



Portugal Telecom

AUDIT COMMITTEE

ACTIVITIES REPORT FOR 2008

I - Introduction

The scope of action of the Audit Committee of Portugal Telecom, SGPS, SA ("PT SGPS" or "Company") is set out in its Charter, which fully complies with the powers foreseen in the national legal, statutory and regulatory rules applicable to this corporate body, whilst maintaining the duties required for the full compliance with the mandatory rules applicable to the so-called foreign private issuers in the United States of America.

The duties attributed to the Audit Committee as the Company's supervisory body, in accordance with article 423-F of the Portuguese Companies Act, are, in particular, the following: (a) to propose the appointment of the Statutory Auditor to the General Meeting; to supervise his/her independence and activity and the activities of review of the accounts; (b) to supervise the process of preparation and disclosure of financial information; (c) to prepare on an annual basis a report on its own supervisory activity and give an opinion on the Report and Accounts and proposals of the Company's Board of Directors; (d) to supervise the Company's management and monitor compliance with the laws and By-laws; and (e) to supervise the efficacy of the risk management system, of the internal control system and of the internal audit system.

In addition, according to the Company's By-laws and its charter, the Audit Committee has supervisory functions on the following matters: (i) quality and integrity of the financial information enclosed in the financial statements; (ii) qualifications and independence of the Independent External Auditors; (iii) quality, integrity and effectiveness of the internal control system; and (iv) the Company's compliance with the laws, regulations, recommendations and guidelines issued by competent authorities.

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Taking into account the scope of its duties, this Committee hereby submits its report on the activities carried out in 2008.

II – Activities

For the purpose of performing its powers, duties and responsibilities, the Audit Committee has developed, throughout the year, a wide range of activities in the following areas:

(a) Supervision of the quality and integrity of financial information enclosed in the Company's financial statements

The Audit Committee periodically met with the Executive Director responsible for the preparation and disclosure of financial information, alongside with the accounting officers, as well as both with the Company's Independent External Auditors and Internal Auditors and with the Statutory Auditor, having analyzed the compliance of the annual, half-year and quarterly information with the legal, regulatory and accounting requirements in force.

The Committee has also met separately with the Company's Independent External Auditors and with the Company's Statutory Auditor, in particular for the purpose of discussing the matters foreseen in the *Statement of Audit Standards* n° 61 (SAS 61), the auditing process and internal control system, as well as the Internal Audit Function's responsibilities and resources.

In this context, the Committee also reviewed