a pre-selection in accordance with the previous year's performance evaluation and the employee's. Employees integrated in this program are assigned some tools and space in order to, in a practical form, highly participative and adjusted with the professional commitments, develop the management skills – orientation for results, leadership and soft skills – emotional intelligence and associated skills.

The program is composed of workshops, late afternoon debates about specific subjects and sessions with reference professionals.

The follow up and monitoring of the results of the employees in this program are continuous.

SWAP program – international mobility

Only permanent employees are eligible for this program that consists of the direct "exchange" of professionals between two companies located in different countries and in similar functions.

Among this program's objectives one should point out the acquisition of knowledge and experience of the organisation as a whole, to create networking occasions, to enable greater synergies and to identify new career opportunities.

This program can last from 3 to 12 months.

Occupational hygiene, health and safety

PT ACS assures healthcare provision to a universe of about 108 thousand beneficiaries – www.ptacs.pt.

PT ACS is an Association, non-for-profit, that provides healthcare services to PT, guarantees access of the generality of PT's employees and, in certain circumstances, of their children and spouses, to a vast network of healthcare providers, promoting integrated, continuous, effective and efficient care.

The activity of PT ACS is characterized by two aspects:

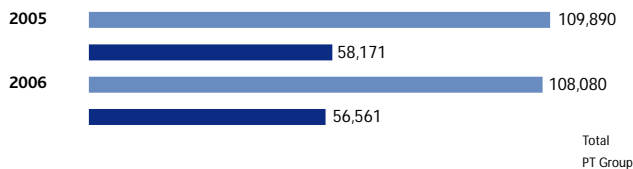
- > Health Plans Management;
- > Occupational Safety Hygiene and Health services, with a double orientation: to perform occupational health examinations and to deliver safety, hygiene and ergonomics services to companies within or outside the Group.

In 2006, the Health Plans managed by PT ACS were:

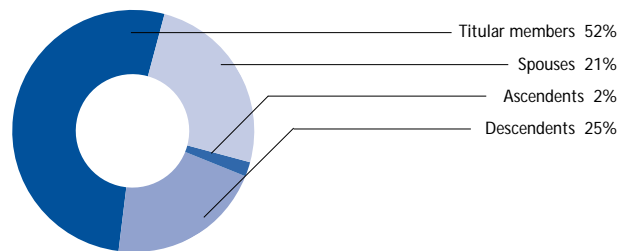
- > PT Comunicações Health Plan;
- > Corporate Health Plan – Type I;
- > Corporate Health Plan – Type II;
- > PT-SI Health Plan;
- > CTT Health Plan;
- > Marconi Health Plan;
- > DCSI Health Plans I and II;
- > Multicert Health Plan.

At the end of 2006, 108,080 beneficiaries were enrolled, with an average age of 45,7 years.

Evolution of the number of beneficiaries



Beneficiaries by type (%)



Healthcare providers

The clinical body of PT ACS is distributed all over the country, covering 47 specialties includes 8,768 providers and was a provider vs beneficiary ratio of 1 to 12.

- > 47 medical specialties
- > 8,768 providers

Clinical centres

PT ACS has a network of 9 clinical centres located in Braga, Coimbra, Faro, Lisbon, Porto, Almada, Castelo Branco, Funchal and Ponta Delgada.

In 2006, there were 134,519 consultations, about 45,000 nursing acts and 34,000 complementary examinations, having increased the occupation rate from 92.5% to 92.9%, and the beneficiary satisfaction rate was circa 86.9%.

- > 134,519 consultations
- > 45,000 nursing acts
- > 34,000 medical tests
- > Occupation rate – 90.4%
- > Beneficiary satisfaction rate – 86.9%*

Occupational safety, hygiene and health (OSH&H) services

These services cover a universe of 36,422 workers from different companies, within and outside the Group. In 2006, 20,647 health examinations were carried out.

Cornerstones of the OSH&H services

Occupational health

To perform health examinations to all the population in order to satisfy at least the requirements defined in the applicable legislation.

Occupational safety

Through the analysis and treatment of work accidents, programs for the prevention of occupational hazards, internal safety inspections, production of several supports to the activity and training/information actions.

Occupational hygiene

Through audits for the identification of the risks deriving from the exposure to chemical and biological physical agents and the evaluation of the environmental work conditions.

Ergonomics

At the level of the conception and evaluation of the work places, environments and systems, in order to make them compatible with the needs and skills of the employees.

Coordination of OS&H in construction

By producing Occupational Safety and Health Plans or Safety Procedures leaflets in the construction works, as well as carrying out audits of compliance verification.

The certification processes in OS&H, which currently constitute an essential reference in the social responsibility and sustainable development policies have contributed, on a large scale, to induce the execution of the OS&H policy, prevention planning, risk evaluation and definition of control measures.

The conception and monitoring of training actions on OS&H, either by room training or preparing e-learning material, also evidenced a remarkable 100% increase from 8 actions, in 2005, to 16 actions, in 2006.

* Data collected based on a non-random sample.

Work-related accidents

	Falls			Collisions	Efforts	False moves	Driving	Bites, cuts pinches	Other	Total
	Same level	Building stairs	Different level							
Wireline	25	6	8	10	10	33	5	6	5	108
Mobile	-	1	-	-	-	3	1	-	-	5
Multimedia	-	-	-	1	-	2	-	1	1	5
Others	5	1	1	-	-	3	-	2	-	12
Total	30	8	9	11	10	41	6	9	6	130

Besides preparing Procedures Manuals, PT ACS has conceived some adequate support material adequate to the different information strategies on specific risks.

The importance of the occupational safety and health process articulation with the environment came to strengthen PT ACS's intervention in what concerns the contribution in the measurement of some relevant environmental parameters.

The quality of service survey, based on the analysis of the information collected through non-random samples, evidences once again a good degree of customer satisfaction in the various activity domains of the Association, natural consequence of the maintenance and consolidation of the evaluated parameters. This work aims at evaluating the quality of the services delivered when compared to the users' expectations. It intends to strengthen the objective to improve service delivery in an evolutionary way through the permanent adjustment of the methods and work processes, aiming at operational procedures to keep meeting expectations.

In the scope of work accidents prevention, collection and treatment of data was carried out in order to produce the Work Accident Indicators in what concerns costs, indices of occurrence, frequency, seriousness, lost workdays, incapacity and evolution, among others.

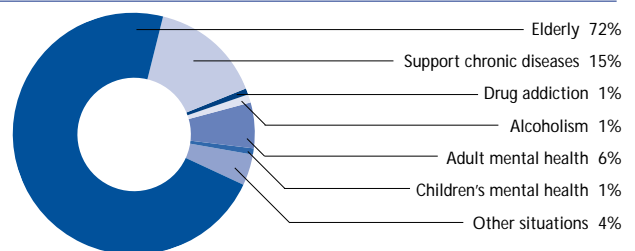
Accordingly, from the preliminary analysis of the occurred accidents we could identify the type of work, the form of the accident, the type and place of the injury, the material agent and the material and personal conditions of unreliability.

Psycho-social support and continuous care

The psychosocial follow up of the PT ACS's beneficiary population aims at the fast and qualified framing of the various situations, in order to overcome the inherent difficulties to the diagnosed pathologies. This objective can be reached through the development of integrated actions, in a broad partnership, covering the health and social action sectors.

Within the scope of these sectors, PT ACS centres its activity on several intervention areas, namely: support the aged, people with chronic diseases, addiction illnesses, children's and teenagers' mental health and adults' mental health.

Psychosocial support (%)



The influenza pandemic threat in Europe was one of the main concerns during 2006.

Prevention and quality programs

Conscious that many death causing health problems and morbidity are related to life styles, PT ACS has been implementing health promotion strategies directed to its beneficiaries, namely through the Prevention and Quality Area.

From this perspective, and since the health state is directly related to behaviour, the focus was on trying to identify the most adequate ways to promote the adoption of healthy lifestyles, and changing harmful behaviours, such as substance consumption (tobacco, alcohol and psychotropic drugs), sedentarism, eating without rules (excess of inadequate fats and carbohydrates, lack of fibres and vitamins), stress situations, violence and dangerous driving, among others.

Prevention and quality programs

Areas

Stress

Asthma

Diabetes

Child safety

Ergonomics

Nutrition

Skin cancer

Heat waves

Sedentarism

Obesity

Tracing Programs

Cardiovascular illnesses

Breast cancer

Contingency plan against influenza pandemic

PT, with the contribution of PT ACS, has a Contingency Plan against the eventuality of an influenza pandemic, caused by the avian influenza virus, in order to be prepared to protect all its employees and assure PT's services, whose sector of activity is vital for the normal functioning of the country.

In this context, PT ACS has elaborated the document Contingency Plan against Influenza Pandemic, which has already been disseminated in all PT's subsidiaries. In general terms, it traces the strategy and the procedures to be adopted by PT in case a pandemic scenery comes true.

PT is thus in accordance with the national and international directives issued by entities such as the World Health Organization (OMS) and the Portuguese General Directorate of Health (DGS). These consider that companies have a fundamental role in the protection of the health and safety of their employees and customers, as well as in the limitation of the negative impact on the economy and the society, in case of an influenza pandemic.

This is precisely the scope of PT's Contingency Plan that considers the risk reduction for the health of the employees and the continuity of essential activities. The objective is to minimize the impact of any service disruption and to assure the functioning of the society, through effective measures such as the definition of the minimum service level, priority employees, customers and suppliers, determination of new forms of work, protection of employees as well as their families, administration of antiviral drugs and establish corporative strategies of communication.

Suppliers

Principles and behaviour codes

The preservation of the ethical values has always been a concern for the Group. Taking into account the scope and impact of its activity, PT Compras is covered not only by the Group's code of ethics but also by rigorous norms of behaviour specific of the purchasing function, aiming at an absolute transparency and professionalism in the relationship with suppliers:

Transparency

All the information should be made formally available to the potential suppliers during a purchasing process, guaranteeing the transparency in the access to the information.

Equality of opportunities

During the negotiation process the equality of opportunities is guaranteed to all suppliers that meet comparable requirements, allowing the opening of the Group to all suppliers.

Access to the information

Suppliers will be able to have access to all the information and clarifications 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, payments, conditions of acquisition and attribution of responsibilities should be defined in detailed form, by both parties.

Loyalty

The 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 purchases

The reciprocal purchases should not condition or interfere with the result of any negotiation process.

Confidentiality

PT Group and its suppliers should keep secrecy on all the information exchanged during a purchasing process.

The importance that the acquisition of goods and services has for PT Group and its suppliers and partners, led PT to create a specific company for the management of the purchasing function: PT Compras, Negociação e Consultoria SA.

Established in 2003, PT Compras centres the acquisitions of PT Group's companies, both national and international, on its scope of activity, in compliance with the Group's Procurement Model, whose characteristics and definitions are available for consultation on PT Compras' Internet site, accessible to all our partners: internal customers and suppliers.

PT Group also expects a behaviour from its suppliers in accordance to high ethical standards. In order to guarantee the existence of a relationship of reciprocal transparency during the purchase processes, any benefit for PT Group should always be presented in the supplier's proposal of the, through a better price or service, without any offer of gifts, or any other forms of influence.

The ethical, social and environmental alignment between suppliers and PT is fundamental for the construction and consolidation of the Group's value chain.

Likewise, the following behaviours from the suppliers in their relationship with PT Group are 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 later;
- > Request for price increases throughout the duration of the contract;
- > Request of information on other competitors;
- > Use or proposal of ambiguous conditions with the intention to get advantage over competitors;
- > Lying or induction in error, purposefully, during the negotiation process;
- > Commitment above its capacities;
- > Exaggeration in the gravity of a problem to get business advantages.

The Group also demands that its suppliers comply with the rules of environmental protection and waste management. This way, since it was established, PT Compras has included in its consultation documents and its contracts specific clauses related to environmental protection.

As a fulfilment of the directives emitted in 2006 by PT SGPS, and within the scope of its competences, PT Compras proceeded to the revision and introduction of new clauses of environmental protection, either in the Consultation Documents, or in the Contracts to celebrate between Group companies and their suppliers, in compliance with the Sustainable Model for Supplier Selection and Contracting.

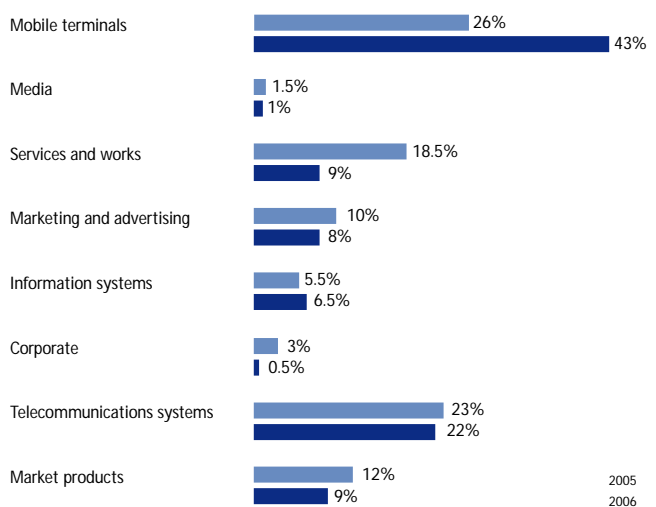
Relationship with suppliers

In 2006, PT Compras recorded a remarkable activity increase with the addition of the corporate purchasing activity, due mostly to the incorporation of the mobile terminals acquisitions, at national level, and to the processes of mobile terminals processes and acquisition of overlay GSM in the Vivo network (Brazil), and the 3G UMTS network in Méditel (Morocco), at international level.

Effectively, the total amount adjudicated by PT Compras at national level reached in excess of Euro 900 million, an increase of over 35% compared to 2005. The international adjudications reached more than double that value. This total volume of adjudications was distributed by about 1,800 market consultations (about 40% above the 2005 values).

The distribution of the contracted values by purchase area was as follows:

Adjudications by purchasing areas (%)



* The mobile terminal area was created in PT Compras in 2006, so the 2005 values do not include the national adjudications of mobile terminals

In national terms, the number of suppliers to whom products or services have been adjudicated went up by 26%, to about 550, reducing the degree of concentration of adjudications to suppliers. As to the origin, the relative weight of foreign suppliers is not significant: less than 4% of the suppliers is foreign. This fact is justified because most suppliers of foreign origin opt to open branches in Portugal or act by representatives/importers, without any need for direct import.

With the launch of PT Compras Suppliers Portal in 2005, available on www.ptcompras.pt, the online supplier registration process was started, with the purpose to record on a central database the information relative to the current and potential suppliers that may want to register. In 2006, a follow up project was launched, "collection of qualified supplier information", in order to support the development of the supplier Management and Evaluation Model. This project involved actions with suppliers, namely through an invitation to register for unregistered suppliers and order of specific information requests to the already registered Suppliers. This initiative included a personalized contact with suppliers in order to support them along all the registration process. At the end of 2006, 1,000 registered suppliers existed already, or in phase of register conclusion.

Quality certification and customer satisfaction survey

The Certification of Quality of PT Compras according to standard ISO 9001:2000 marked the year of 2006. The Portuguese Certification Association (APCER) issued this certification after auditing all the processes of the Quality Management System (SGQ) of PT Compras.

With this Certification, PT Compras commits to keep working towards the continuous improvement of its services, placing, as always, the focus on the improvement of the global satisfaction of its customers, that is, PT Group's companies.

In the scope of the Quality certification, from 17 July to 15 August 2006, PT Compras conducted the 2nd Satisfaction Index Evaluation Survey for National Customers. 225 inquiries were sent, distributed proportionally to all Customer Companies. The response rate was 33%. The inquiry focused on 5 aspects of the PT Purchases. The satisfaction index of each source was evaluated on a scale of 1 (it does not satisfy) to 5 (excellent):

- > Communication
- > Negotiation Mean Time
- > Information systems
- > Reporting
- > Cost/benefit relationship

The global satisfaction average of the service delivered by PT Compras was 3,4, which in the evaluation scale corresponds to a level between Satisfactory and Very Satisfactory.

Besides the Global Satisfaction and the Satisfaction by Indicator, the survey also allowed to identify the degree of priority assigned to each analysis factor for each internal customer. Based on this cross analysis between the satisfaction levels and the priority levels, it was possible to take concrete actions for each case, thus fulfilling the needs most valued by the customers of PT Compras.

Future perspectives

Within the scope of the sustainability policies, the main challenges of PT Compras in 2007, are:

Supplier evaluation model – PT Compras, as central entity of PT Group's purchasing function, should, in the relationship with its suppliers, behave in accordance with criteria of ethics, rigour, transparency and demand. This way, PT Compras will develop the supplier evaluation and management model in a sustained manner with criteria that enable in an objective and transparent way the management of the various components of the relationship with these.

Certification of the management systems of PT Compras: PT Compras aims to conclude its certification of the following management systems during 2007:

- > Environmental Management – standard ISO14001
- > Occupational Safety Management Hygiene e Health – standard OHSAS18001

Ethics committee: PT Compras intends to form in 2007 an Ethics Committee, with the following responsibilities:

- > To give to the employees and the management of PT Compras all the necessary clarifications within the scope of the code of ethics;
- > To support employees who are experiencing difficulties in applying the code of ethics to specific situations.
- > To assure the conflict resolution between Norms of Behaviour of the code of ethics and the specific functions of each employee;
- > To analyze possible deviations to the fulfilment of the Norms of Behaviour defined by the code of ethics, and to propose the pertinent measures.

Regulatory and supervisory entities

Areas handled in 2006, with an impact on our activity

Pricing plans
Portability
Numbering
Interconnection
Access to ducts
Network security
Wholesale reference offers
Leased circuits
Consumer defence
Takeover bid
New technologies
General regulation

In Portugal, the electronic communications sector is completely liberalized since 2000. Therefore, the legal framework applicable to the sector is oriented to a free competition environment.

In 2002, a new regulatory framework applicable to the electronic communications networks and services constituted by a set of European directives that affect the telecommunications sector was adopted. These directives have been transposed to the national legal system through law 5/2004, of 10 of February (Law of the Electronic Communications). It is a regulatory framework that uses the analysis methods associated to the principles of defence of the competition, applied to a certain set of relevant markets, in order to determine the entities with dominant position and to adopt of a set of obligations ex-ante.

Due to the technological evolution and the integrating characteristics of the new generation networks, the European Commission initiated, in 2005, the process of revision of the regulatory framework – designated Revision 2006, aiming at changing the current Directives and the Relevant Markets Recommendation. The revision process will last up to 2010.

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

- > **Autoridade Nacional de Comunicações – Anacom** – whose regulatory function has as objectives: the promotion of fair competition in the offer of electronic communications networks and services; the contribution to the development of the domestic European Union market and, still, the defence of the citizens’ interests. PT Group has kept an attitude of dialogue and cooperation with Anacom, participating actively in its various initiatives.
- > **Competition Authority** – whose main objective is to ensure the respect for the competition rules towards an efficient market functioning, the efficient distribution of the resources and the consumers interests.

PT has, at corporate level, two organic units whose objective is to interpret the recommendations and deliberations of Anacom and the Competition Authority, as well as stimulate the dialogue within PT Group. The Group has kept an attitude of dialogue and cooperation with these entities, actively participating in their various initiatives.

The subjects treated that may have an impact on PT’s activity, can be further deepened on the sites of the respective entities.

Further information at Anacom – www.icp.pt

Competition Authority – www.autoridadedaconcorrencia.pt

During 2006, the law suits filed against PT and identified as a probable loss have the following profile:

- > Civil liability – Euro 34.5 million
- > Labour-related liabilities – Euro 15.9 million
- > Other liabilities – Euro 1.9 million

Media

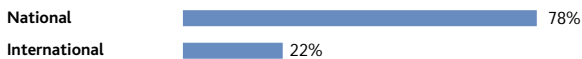
PT kept raising strong interest in the media, having been the subject of 39,156 news pieces published throughout the year.

PT's activity in its institutional, financial and commercial aspects, has raised interest in the media, that keep following and publishing information about its reality.

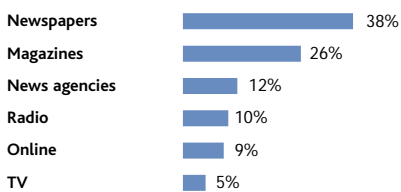
PT keeps a daily relationship of proximity, rigour, transparency and exemption with the media, both national and regional, assuring the collection, processing and diffusion of information about the the Group's activities either proactively, or clarifying the questions raised by the media.

The universe of media that PT interacts most with is presented with the following profile:

Printed press (%)



Characterization of the universe PT interacts with (%)

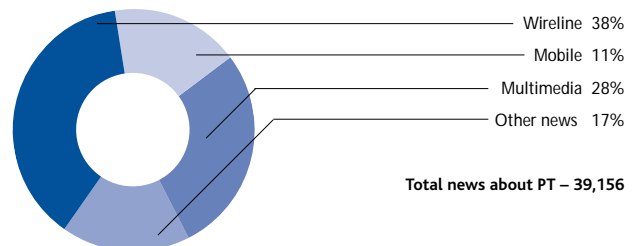


The interaction between PT and the media is done by electronic mail, telephone, press conferences, communiqués, face to face meetings and through the site www.telecom.pt.

- > 31 press conferences
- > 79 press releases about the Group's businesses
- > 54 press releases about investor relations

On PT's site, there is an area dedicated to the media where all the press releases can be found, as well as the main presentations describing its activity, an image bank and the direct contacts of the media relations team. There is also another specific area directed to the investors relations where all the press releases of relevant financial information are available. The impact of this relationship originated the following news panorama about PT:

News about PT (%)

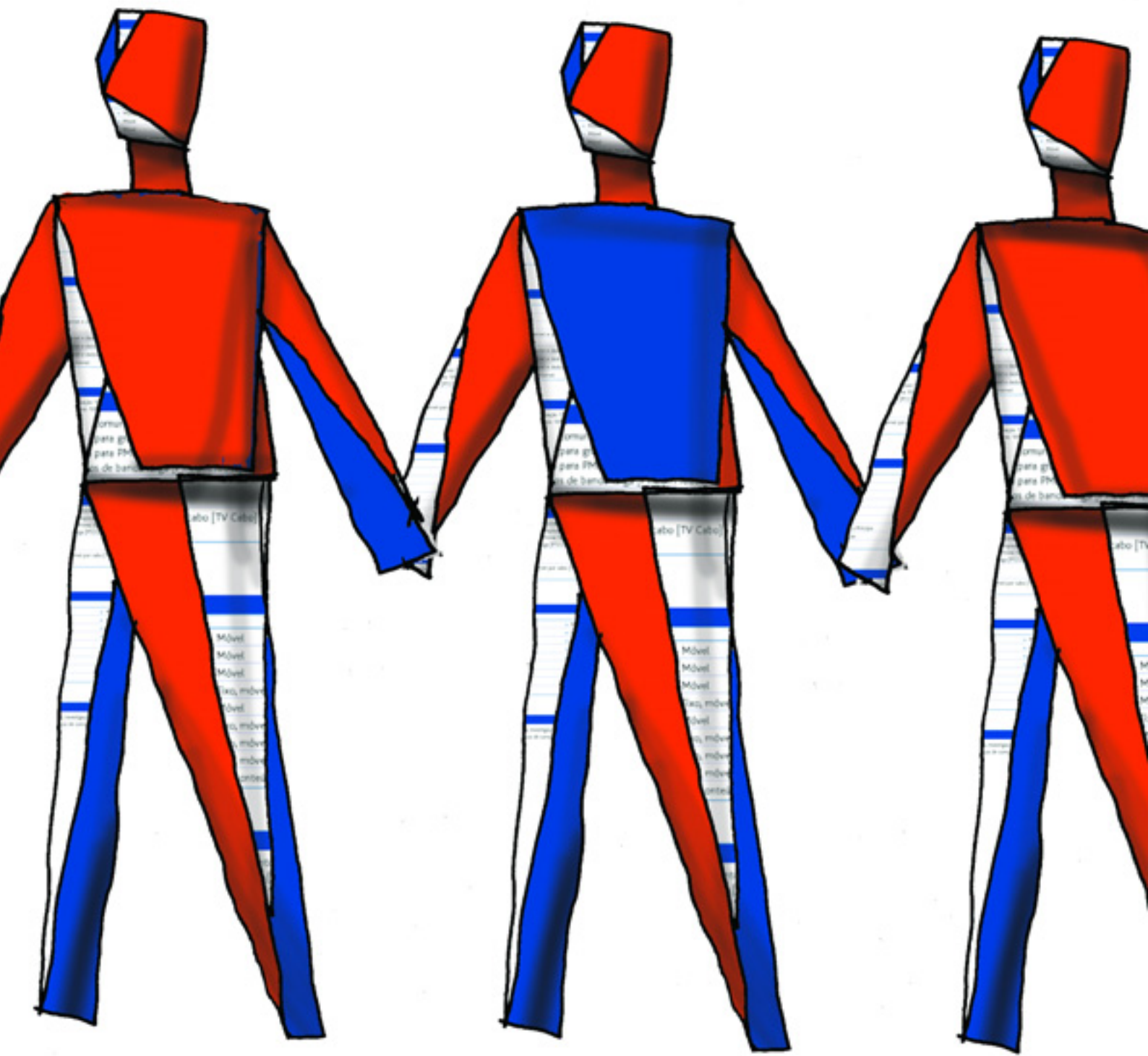


Working model

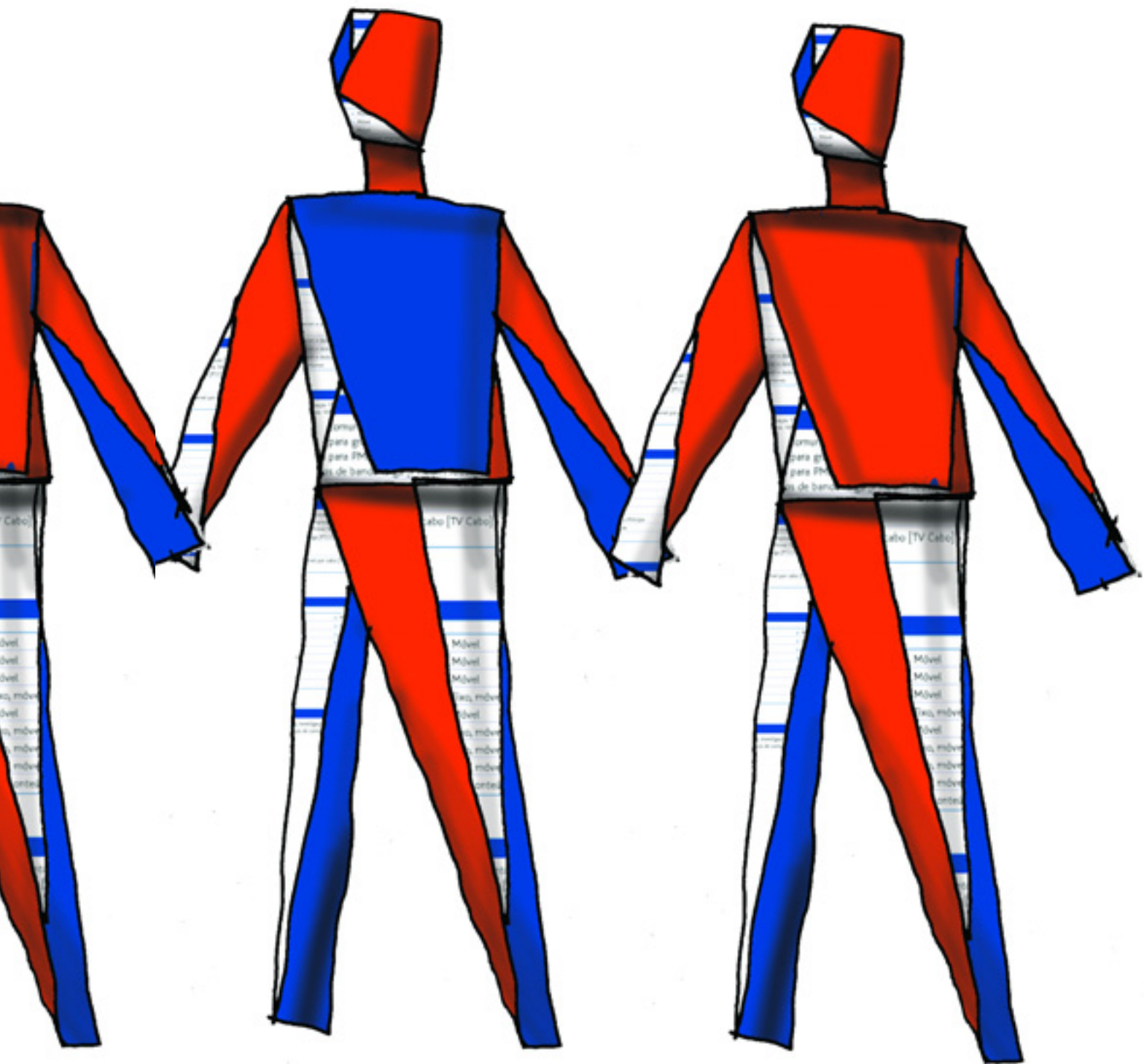
Taking into account that the media representatives have revealed throughout time the need to have responsible interlocutors available for information gathering about the Group's activity, PT formed one specialized team for this purpose.

Therefore, the relationship with the media is assured by one specialized team – Media Relations – at corporate level and representatives of this area in each one of the of the PT Group's Companies.

This team's function is to guarantee the articulation between the media and the various structures of PT Group in order to assure a permanent communication channel and rigorous information in timely manner.



Social responsibility – a commitment to the future



Technological innovation

The capacity to innovate is essential for the success of the Group's businesses in the long run.

The research and technological innovation are basic pillars in the construction of the Group's business reality, allowing it to find solutions that simultaneously satisfy the market expectations and enabling its businesses in the long run.

The R&D investment in 2006 amounted to Euro 4 million.

PT has deserved recognition at international level for pioneering solutions developed and presented to the market, namely in the areas of pre-paid services and broadband.

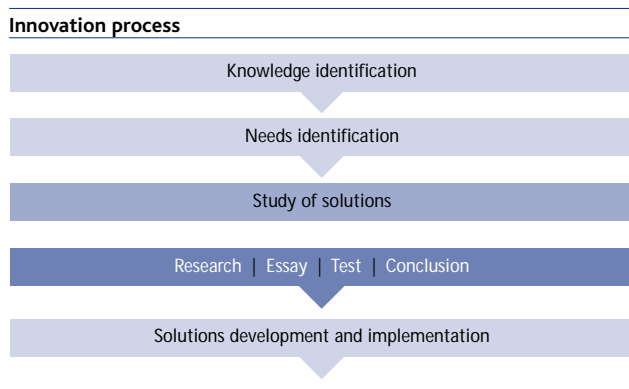
Anticipating the future, PT presents the potentialities of the telecommunications universe in terms of well-being and lifestyle through an interactive application available online at <http://ptnext.telecom.pt>.

Research and innovation

PT Innovation is the centre of acquisition and incubation of technical knowledge, which it adjusts to the Research & Development of advanced applications, the new services and the solutions integrated for the universe of the Groups's companies, seeking to have a positive direct impact on the Group's businesses.

The integration of knowledge in multi-service telecommunications networks, of information systems and multimedia has been, from the technological viewpoint, the base for the differentiation of PT Group's companies in comparison with the competition, promoting the increase of its competitiveness in the national and international markets.

PT is one of the 1,000 larger European companies, which invests the most in R&D, in accordance with a study conducted by the European Commission (published in 2006).



During 2006, PT Inovação's Innovation Plan considered the involvement in 46 projects.

Projects that cover several domains such as broadband multi-services, convergent multimedia solutions (developed around the Shipnet® architecture from PT Inovação), signal processing technologies in high capacity optical networks, systems and multicast diffusion in post-3G networks, e-learning content management, IP TV, and location solutions via GSM.

Shipnet®

Shipnet® stands for 45% of the Investment Plan valuation and is based on the need to follow, to understand and to test the models currently in development the world-wide level. It proposes a convergent solution for the control of the multimedia sessions, based on the architecture IMS (IP Multimedia Subsystem), developed by 3 GPP for UMTS, but increasingly adopted in the fixed networks at the standardization level of the next generation networks (ETSI TISPAN). The developments carried out in this area have been incorporated in IMS pre-commercial prototypes. Project CMS (Converged Multimedia Solution) proved to be determinant for the success of the Shipnet® initiative by contributing to the convergent demonstration environment creation with gradual integration of Core IMS components.

MAIS

It is an innovative system that performs the integration of the mobile access networks, enabling the 2G and 3G interfaces. It also optimizes the flow of traffic in the networks reducing the number of necessary circuits. Developed in partnership with Memotec, this solution is based on modules of the Netband technology previously developed by PT Inovação.

® Shipnet is a registered trademark

Throughout the year, the following patents have been requested at the national register.

Patents

- > **Method to locate people or objects using a wireless network**
It is a method to locate people or objects in a wireless network or a distributed system of wireless networks based on a set of access points, a 2,4 GHz label and a server; using neuronal networks, in an environment where the power of the signal can be detected, the calculation of the location can be obtained.
- > **Digital device to index, search and summarize multimedia contents**
Digital device with capacity to associate, to previously made recordings, ontological metadata later acquired, and this way, to carry out the indexation, search and creation of personalized summaries of the contents.
- > **High performance discovery device for content transmission**
A system that optimizes the discovery of contents in a multi-channel and multi-terminal scene. In the context of a management and content delivery platform for mobile terminals, this device guarantees that all the flow between the discovery of the content until its delivery is made in an efficient form and without imperfections.

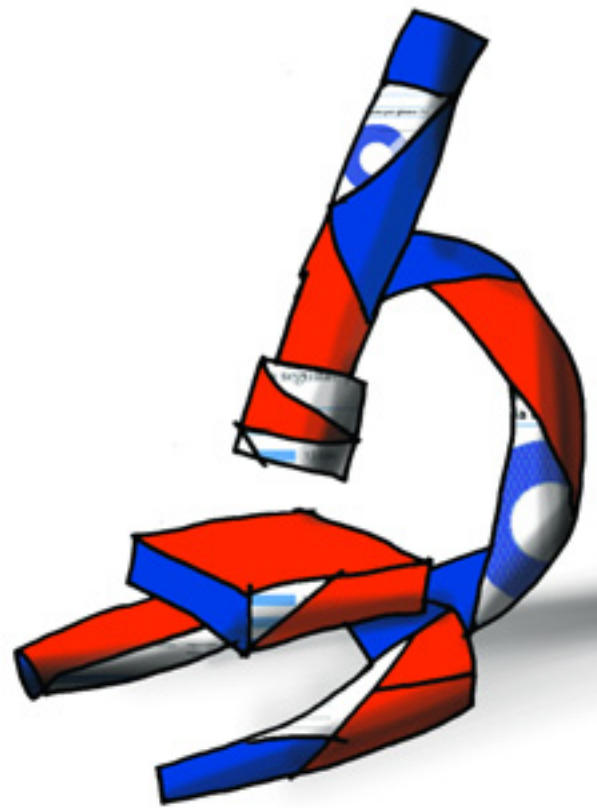
The conclusion of the pending patent registration requests will take place in 2007.

Research & development partnerships

Knowledge sharing with the scientific community actors, through the establishment of partnerships, cooperation projects and consortia has been fundamental for the development of PT Inovação's activity that has actively participated in cooperation actions with R&D institutions, and both national and foreign universities.

At national level

Partnership	Project
Coimbra University	<ul style="list-style-type: none"> > PEGECEL – e-learning contents personalisation and management > Location of people or objects > Multi-criterion routing in resilient networks > SAID – Intelligent data analysis system
Telecommunications Institute	<ul style="list-style-type: none"> > Location of people and goods by use of wi-fi and bluetooth networks > Secure IP Multicast for video distribution
Trás-os-Montes University	<ul style="list-style-type: none"> > Wireless farm
Institute of Systems and Computer Engineering INESC	<ul style="list-style-type: none"> > Personalisation of contents in a context of Networked PVR > GIS Mobility and interoperability > MREVS
eForgest	<ul style="list-style-type: none"> > E-contents > E-trainers



At international level

Programme	Projects
Sixth EU Framework Programme	<ul style="list-style-type: none"> > C-Mobile – Advanced MBMS for the future mobile world > AROMA – Advanced resource management solutions for the future of all IP heterogeneous mobile radio environments > porTivity – Portable interactivity > WEIRD – Wimax extension to isolate research data networks > OPUCE – Open platform for user centric service creation and execution > Games@Large – Networked audio-visual systems and home platforms > MUSE II – Multi service access everywhere > E-Next – Networking experiments and technology > DAIDALOS II – Designing open network architecture for advanced MM pervasive services > Winner II – Wireless world initiative new radio > B-Bone – Broadcast and multicast over enhanced UMTS > EVEREST – Radio resource management in cellular heterogeneous networks > Mobile – IN – Harmonized services over heterogeneous mobile, IN and WLAN networks > EUQoS – End-to-end quality of service support over heterogeneous networks
Seventh EU Framework Programme	<ul style="list-style-type: none"> > NEM – Networked and electronic media > eMobility – Mobile telecommunications
EURESCOM European Institute of Strategic Telecommunications Studies	<ul style="list-style-type: none"> > WiMAP – WiMAX for mobile applications > Sensor Telcos – New business opportunities > Community interactions > Service-oriented architectures for convergent service delivery platforms > M2M opportunities in new service paradigms
Partnership with Carnegie – Mellon EUA University	<ul style="list-style-type: none"> > PT Group through PT Inovação adhered to CMU – Portugal program, which entitles it to participate in advanced training actions and projects within the scope of Cylab.

In 2006, PT Inovação counted on a team of 340. The operational costs (calculated in accordance with IPCTN methodology – survey to the national scientific and technological potential) amounted to Euro 20.2 million.

Knowledge society and digital inclusion

To build the foundations for the future

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

PT has committed to increase connectivity and the access to telecommunications. It has invested in the optimization of the use of its services, committing to contribute to the construction of a more informed and digitalized society and to a more advanced, dynamic and technologically competitive economy.

In 2006, the investment made by PT amounted to Euro 1,001 million

This investment includes the modernisation of the company, the optimisation of the network and the consequent provision of new services.

Internet access

In Portugal, in 2006, about 40% of the homes owned a PC with Internet access*. PT is committed to generalize the access and the use of the new information technologies, promoting:

- > Broadband access and bandwidth increase (fixed, mobile and cable)
- > Accessibility to the citizens with special needs
- > Programs of awareness to the use of the information technologies
- > The adequate use of contents

* Source: Anacom – Broadband use survey

Access to telecommunications and broadband

Universal service

During 2006, PT Comunicações continued to provide the universal service, which allows any citizen to have access to a telephone line independently of his/her geographic area of residence.

Within the scope of this service, PT makes available at national level:

- > Public payphones – 42,871.
- > Public payphones with Internet access – 24.

Solutions adapted to markets with lower income

- > Pricing Plans from the fixed business
<http://casa.telecom.pt/ptresidencial2>
- > Uzo from the mobile business
<http://www.uzo.pt/>
- > Sapo Free from the broadband business
<http://adsl.sapo.pt/>

Broadband

Portugal today has one of the best infrastructures in all Europe in the broadband Internet access. PT has been strongly involved in this reality, since, being the leader in the various broadband Internet access platforms, it has made large investments updating the network and increasing the bandwidth available. Currently the country has 100% of broadband coverage.

Considering the evolutions during 2006, one should point out:

Broadband via satellite in the fixed network
PT Comunicações started a broadband service via satellite – INMARSAT BGAN. This service is delivered through terminals, which are compact, light, and with reduced dimensions in zones without mobile or fixed network service. Satellites that cover 85% of the terrestrial mass of the globe assure the coverage of the service.



3rd Generation and a half in the mobile network – 3,5 G
Through HSDPA (high-speed downlink packet access) technology, TMN gradually started to offer a broadband speed close to those available in the fixed service. In the 1st phase, with speeds up to 1.8 Mbps per second (up to 4 times faster than the 3rd generation) and, later will evolve to 3,6 Mbps. TMN's 3,5G coverage will be gradually installed throughout the territory. In 2006 it was available in the main cities of the country.

Sapo ADSL doubles speed to 8Mbps
Sapo ADSL has doubled the speed of reference of the market, from 4 to 8 Mbps, without any additional costs to customers.

Sapo ADSL free
A new offer was made available directed to occasional Internet users. It is a pre-paid service without any mandatory payments, where the user only pays what he uses and with total cost control. It is configured as an alternative solution and with larger potential for the dial up users (yet).

Casa T – Convergência de serviços fixo-móvel

House T, allows any PT customer to speak for free, after the first minute, from one mobile for any number of the fixed or the mobile networks, whenever he makes a connection from his residence. The service is based on the technology available in TMN's digital networks that provide the identification of the geographic location of any model of mobile phone, in any zone of the country.

Contingency plans to guarantee the continuity of service delivery

In case of lack of service because of acts of vandalism, natural catastrophes or other situations, PT activates its contingency plans to guarantee in the shortest span of time the replacement of the service. As an example of this, PT guarantees the replacement of telephone cables during the Summer fires.

Digital inclusion to stimulate the information society

The information society is based on a model of social and economic development where the information, as a means of knowledge creation, plays a fundamental role in the production of wealth and the contribution for well-being and quality of life of the citizens.

Therefore, PT makes use of a vast program of intervention in the community that includes the offer of special access conditions to the information society, in particular to the population with lower income or with specific needs, as well as, to the institutions of proven social value and to the technological and research centres. Its focus is related to the promotion of structural actions of modernisation of interfaces between the users and the public utility services, namely in the education, healthcare, social solidarity, civil protection and security domains.

Solutions for citizens with special needs

PT's special solutions, promoted and subsidised by PT Foundation, include equipment and services oriented to the access to the information and communication technologies by people with a disability, with severe illnesses and aged at risk, making available all the potentialities of the new technologies.

The available equipment and services (fixed and mobile) are targeted to the following disability areas and can be found on www.fundacao.telecom.pt

- > Vision
- > Speech
- > Cognition
- > Neural-motor dysfunction
- > Hearing

Among PT's special solutions, PT Foundation provides services and equipment adapted to the needs of each citizen:

- > Systems packages.
- > Telecommunications Services.
- > Equipment with specific characteristics and, implicitly, endowed with social or humanitarian character, which make communications accessible to all, without exception.

The costs associated to the promotion and provision of the solutions for citizens with special needs have reached the amount of Euro 1.3 million.

Network-based support technologies

Project – Tã na rede – was developed by PT Foundation in the framework of POSC program. It has as its main objective, through a center of reference resources in the rehabilitation area installed at Fenacerci (www.fenacerci.pt), to research, develop, adapt and test materials created to promote the autonomy and independence of people with special needs, namely with mental disability. It puts particular emphasis on the augmentative and alternative communication and easy language domains.

School inclusion

For those who cannot go to the classroom.

The children or youth hindered from going to the classroom, namely when they carry degenerative neural-motor disability or severe illnesses, such as cancer or cystic fibrosis, make use of the Teleaula, one of PT's special solutions.

The system Teleaula functions on basic ISDN or ADSL accesses, connecting the home, hospital or institution where the pupil is and his classroom, enabling him to attend the lessons and, in this way, to continue school frequency.

Complementarily, the Aladim Programme offers conditions lower prices for ISDN or ADSL accesses to the pupils in these

Beneficiaries of Aladim programme



(mostly through Private Institutions of Social Solidarity – IPSS)

Professional inclusion

For people carrying a disability who want to develop a professional activity.

For the citizens carrying a disability, PT provides through PT Foundation, communication services and products suitable to their specific needs to enable them to develop a professional activity.

An example of these products is PT my Voice – Grid, software that enables people with serious neural-motor disability to autonomously use the computer and the programs therein, as well as, surf the Internet. For blind or amblyopic citizens, PT Active Voice, also offers a software that reads aloud or amplifies the texts on the computer, namely those on the Internet and electronic mail.

Star Protocol* 6,000 beneficiaries

* (Protocol established between PT Foundation and the National Directorate of the Portuguese Cerebral Paralysis Association)

Projects and protocols of accessibility to the information and communication technologies initiated in 2006 by PT Foundation:

Uranus Project _ Protocol signed with the Portuguese Federation for Mental Disability that foresees the installation of 34 educative and formative resource centres for people carrying mental disability. Project to be implemented over the next three years.

Astro Project _ Protocol signed with the Ministry of the Education that foresees the installation of 20 TeleAula systems and 25 demonstration and experimentation centres of the technologies supporting motor disability, deafness, blindness and augmentative communication. Project to be implemented over the next three years.

Recrear (Recreate) Project _ Partnership with the Association for the Development of New Initiatives for Life (ADVITA), to make accessible, to aged people, the virtual community with larger adhesion in the world, the Second Life community. Project to be concluded in the next year.

Casa (House) Project _ Partnership with the rehabilitation centre of Alcoitão, that foresees the construction of a multifunction space, dedicated to the area of motor disability, enabling experimentation, demonstration and training in the area of the technologies of augmentative communication and accessibility.

ProNota Project _ Partnership with the Association of the Disabled from the Armed Forces and the University of Évora, for the provision of augmentative technologies for people with neural-motor disability and technologies of screen reading and conversion of written text into voice, for blind or amblyopic people.

Adaptive Technologies for Mental Health Project _ Developed in the framework of POSC Program by the Aldeia da Saúde and is oriented to people with a mental disease. It proposes to create synergies between the education for the health, the behaviour and the use of the information technologies.

Net Timor Protocol _ Signed between the Portugal Telecom Foundation, the Democratic Republic of East Timor and the Portuguese State, has as its objective to launch the cooperation bases between the parts to promote the development of the information and knowledge society in that country. The project foresees the supply of Internet access and its use in 8 schools and 3 teacher training centres.

To promote the knowledge society

The adequate raise of awareness to the use of the new information technologies and the adequate access and contents production have constituted substance for PT to foster some projects with impact at national level.

Internet in third age schools

Portugal Telecom in partnership with SIC Esperança (SIC Hope) TV channel signed a protocol with the Third Age University network, that enables the provision of PCs and Internet access in these schools, for free, for a one year period.

Currently, there are about 50 Third Age school units operating in the country with 6,000 pupils enrolled.

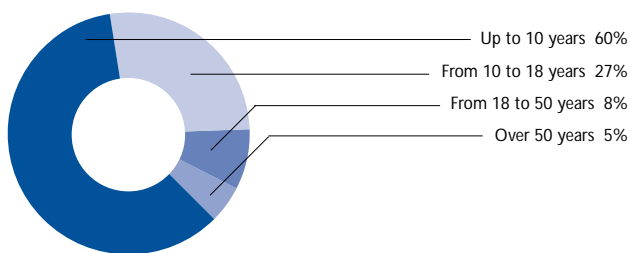
The Internet reaches you

It is a bus equipped with 12 computers and Internet access. It is an itinerating classroom whose function is to provide training in the new technologies area mainly in the most underdeveloped areas of the country.

The training is based on the use of different communications and information technologies adapted to different public-targets in terms of age and needs and whose basic program relates with the document writing, the Internet access, and the criteria-based research of information, the creation and use of an electronic mailbox.

In 2006, 25 municipalities and 140 communities all over the country have been visited. 4,500 individuals with the following age distribution have participated in the training actions:

Participants age (%)



Workshop for young talents

PT Comunicações and SAPO have promoted a workshop for all the young talents interested in deepening the subject “How to promote my products online”.

The main objective of this action was to teach the young talents to create the Blog of their brand and/or products/services.

The content of this workshop covered the following aspects:

- > How to create a Blog
- > How to make a picture gallery as a product showcase
- > How to appear in SAPO searches
- > Other possible tools to improve the exposure of the participants’ work and to increase sales

This action counted with the participation of 20 young talents.

PT Escolas (PT Schools) – Knowledge Workshops

PT Schools is a project targeted to the school community, especially oriented to the youth aged between 12 and 18 years, their respective teachers and parents. This project, initiated in 2005, intends to raise the awareness of this community for the use of the Internet as a learning and knowledge. Its contours and specificities can be found on <http://ptescolas.telecom.pt>

Its program (elaborated in partnership with the Ministry of the Education, pedagogues, among other professional) is composed of the following subjects:

- > To promote good and correct use of the Internet;
- > To strengthen the development of information search skills;
- > To stimulate and to teach how to create quality contents on the Internet (video edition, blog creation, among others);
- > To evidence the multimedia capacities of broadband;
- > To stimulate the production of contents in Portuguese language;
- > To mobilize all the teaching community for the digital integration.

Throughout this year

- > 180 Schools in 23 geographic locations in the country have been visited;
- > 9,200 pupils, their parents and 760 teachers involved.

The evaluation made by the participants through an online questionnaire on PT Schools site shows that:

- > 96% of the participants have appreciated the action very much and,
- > 85% say they intend to use the knowledge acquired with this action in their everyday life.

A computer, an opportunity

The computers from PT Group's companies considered technically obsolete, but still in acceptable conditions for a non-professional usage, are distributed to needy institutions that show an interest in receiving them. The distribution is assured through a protocol established between PT Foundation and DHL.

In 2006, 34 computers have been distributed to 9 needy institutions.

Sapo Portal

Being a portal of reference in Portuguese language, Sapo – www.sapo.pt – has provided functionalities and contents that aim to contribute to develop the adepts and the reasons of adhesion to the virtual community, to stimulate the socially responsible conscience of its audience and to support patronage causes/initiatives.

The following projects carried out throughout 2006 should be highlighted:

- > In partnership with Acapo the portal was adapted to promote the accessibility to blind and amblyopic people – <http://acessibilidade.sapo.pt>;
- > In sport, the three main football clubs, the World Surf Championship and Portugal Cup were the main activities supported by SAPO, and where the potentialities of proximity and information diffusion through the Internet services have been evidenced;
- > In terms of culture, initiatives to promote of the cultural heritage – with the National Centre of Culture – and the Portuguese language have been supported, through the channels created for this purpose <http://ecultura.sapo.pt> and <http://ciberduvidas.sapo.pt>;
- > In terms of community, the social intervention of SAPO related to the support of patronage initiatives and virtual auctions – of which the gathered sums (over Euro 80 thousand) have been donated to non-for-profit institutions –, supporting shows with strong commitment in the social perspective – as was the case of Rock in Rio, for which the site <http://rockinrio-lisboa.sapo.pt> was created – and creating an informative space for each region and locality of the country, promoting decentralization through specific contents published in <http://local.sapo.pt>.

PT Foundation

The policy of enterprise citizenship is the sustainable form of keeping an emotional relationship with the society, as companies perceive, each time more, that their long-term existence is conditioned to the consideration and respect that they have for the community where they are inserted.

Areas of intervention

- > Digital inclusion *
- > Social Support
- > Patronage
- > History and heritage
- > Art and culture
- > Volunteering

* see in Knowledge Society and Digital Inclusion

PT Foundation Initiatives in 2006 Euro 6 million

Patronage

Our support to patronage initiatives and projects Euro 2.5 million

PT Foundation has established several patronage partnerships of cultural and social nature, namely with non-profitable private institutions of social solidarity, to contribute to the development of their social missions, guaranteeing a better support to different groups of disadvantaged citizens.

Among the supported projects and initiatives oriented to the areas of culture and knowledge, one should point out:

Sigma Temática

Project promoted by the department of Pure Mathematics of the Faculty of Sciences of the Porto University. It consists of an excellence program directed to the best mathematics pupils enrolled in 11th school year. The program counts with the support of the PT Foundation and the Calouste Gulbenkian Foundation. It involved 20 pupils, all of them with an average grade equal or superior to 19/20, from 14 educational establishments (grade scale is 1 to 20).

Attraction

In partnership with the Foundation of the Cultural Centre of Belém, support to the new circus show, named Secret, performed by the Cirque Ici company, by Johann le Guillerm. It also included a bus, named Bus Laboratory, in which it was possible to show all the experiments of scientific nature that had been the base for the creation of this uncommon show. The show was attended by 4,000 people.

Historical heritage

The National Palace of Ajuda counted with the support of the PT Foundation for the restoration and historical reconstitution of the Palace's Ambassadors room, a space that will be granted to PT, for events and/or other initiatives, in homage to the support granted.

PT Foundation is a non-for-profit private institution, of public utility, with the objective to materialize PT's commitment to social intervention, within the scope of its responsibility as national communications group, in Portugal and abroad, and in particular in the countries of Portuguese expression.

www.fundacao.telecom.pt

Book "The first ladies of the Portuguese Republic"

Support for the publication of the historical record of the daily life of the Portuguese first ladies since Manuel Arriaga to Jorge Sampaio.

Museum of Communications

The Portuguese Communications Foundation benefited once again from the support of the PT Foundation to continue the promotion of the study, maintenance and spreading of the historical, scientific and technological heritage in the communications domain through this museum.

Scholarships

Grant of scholarships to students from Cape Verde in cooperation with the City of Lisbon Foundation; scholarship ACL (American Club of Lisbon); scholarship Fulbright/INA (National Institute of Administration), for research in Public Communications Management.

Juridical Economic Regulation course

Support to this course from the Law school of the University of Lisbon.

Museum of Transports and Communications

Support to the Association from the Museum of Transports and Communications based in the North of the country.

Promotion of the development of the society of information

Support to the Association for the Promotion and Development of the Information Society for the elaboration of the studies: to promote the inclusion via the Information Society – whose objective relates to the identification of barriers to the universal access of the population to the information and knowledge society; and the role of the Information Society in Approaching the Regions – whose objective relates to the possibilities of exploration of the new information and communication technologies in the settling of the populations and the development of the most remote and disadvantaged regions.

E-generation – the use of media by the children and the young in Portugal

Support to the elaboration of the study to be carried out by the Sociology Research and Studies Centre from the Higher Institute of Sciences of the Work and the Enterprise.

Social support

Our investment in initiatives and projects of community support amounted to Euros 700 thousand

Throughout 2006, the following organisations and institutions received donations in goods, services or money:

Health

- > Garcia de Horta Hospital – Pediatrics Service
- > Portuguese Foundation Community against AIDS
- > Portuguese Association of Asperger's Syndrome
- > Portuguese Association of People with Fibromyalgia
- > Portuguese League for Mental Hygiene
- > Alcoitão Rehabilitation Medicine Centre

Child and youth support

- > Association New Future (Associação Novo Futuro)
- > Institute for Child Support (Instituto de Apoio à Criança)
- > Acreditar

Social solidarity and human rights

- > Mother's Help (Ajuda de Mãe)
- > Pró Dignitate
- > Cais
- > Portuguese Association of Victim Support
- > Associação Dar a Mão (Holding hands Association)
- > Caritas

Drug addiction fight

- > Portuguese Drug Institute
- > Portuguese Association of Anonymous Narcotics

Support to events to promote and spread practices and social support projects and to stimulate the debate

- > Portuguese Society of Physical and Rehabilitation Medicine Congress
- > Fenarceci – Pirlampo Mágico Gala
- > Cercilei Congress

PT Group's history and heritage

To contribute to make the History of the Telecommunications in Portugal is our objective.

The program of the Group's History and Heritage Program consists essentially of the inventory, study and preservation of the historical, technological and documentary PT Group's heritage, as well as, in its spreading, elaboration and publication, as this is an essential contribution to the history of the communications of our country.

With the scientific support of the New University of Lisbon – Institute of Contemporary History – with whom a cooperation protocol was celebrated, PT Foundation estimates to conclude this program until the end of 2007.

Group's History and Heritage Program Euro 410 thousand

During 2006, this program recorded the following progress:

Historical cornerstone

- > Consultation of 30 archives, and official and private libraries;
- > Summarized and classified all identified documents;
- > Investigated 6 archives and libraries of PT Group;
- > Summarized and classified documents from sovereignty bodies and from Central administration as well as iconography;
- > Elaborated 40 "working papers";
- > Elaborated 3 notebooks on History and Heritage to be published in 2007.

Heritage cornerstone

- > Inventory of parts pertaining to PT and deposited in other Foundations;
- > Evaluation of the 9,000 inventoried parts;
- > Reformulation of the Museological Nucleus of Vilar.



Operational program of culture

During 2006, PT Foundation was awarded a grant by Operational Program of Culture of the Ministry of Culture, for project “Organization of the Documentary Historical Heritage of the PT Foundation”, aimed at dealing with the documentary estate the Portuguese Company Radio Marconi, since the beginning of its activity in 1925 until its integration in PT Group.

The inventory of the archive is to be elaborated in accordance with international standards; the information will be digitized and, later, made available on the Internet. The execution of this work counts with the collaboration of professionals from the Torre do Tombo (national archives).

The approved Project has a budget of Euros 190 thousand upon which there will be a 54% incentive from the POC.

Museological nucleus of Vilar

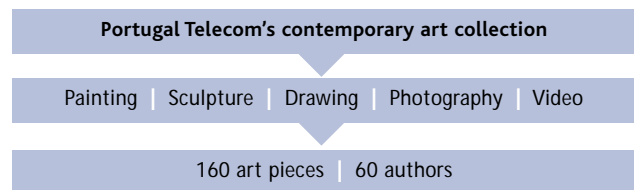
The Museological Nucleus of Vilar was inaugurated in June of 2006, after maintenance and restoration works.

In this space lies the historical witness of the reality of the telephone central offices of manual commutation (attended by telephone operators), dated from the first half of the 20th century. These central offices are still operational. Apart from the central offices, this space has in exhibition several models of old telephones, showing the evolution of the communications, since its introduction in Portugal until the decade of 50 of the 20th century.

Since its opening, the Museum was visited by 616 people, mostly students.

Art and Culture

PT’s option was been to acquire art pieces from consecrated national authors and emergent talents, chosen for their curriculum and quality of the work.



Taking as chronological beacons the Sixties and the present day, through many of the most significant authors of these periods the of the PT Foundation art collection intends to provide a comprehensive and continued overview of the Portuguese plastic contemporaneity.

Artists from the 1960's and 70's, such as Lourdes Castro, Paula Rego, Alberto Carneiro, Álvaro Lapa, Joaquim Bravo, Helena Almeida, Eduardo Batarda and Jorge Martins, were succeeded by artists such as Júlio Ventura, Pedro Proença, Pedro Calapez, Xana, Rui Sanches, Fernando Brito, Manuel Vieira, Marta Wengorovius in the 80's and 90's.

The presence of more recent artists is also significant, some of them consecrated already in the Nineties, such as João Tabarra, Rosa Almeida, Cristina Mateus, Miguel Soares and Luís Palma, that will certainly be reference values of this decade, like the cases of João Pedro Vale, Sancho Silva, Inês Botelho or Alexandre Estrela.

Some of those pieces have been presented in exhibitions at:

- > Modern Art Centre of the Calouste Gulbenkian Foundation;
- > Chiado Museum;
- > Belém Cultural Centre;
- > Culturgeste;
- > Biennial of S. Paulo (Brazil)

Promoted by the PT Foundation, two exhibitions took place in 2006, one in Aveiro and another one in Évora. The locations have been selected with the objective of contributing to the enrichment of the cultural offer outside the great urban centres of Lisbon and Porto.

Évora – Eugénio de Almeida Foundation
Pieces exhibited 27
Months 3
Visitors 3,453

Aveiro – Salão Nobre do Teatro Aveirense
Pieces 17
Months 1
Visitors 2,500

Volunteering

For PT, volunteering is an act of sharing and of responsibility towards the community where the Group is inserted. The fight against social exclusion, in its multiple dimensions, is the Group's focus in terms of volunteering. PT promotes and actively participates in initiatives:

Aurora Program

Volunteering actions 15
Volunteers 381
Working hours 1,153
Benefited Institutions 62

Co-ordinated by the PT Foundation, the Aurora program is a bank of hours of enterprise volunteering approved by the Executive Committee in 2002. The program enables PT Group's employees to participate in development and social support projects up to 5 days per year, during the normal working hours and not affecting the assiduity or the remuneration of the employee involved.

From the 15 volunteering actions took place in 2006, we highlight: development of Internet pages for the institutions ANEA and UNICRISANO; computer training actions at ADFA; escorting children and young from the Centre of Cerebral Paralysis of Beja to the circus; escorting children from Hospitals and solidarity institutions in a visit to the Lisbon Oceanarium; Fair of the Estrelinhas (fair of social solidarity); and the campaign of clothes gathering for distribution to the homeless, made in partnership with the CAIS association.

Project Mão-na-Mão (Hand-in-Hand)

Volunteer work actions 7

Volunteers 283

Working hours 473

Institutions benefited 12

Promoted by PT, this enterprise volunteering movement was a pioneer in Portugal, and formalized in 2001. It resulted from the availability and persistence of the companies that integrate it to participate in social solidarity actions.

Currently this project counts with the participation of PT Comunicações, Siemens, IBM, INOV INESC Inovação, PT Multimedia, BP Portugal, TMN, Xerox Portugal, PT Inovação, MSFT – Software para Microcomputadores, Sacentro, Novadelta, Sopol, Páginas Amarelas, DHL and Allianz and is coordinated by PT Foundation.

Project Mão-na-Mão is oriented to private institutions of social solidarity and non-governmental organisations that work, namely, in the area of social exclusion.

This project is based on the commitment of the signatory companies to make cooperating volunteers available, during the normal working hours, for the execution of previously specified tasks.

Among the actions carried out in 2006, one should highlight:

- > Summer in the beach with the young from the Alcoitão Rehabilitation Centre;
- > Lunch offered to the homeless which took place in the 1st of May Stadium and contribution to the CAIS homeless association;
- > Amusement, games, painting and dance offered to the children from Moinho da Juventude and Santa Casa da Misericórdia da Amadora during Passover – Solidary Passover – at Siemens' premises;
- > Football workshop carried out in a football school which involved children from Casa dos Rapazes, Associação Socorro e Amparo and AMI from Cascais;
- > Sailing day which took place in Ria de Aveiro with children and young from Florinhas do Vouga, Ílhavo Social Center, Costa Nova Infante Centre, and Shelter Center and Infante Emergency of Esgueira;
- > Visit to the Delta coffee plant, with children from Portalegre shelter centre, Nossa Senhora da Conceição de Portalegre Boarding School and Santo António de Portalegre Boarding school;
- > Workshop with several theoretical and practical actions targeted to volunteers which took place at Siemens' premises.

Other initiatives supporting the development of society

Digital Inclusion programs

To build foundations for the future

Digital inclusion is one of the Development Objectives of the Millennium and constitutes one of the pillars for the mid and long-term sustainability of PT's business. This is an area where PT Group has been strongly committed. The Digital Inclusion programs have been targeted at the young, the aged and individuals with needs of cultural, economic nature or others.

The programs have national coverage and have to do with training in the new information technologies areas and with facilities offer in the access to computer and communication resources.

The intervention of these programs includes Schools, Hospitals, Organisations, Institutions of Social Solidarity and Organisms of support to children, the aged and people with special needs (deaf, dumb, blind,...)

Centre of skills recognition, validation and certification

The objective is to promote the certification of the skills acquired by the employees in the scope of the training carried out within PT Group. In a complementary way, an additional training effort will be ensured, with the objective to enable the certification of educational and professional skills.

In 2006, 150 registrations of employees with the characteristics of the program were made.

ECDL

It is a computer literacy project, from the user's viewpoint, by which PT assumes the commitment to stimulate the professional development of its employees, through the uniform acquisition of knowledge and continuous training stimulating a "Learning Organisation".

Therefore, there have been awareness campaigns that aim at mobilizing the employees to get an ECDL certificate, recognized in all EU.

Project Crescer (To Grow)

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

With these measures, PT aims to promote the development of individual skills and the training of the children of employees with lower financial resources, contributing in this way to fight the info-exclusion.

In 2006, 468 portable computers have been granted to the employees with lower income.

Mobile phone for blind people

In reply to the challenge launched by Acapo (Association of Portuguese Blind and Amblyopic), TMN created a new product oriented to the specific needs of blind and amblyopic citizens. The DIX is a mobile phone, in all similar to any other, but with a small particularity that makes the difference: appealing to an application of voice synthesis, the DIX "reads aloud" the text written in the screen. It is what is commonly called a "screen reader".

There are 140 thousand amblyopic and 20 thousand blind people in Portugal. In this community, the mobile telephone is considered an aid of the utmost importance and the interest for the technologies that enable the exploitation of all its services and potentialities is obvious, namely in the domain of the written messages.

With this new TMN mobile phone, everyone can receive and send SMS, thus enjoying the innumerable inherent benefits. They can equally take advantage of many other useful functionalities, up to now hardly accessible, such as the agenda, the block of notes, the calculator and the clock. The navigation in the menus is also facilitated.

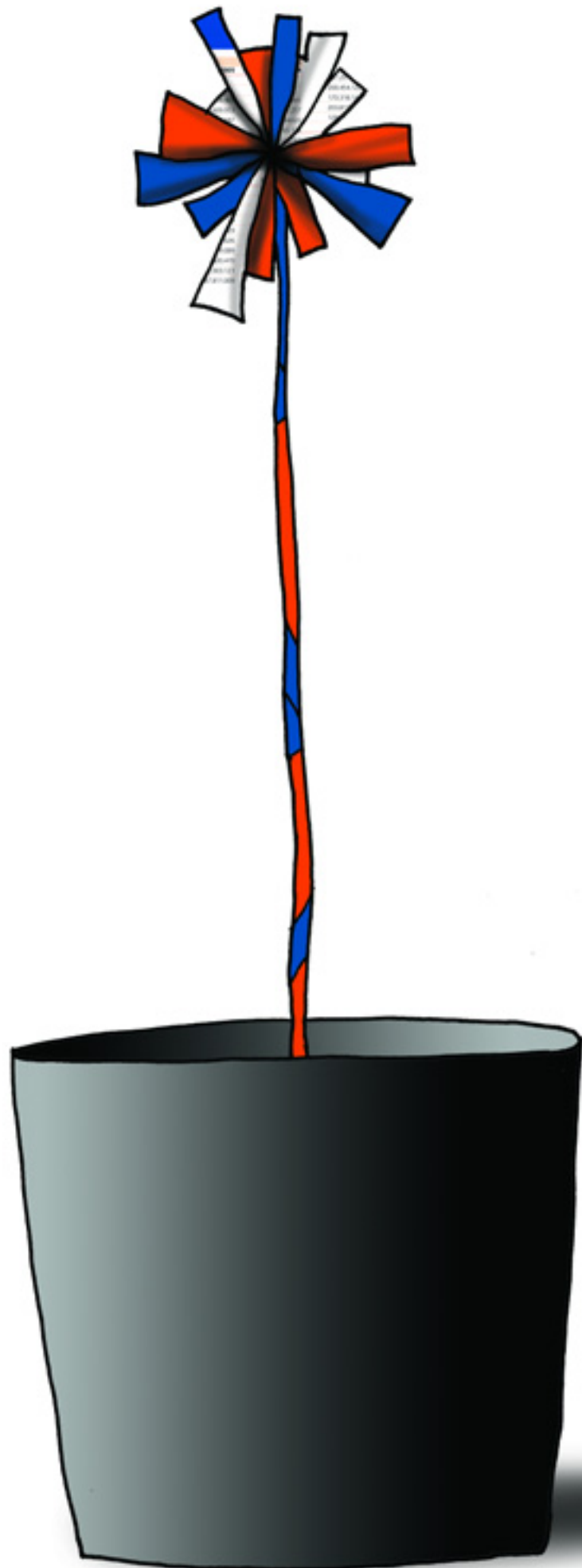
Mobile phone for deaf people

TMN has launched a new solution for citizens with hearing difficulties.

It is a product specifically developed to improve the conditions of listening of the mobile phone to the users with auditory difficulties and TMN was the first Portuguese operator to make this product available.

Carriers of magnetic, auditory devices, hard of hearing and other individuals with hearing difficulties, may now use the mobile phone with greater comfort. The TMN Picoloop is an easy device, small enough to use. The connection to the mobile phone is made as if it was an auricular cable. Once the connection is established, the Picoloop is used like a mobile phone, except for the fact that dialling the calls must be made from the mobile phone itself. It has volume control, vibracall and keyboard keys to accept or to reject calls and is compatible with several Nokia models.

Other digital inclusion projects can be seen in the chapter Knowledge Society and Digital Inclusion.

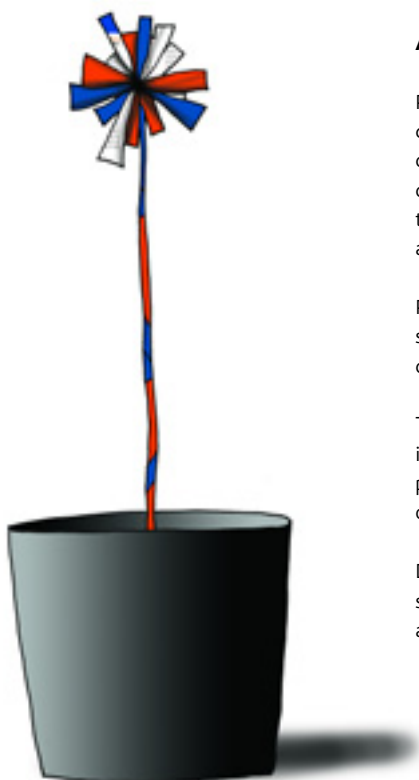


Programs of promotion of respect for the environment

Our wish is to minimize environmental impacts and to guarantee acceptable living conditions to the coming generations.

The environmental respect and preservation in order to guarantee acceptable living conditions for the coming generations are issues on PT's daily agenda.

Apart from the legal requirements and the European directives and recommendations on this matter, PT seeks to participate and to stimulate the participation in environmentally friendly initiatives.



Electronic invoice

The electronic invoice project was launched in 2005, resulting from the work of highly specialised teams.

The subscription to the electronic invoice stops the paper invoice, enabling the download and local archive. It has legal value like the traditional invoice.

For each ton of paper saved, 15 to 20 trees of average build are saved. If one takes into account that each ream of A4 paper has 500 leaves and weighs 2,5Kg approximately, there has been a saving of 400 reams.

The electronic invoice is made available to customers from TV Cabo, TMN, PT Comunicações, PT Prime e PT.COM

AMI

PT, together with AMI, prepared an action in defence of the environment guaranteeing the collection and sending for recycling of computer consumables. The sum derived from the resale of these products reverts to national and international actions of solidarity.

PT has provided 700 points of collection, spread over 100 shops, 86 buildings and 20 cinemas all over the country.

This collection cover's computer consumables, ink cartridges, toners (from printers, photocopiers and faxes) and damaged or in disuse mobile phones.

During 2006, AMI carried out collections in spaces provided by PT which provided a sum amounting to Euro 2,500.

Recycling

Fulfilling its concerns at the social and environmental responsibility level, PT is reusing its non-reusable communication materials – screens, canvases or flags – as form of placing the communication at the service of a pedagogical conscience.

As they cannot be used in future campaigns – PVC screens, canvases and flags – they can be transformed into utilitarian pieces of design, such as poufs, luggage, folders and notebooks.

Sustainable model for supplier selection and contracting

Worried about the chain of value of its activity, PT decided to involve its main suppliers with its concerns of environmental nature whose rules it follows anticipating the future. Therefore, it was developed and approved a supplier selection and contracting model, which contemplates a vast set of environmentally friendly criteria that will have to be checked in the contracts established and that will have to be included in the service delivered by those..

To anticipate climate changes

Attentive to the studies and the evolution of the climatic changes, PT considers that this is an issue that can have a negative impact on its activity (as for example, the destruction of some of its infrastructures during summer fires). Therefore, PT faces it as a chance to evaluate and to define the strategy that will have to guide it in the near future and, in this way, to contribute to a balanced management of the available resources and to the minimization of the environmental impacts.

In this way, a work team was put up that crosses all PT Group's companies and whose work agenda has the following objectives:

- > To give visibility to the energy questions inside the organisation;
- > To integrate the energy procedures of PT Group's companies;
- > To schedule, together with the subsidiaries, the energy certification of the main buildings;
- > To evaluate the preferential resort to renewable energies, whenever identified economic-environmental reasons justify it;
- > To ensure that the energy suppliers are the most adequate from the point of view of their environmental commitments;
- > To identify opportunities and to make recommendations and proposals for action aligned with the best practices in the market;
- > To monitor the economic and environmental impacts therefrom.



Promotion of sport

In sport, PT invests in the areas of major relevance in the national landscape.

Estoril Open

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

Internet was available in all the enclosure through wireless Internet PT Wi-Fi.

Cycle Tour of Portugal

PT Comunicações was once again the technological partner of one of the main sporting events, the queen cycling race in Portugal.

As technological partner of the race, it was up to PT Comunicações to install the telecommunications means in the secretaries and press cabinets throughout all the stages.

In all the press cabinets there were available portable computers with ADSL access to be used by the journalists who followed this sporting event.

In 2006, there were available:

- > 129 analogue lines
- > 30 basic accesses
- > 11 ADSL accesses

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

PT Group supports these three great Portuguese clubs.

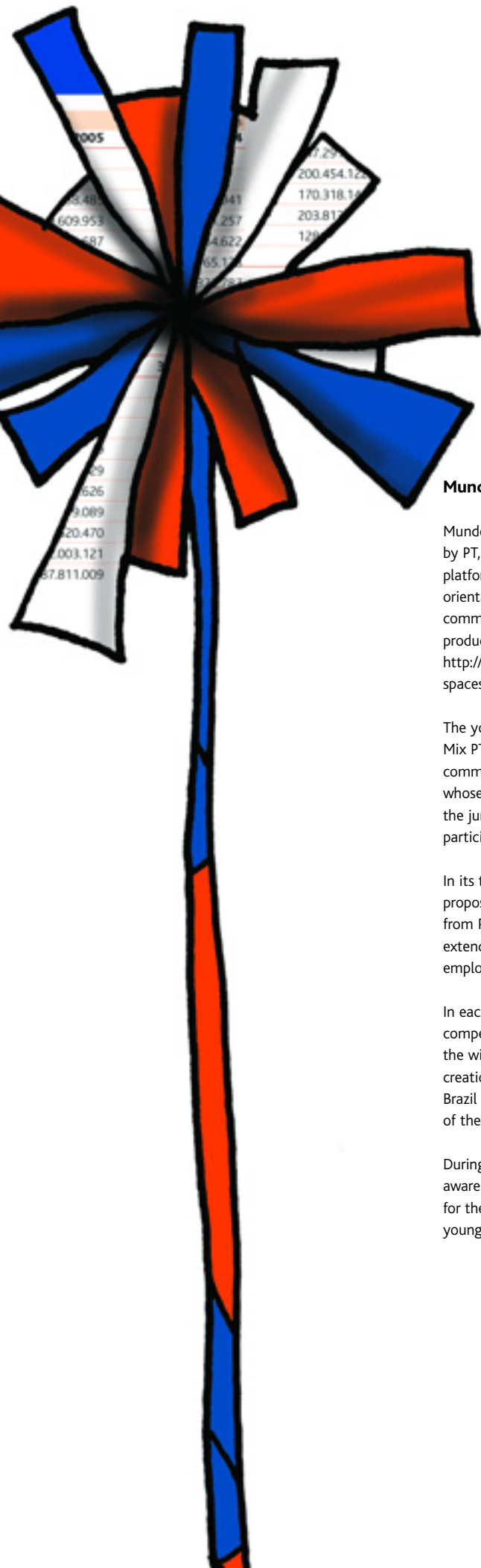
Having become each time more and more important, in Portugal and the World, it is a transversal phenomenon that impacts the various social classes, the different age bands, both sexes and all the demographic regions of the planet, as well as PT that is present all over the world, namely in the Portuguese-speaking countries and scores nearly 40 million customers.

Football is also associated with some values from PT Group: innovation, leadership, quality and passion. It also enables closer relations with the customers, through retention actions and acquisition of new customers in all the zones of the world. It is a unique event that creates empathy and affection, as it "moves the emotions" of our usual or potential customers.

Young talents promotion programs

We are committed to stimulate entrepreneurship and to point out excellence.

The promotion of the integration of young talents in the professional market, above all those related to alternative arts of Portuguese expression, has constituted a focus of concern and intervention for PT. It intends, in this way, to contribute to oppose the trend of contraction registered in the national market in recent years in what respects employability. To foster the entrepreneurship of the young talents supporting the public launching of their products and/or services, are the main objectives of the programs that we have developed in this domain.



Mundo Mix PT (World Mix PT)

Mundo Mix PT is an alternative fair, supported by PT, with the objective to create commercial platforms for young creators, offering the orientation and the logistic support for the commercialisation and exhibition of their products, namely through the site <http://mundomixpt.sapo.pt> and in exhibition spaces in several localities of the country.

The young talents can participate in Mundo Mix PT, all those that do not possess a commercial space for their products and whose works are selected and are validated by the jury of selection of the potential participant in each edition of the event.

In its third consecutive year, Mundo Mix PT proposes to continue to publicize creators from Portuguese-speaking countries. In 2006 it extended the challenge to the Group PT employees.

In each edition of Mundo Mix, there is a competition between the participants. PT gives the winners the possibility to display their creations in a similar event that takes place in Brazil besides promoting the pieces on the site of the event.

During 2006, the PT promoted one awareness-raising and training workshop for the creation of sites and/or blogs by these young creators.

In 2006, 4 editions of World Mix PT have been organised:

Mundo Mix PT		
	Exhibitors	Visitors
Lisbon	60	23,000
Cascais	80	30,000
Porto	40	9,000
Lagos	60	35,000

TMN garage sessions

The TMN Garage Sessions Project, developed in partnership with Música no Coração and EMI Valentim de Carvalho, intends to give voice to the new talents of Portuguese music, through a competition in which bands or artists who do not have a contract with any publishing company can participate.

This competition concluded its second edition in 2006. Band 2008 was the winner, rewarded with its performance in Sudoeste Festival TMN 2006. It now waits the launching of its CD of new songs.

Portuguese talent in the world

The SAPO portal, the Ministry of the Foreign affairs, Valentim de Carvalho record store and RTP TV have associated for the promotion of an online competition to discover new musical Portuguese-descendant talents in the whole world. The competition finishes with a music festival transmitted by RTP and the winner will be able to make a record with edition assured by Valentim de Carvalho.

This project will be developed throughout 2007.

Participation in national and international organisations

Information society

National associations	Purpose
Associação Aveiro Digital	Promote the creation of a digital community, congregating all the agents, aiming at sustained development in social, economic and cultural axis, and contributing for the improvement of the citizen's quality of life and well being.
ADSI – Associação Distrital para a Sociedade de Informação (Guarda Digital)	Promotion and demonstration of the benefits of new technologies near the companies and institutions in the region; promotion and support to the launching of projects regarding information society.
ADT – Associação Portuguesa Desenvolvimento da Telemedicina	Promote the ICT and the communications' perspectives and divulge the problems and techniques regarding telemedicine and telematics applied to health.
AFCEA PORTUGAL – Associação para as Comunicações e Electrónica nas Forças Armadas	Ensures connections to NATO's headquarters, as well as the respective commands and agencies; ensures the connections to telecommunication community's organisations.
AICEP – Associação dos Operadores de Correios e Telecomunicações dos Países de Língua Oficial Portuguesa	To promote close relations between associates, in order to contribute to the harmonisation, development and modernisation of communications regarding the respective organisations.
ANETIE – Associação Nacional das Empresas das Tecnologias de Informação e Electrónica	Defend the interests of the corporate sector of information and electronic technologies and promote its sustained growth.
APCT-P – Associação para Parque de Ciência e Tecnologia do Porto	Promotion, installation and development of a park for science and technology in the Oporto region, that contributes for scientific investigation and development of the country, with special focus on the area in which it is inserted.
APDC – Associação Portuguesa para o Desenvolvimento das Comunicações	Promote and contribute to the promotion of the reality and perspectives of the communications' sector, for study, debate and divulgence of problems and techniques regarding communication and other such sciences and techniques, for the professional a scientific perfecting of the associates, social gathering and exchange of experiences between the associates and, finally, establish the exchange of activities and services with similar associations.
APDSI – Associação para a Promoção e Desenvolvimento da Sociedade da Informação	Promotion and development of knowledge and information society in Portugal.
APDT – Associação Portuguesa para o Desenvolvimento do Tele-trabalho	Promote telework in a balanced and socially sustainable way, regarding economy growth and job creation.
APCC – Associação Portuguesa das Empresas de Contact Center	Sponsoring association aimed at promoting the sustainable development of the contact centres' market.
APGC – Associação Portuguesa de Gestão do Conhecimento	Study and promotion of knowledge management, contributing for the improvement of organisation's performance the country's competitiveness and people's quality of life.
APIDEA	Association of companies and laboratories participating in the PIDEA Programme and give a "label" to the R&D projects that apply for national or community funds.
IEP– Instituto Electrotécnico Português	Organism active in the domains of the normalization, quality control, certification, metrologia, development and scientific and technological inquiry
APRITEL – Associação dos Operadores de Telecomunicações	To promote the dialogue and exchange of experiences between the several telecommunication' operators and between these and public bodies, namely Anacom and DGCC; promote the creation of conditions that help to have an efficient connection between operators and a fair competition.
ASSOFT – Associação Portuguesa de Software	Promotion, defence and divulgence of legality, quality and integrity of software in Portugal.
CITMA – Centro de Ciência e Tecnologia da Madeira	Support to activities of technological research and development, at a regional level.
EGIDE – Economia e Gestão, Associação para a Investigação e Desenvolvimento do Ensino Electrotécnica, Electrónica e dos Computadores	Research and development in teaching economy and development.

International associations	Purpose
ETNO – European Telecommunication Network Operator's Association	To establish a constructive dialogue between the associated companies and other economic agents involved in the development of information society. It also aims to contribute to the development of policies that may lead to an efficient regulating environment for the European telecommunications market, promoting the development and implementation of the information society.
ETSI/ETSI 3GPP – European Telecommunications Standards Institute	A non-for-profit and independent organisation, whose mission is to produce telecommunications standards. It is officially responsible for the development of a set of norms and technical documentation, which constitute a European contribution for ICT's world norms. It is officially recognised by the European Commission and by the EFTA's secretariat.
EURESCOM – European Institute for Research and strategic studies in Telecommunications	Its objective is to co-ordinate the launch and the development of R&D actions as well as the elaboration of strategical studies in the communications area in cooperation with the European operators.
MEBF – Mercosul European Business Forum	Enterprise forum that follows and encourages the negotiations between the EU and the Mercosul for the free trade agreement between the two blocks.
IEFT – Internet Engineering Task Force	International community of network designers, operators, suppliers and researchers concerned with the evolution of the Internet architecture and its functioning.
ICANN – Internet Corporation for Assigned Names and Numbers	World body responsible for establishing the rules of Internet use. With international remit, it is a non-for-profit entity responsible for the distribution of the "Internet Protocol" (IP) numbers, naming protocol identification, control of the system that names first level domains with generic codes (gTLD) and countries (ccTLD). Since it is a mixed capital society, the ICANN is dedicated to the maintenance of Internet's operating stability, the promotion of competition, having a wide representation from the global communities congregated on the Internet.
IEP – Instituto Electrotécnico Português	Organism that acts in the areas of standardisation, quality control, certification, metrology, scientific and technological development and investigation.
IT – Instituto de Telecomunicações	To create and spread scientific knowledge in the area of telecommunications, which implies the development of fundamental and applied investigation activities applied to an international context, in order to raise the level in teaching and training, graduate and post-graduate, and to increase the competitiveness of the Portuguese industry and the telecommunications' operators.
TMF – Telemanagement Forum	Identification, development and implementation of practical solutions oriented to the automation and coherence of the operational activities of the telecommunications operators, in particular in the area of network management and telecommunications services.
ITU – International Telecommunications Union	Independent and international organisation that promotes joint work between governments and the private sector for the exploration of networks and telecommunications' sectors, and the development of communication technologies. The UIT's objectives are: maintain and expand international cooperation between member-states and improve the rational use of all telecommunications' classes; promote technical support to the developing countries in the telecommunications' area and encourage the development of technical means, in order to increase telecommunications services' profitability and promote the extension of telecommunications' benefits to all the inhabitants in the planet.
WWRF – Wireless World Research Forum	To contribute to the development of an integrated vision of a wireless world, concentrate efforts in the definition of investigation relevant for the future of wireless mobile communications.

National coporate associations	Purpose
AIP – Associação Industrial Portuguesa	Development of Portuguese economic activities and, in particular, of its associates, in the technical, economic, commercial, associative and cultural domains.
AEP – Associação Empresarial de Portugal	Promotion, development and defence of the corporate and associative activities.
APQ – Associação Portuguesa para a Qualidade	Promote and divulge theoretical knowledge and the experience in the quality a continuous improvement of the Portuguese economy's competitiveness.
BCSD PORTUGAL – Conselho Empresarial para o Desenvolvimento Sustentável	Divulge the principles that characterise sustainable development; articulate the cooperation between the corporate community, the managements and civil society, with a view to promoting a sustainable development; promote educational and training actions to divulge the principles of sustainable development; participate in or promote other initiatives that contribute for the sustainable development of the Portuguese corporate universe.
COTEC PORTUGAL – Associação Empresarial para a Inovação	Stimulate the relationship between any entities that take part in the National Innovation System, determine innovation policies, stimulate and sensitize companies to invest in research and development, as well as take all the necessary steps that are legally possible, to achieve this associative objective.
ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação.	To promote and develop economic, social, scientific and cultural exchange between Portugal and developing countries, especially the Portuguese-speaking ones.
ICAP – Instituto Civil da Autodisciplina da Publicidade	Defence of its associates' interests; support in the for of juridical, economic and financial consultancy; establishment of protocols to obtain special conditions for its associates.

Index of Global Reporting Initiative indicators

Indicators	page	Indicators	page
1. Strategy and analysis			
1.1	1.1 Declaration of the person with greater decision power in the organization (ie. General-Director, Chairman of the Board or position of equivalent importance) on the relevance of the sustainability for the organization and its strategy	4	
1.2	1.2 Description of main impacts, risks and opportunities, related to the activity of the company	9, 10, 11	
2. Profile of the organization			
2.1	Name of the reporting organization	inside cover	
2.2	Main brands, products and/or services	8, 9	
2.3	Operational structure of the organization, including main departments, participated companies in operation and joint ventures.	9	
2.4	Location of the headquarters of the company	inside cover	
2.5	Countries where it is present and name of those with significantly relevant operations for the sustainability issues handled in the report	8, 9	
2.6	Type and legal nature of ownership	inside cover	
2.7	Markets covered (including a detailed geographic analysis, the sectors covered and the types of beneficiaries/customers)	8, 9, 42	
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	9, 42, 53	
2.9	Main changes occurred, during the period covered by the report, in terms of dimension, organizational structure or the shareholder structure	1	
2.10	Prizes received during the period of the report	11	
3. Parameters of the report			
3.1	Period covered (ie civil/ fiscal year) for the information presented in the report	1	
3.2	Date of the latest published report (if applicable)	1	
3.3	Report Publication cycle (annual, biennial, among others)	1	
3.4	Person(s) to be contacted for clarifications relative to the report or its content, including electronic address and the Internet site	inside cover	
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 and the identification of the interested people that are potential users of the report	1	
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)	1	
3.7	Mention any relative specific limitations to the scope and the boundaries of the report	1	
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	1	
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	1	
3.10	Explanation of the effect of any reformulations of existing information in previous reports and the reasons for such reformulations (ie fusions/acquisitions, change of period or year, nature of the business, methods of measurement)	1	
3.11	Significant changes, in relation the previous reports, in terms of scope, boundary or applied methods of measurement	1	
3.12	Table that identifies the place of the standard-information in the report.	92	
3.13	Policy and current practice relative to the search of an independent process of reliability assurance for the report. If it is not enclosed in the reliability assurance report that follows the sustainability report, explain the scope and the base of any independent verification that has taken place as well as the nature of the existing relationship between the organization and the auditor(s)	1, 96	
4. Governance, commitments and involvement			
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EC 4	Significant financial assistance received from government [CORE]	not available	
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EN 24 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 [ADDITIONAL]	not relevant
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HR 2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken [CORE]	not available
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HR 6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor [CORE]	not relevant
Forced and compulsory labor	
HR 7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor [CORE]	not relevant
Security practices	
HR 8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations [ADDITIONAL]	55
Indigenous rights	
HR 9 Total number of incidents of violations involving rights of indigenous people and actions taken [ADDITIONAL]	not relevant
Social performance: society	
Community	
SO 1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting [CORE]	23, 24
Corruption	
SO 2 Percentage and total number of business units analyzed for risks related to corruption [CORE]	23, 24, 25
SO 3 Percentage of employees trained in organization's anti-corruption policies and procedures [CORE]	55

Indicators	page
SO 4 Actions taken in response to incidents of corruption [CORE]	53
Public policy	
SO 5 Public policy positions and participation in public policy development and lobbying [CORE]	15
SO 6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country [ADDITIONAL]	15
Anti-competitive behavior	
SO 7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes [ADDITIONAL]	64
Compliance	
SO 8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations [CORE]	not relevant
Social performance: product responsibility	
Customer health and safety	
PR 1 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 [CORE]	29
PR 2 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 [ADDITIONAL]	not relevant
Products and service labeling	
PR 3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements [CORE]	46
PR 4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes [ADDITIONAL]	not relevant
PR 5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction [ADDITIONAL]	43 to 47
Marketing communications	
PR 6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship [CORE]	58
PR 7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes [ADDITIONAL]	64
Customer privacy	
PR 8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data [ADDITIONAL]	not relevant
Compliance	
PR 9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services [CORE]	64

Telecommunications sector indicators

Indicators	page
Internal operations	
Investment	
IO 1 Capital investment in telecommunication network infrastructure broken down by country/region	10, 68
IO 2 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	not available
Health and safety	
IO 3 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	55
IO 4 Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) standards on exposure to radiofrequency (RF) emissions from handsets	28 to 37
IO 5 Compliance with ICNIRP (International Commission on Non-Ionising Radiation Protection) guidelines on exposure to radiofrequency (RF) emissions from base stations	28 to 37
IO 6 Policies and practices with respect to Specific Absorption Rate (SAR) of handsets	28 to 37
Infrastructure	
IO 7 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	28 to 37
IO 8 Number and percentage of stand-alone sites, shared sites, and sites on existing structures	not available

Indicators	page
Providing access to telecommunication products and services	
PA 1 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	72 a 77
PA 2 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	72 to 77
PA 3 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	72 to 77
PA 4 Quantify the level of availability of telecommunications products and services in areas where the organisation operates. Examples include: customer numbers/market share, addressable market, percentage of population covered, percentage of land covered	72 to 77
PA 5 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	72 to 77
PA 6 Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief	72 to 77
Access to content	
PA 7 "Policies and practices to manage human rights issues relating to access and use of telecommunications products and services. For example: a) Participation in industry initiatives or individual initiatives related to Freedom of Expression; b) Legislation in different markets on registration, censorship, limiting access; c) Interaction with governments on security issues for surveillance purposes; d) Interaction with national and local authorities and own initiatives to restrict criminal or potentially unethical content; e) Protecting vulnerable groups such as children. Explain how such policies and practices are adapted and applied in different countries."	72 to 77
Customer relations	
PA 8 Policies and practices to publicly communicate on EMF related issues. Include information provides at points of sales material	28 to 37
PA 9 Total amount invested in programmes and activities in electromagnetic field research. Include description of programmes currently contributed to and funded by the reporting organisation	28 to 37
PA 10 Initiatives to ensure clarity of charges and tariffs	42 to 47
PA 11 Initiatives to inform customers about product features and applications that will promote responsible, efficient, cost effective, and environmentally preferable use	42 to 47
Technology applications	
TA 1 Provide examples of the resource efficiency of telecommunication products and services delivered	28 to 37
TA 2 Provide examples of telecommunication products, services and applications that have the potential to replace physical objects (e.g. a telephone book by a database on the web or travel by videoconferencing)	not available
TA 3 Disclose any measures of transport and/or resource changes of customer use of the telecommunication products and services listed above. Provide some indication of scale, market size, or potential savings	not available
TA 4 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. This may include social consequences as well as environmental	not available
TA 5 Description of practices relating to intellectual property rights and open source technologies	68 to 70

GRI index justifications

EC 2	Financial implications and other risks and opportunities for the organization's activities due to climate change [CORE] In 2006, PT set up a task force to define its climate change strategy to be implemented in the plan for 2007	HR 5	Operations identified in which the right to exercise freedom of association and collective bargaining may be a significant risk, and actions taken to support these rights [CORE] The Portuguese legislation, as well as PT's Company Agreement foresee the free exercise of the freedom of association
EC 4	Significant financial assistance received from government [CORE] Information available in the annual report	HR 6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor [CORE] This pointer is not relevant for PT's activity in the Portuguese market that defines the scope of this report, where the national legislation integrates all the main international conventions in the area of child labour
EC 5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation [ADDITIONAL] The wages of PT's employees, independently of the wage level, are equal or superior to the national minimum wage	HR 7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor [CORE] This pointer is not relevant for PT's activity in the Portuguese market that defines the scope of this report, where the national legislation integrates all the main international conventions in the area of forced or compulsory labour
EC 7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation [CORE] The scope of PT's sustainability report pertains to the Portuguese market. PT's employees are mostly of Portuguese nationality	HR 9	Total number of incidents of violations involving rights of indigenous people and actions taken [ADDITIONAL] This pointer is not relevant for PT's activity in the Portuguese market that defines the scope of this report
EN 6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives [ADDITIONAL] PT considers that its water consumption is not high enough to allow recycling and reuse	SO 7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes [ADDITIONAL] The available aggregation does not isolate this item because it is non-existent or has no significant expression
EN 9	Water sources significantly affected by withdrawal of water [ADDITIONAL] Not relevant in PT's activity (water withdrawal comes from the public network and is used for administrative purposes)	SO 8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations [CORE] This indicator is not relevant for PT's activity, as all the existing fines, reported in this document, are of monetary nature
EN 10	Percentage and total volume of water recycled and reused [ADDITIONAL] PT considers that its water consumption is not high enough to allow recycling and reuse	PR 2	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 [ADDITIONAL] There were no non-compliances relative to the aspects mentioned for this indicator
EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas [CORE]	PR 4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes [ADDITIONAL] There were no incidents
EN 12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas [CORE]	PR 8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data [ADDITIONAL] There were no complaints regarding breaches of customer privacy
EN 13	Habitats protected or restored [ADDITIONAL]	IO 2	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 Although PT makes investments with suppliers to fulfill the universal service obligation, it was not possible to calculate this value. This value will be presented in the next sustainability report
EN 14	Strategies, current actions, and future plans for managing impacts on biodiversity [ADDITIONAL]	IO 8	Number and percentage of stand-alone sites, shared sites, and sites on existing structures Although PT shares sites with other companies, it was not possible to calculate the number of shared sites. This value will be presented in the next sustainability report
EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk [ADDITIONAL] Most of the properties used by PT are located in urban areas, being small the proportion of telecommunications infrastructures (antennas and cabling) located in natural parks. Even though not being significant the impact on changes to natural habitats, PT has developed several programs for protection and upgrade of natural ecosystems and species in some more degraded zones. An example of measures to minimize these impacts is the development of infrastructures of support to nest building	TA 2	Provide examples of telecommunication products, services and applications that have the potential to replace physical objects (e.g. a telephone book by a database on the web or travel by videoconferencing) Although concrete examples are not supplied, the services rendered by PT lead, doubtlessly, to a reduction of a vast set of physical resources, enabling both the remote and virtual communication
EN 21	Total water discharge by quality and destination [CORE] The water discharges made by PT are associated with the existing sanitation drain pipes in its buildings. The water used in such a way by PT, enters the urban sanitation system. PT does not take account this water, nor has identified the form as it is later treated or discharged. As PT's main activity does not have direct implications on the level of significant water discharges, this indicator was considered as not relevant	TA 3	Disclose any measures of transport and/or resource changes of customer use of the telecommunication products and services listed above. Provide some indication of scale, market size, or potential savings Although impacts resulting from PT's activity are material in the change of the customer behavior in the use of transportation and the reduction of the resource consumption, PT did not carry out any studies to quantify these impacts
EN 23	Total number and volume of significant spills [CORE] This indicator is not considered as relevant considering PT's main activity, although there are emergency generators in PT's buildings and these can potentially originate some sort of spill	TA 4	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. This may include social consequences as well as environmental Although impacts resulting from PT's activity are material in the change of the customer behavior in the use of transportation and the reduction of the resource consumption, PT did not carry out any studies to quantify these impacts
EN 24	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 [ADDITIONAL] This pointer is not considered as relevant considering PT's main activity		
EN 25	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 [ADDITIONAL] This pointer is not considered as relevant considering PT's main activity		
EN 26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation [CORE] Electronic bill, for example		
EN 27	Percentage of products sold and their packaging materials that are reclaimed by category [CORE] Information not available. Only % reclaimable available		
LA 3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations [ADDITIONAL] Information not available		
LA 14	Ratio of basic salary of men to women by employee category [CORE] Information available in PT's Company Agreement		
HR 1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening [CORE] This pointer is not relevant for PT's activity in the Portuguese market that defines the scope of this report, where the national legislation integrates all the main international conventions in the area of the Human Rights		
HR 2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken [CORE] The selection of PT's suppliers only includes the selection of environmental and ethical criteria		

SGS ICS

To the Board of Directors of Portugal Telecom, SGPS, SA

Nature and Scope of the Verification

By request of Portugal Telecom, SGPS, SA, SGS ICS performed an independent verification of the Sustainability Report 2006. The scope of the verification, based on SGS's methodology for Sustainability Reports Verification, included the text, data, charts and the declarations contained herein. Data from the legally certified financial reports of PT Group's various organisations were not verified at the source.

Responsibility

The Board of Directors of Portugal Telecom Group is responsible for the information disclosed and for setting evaluation criteria. The Board is also responsible for establishing the systems for gathering, classifying, validating and reporting the information. SGS ICS did not participate in the treatment of any information comprised in the Sustainability Report 2006. It is the responsibility of SGS ICS to issue an opinion regarding the suitability of the aforementioned information, based on the independent verification protocol, which was carried out with regards to the scope and the purpose of the verification commitment.

Independence and Competence Statement

SGS Group is a world leader in inspection, assessment and verification services, operating in over 140 countries, with an offer that includes the certification of services, quality, environmental and social management systems, auditing procedures concerning ethical issues, as well as the verification of environmental, social and sustainability reports. SGS ICS asserts its independence before favours, outside influence and conflicts of interests related to PT Group, its subsidiaries and interested parties. The members of the verification team were selected according to their knowledge, experience and qualifications regarding the proposed verification. The team included auditors registered with the Institute of Environmental Management and Assessment (IEMA), the International Register of Certified Auditors (IRCA), Social Accountability International (SAI) and also EMAS Verifiers. The participating verifiers have coordinating auditor qualifications for the performance of certification audits to ISO 9001 quality management systems, ISO 14001 environmental management systems, OSHAS 18001 systems for safety and health management at work, and SA8000 social responsibility management systems.

Verification Criteria and Methodologies

SGS Group developed a set of protocols for the verification of sustainability reports (Sustainability Report Assurance) based on the best practices established by the 2006 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the AA1000 Assurance Standard (2003). These protocols are classified into different verification levels, according to the reporting history and the organisational capacity of the reporting company.

The Sustainability Report 2006 was verified in accordance with the level 2 protocol, consisting of (i) the identification of the existence of management control systems supported by organisational policies and resources, (ii) the assessment of the efficiency of the procedures and systems for gathering, classifying, validating and reporting information contained herein, including, whenever necessary, corroborative statements and/or evidence from external interested parties, (iii) carrying out a sample of certain procedures for consolidating the information concerning the reported environmental and social performance, (iv) comparing the included financial information with the information contained in the financial reports from where it was retrieved, (v) interviewing the managers responsible for preparing the information (vi) providing evidence that the fundamental principles of the GRI reporting guidelines (2006) have been considered and applied, and (vii) verifying the fulfilment of the terms required for stating that this report was prepared "in accordance with" Level B GRI guidelines (2006).

Conclusions

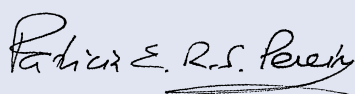
Based on the methodology described above and the work carried out, it is the opinion of SGS ICS that the information and the data included in the verified report are accurate, comprehensive, reliable and provide an adequate representation of the activities of Portugal Telecom Group, in Portugal, throughout a period of twelve months ended in 31 December 2006. SGS ICS states that the Sustainability Report 2006, the object of this verification, was prepared in accordance with GRI Guidelines (2006), fulfilling the Level B+ requirements necessary for that purpose.

Recommendations

Based on the verification carried out, we identified areas of progress in relation to previous reports, as well as areas for improvement that allow for the strengthening of the context of Portugal Telecom Group's Social Responsibility. The observations identified will be object of the Internal Management Report directed at the Board of Directors of the Portugal Telecom Group.

SGS ICS challenges the Portugal Telecom Group in its 2007 report to progress in the adoption of the GRI Telecommunications Sector Supplement, dated July 2003 in order to increase the GRI Level of Application. Nevertheless, the Portugal Telecom Group should make mentioned supplement, to what concerns the specific indicators included in it.

In representation of SGS ICS



Patrícia Pereira
Certification Department
Lisbon, 31 May 2007



Luís Barrinha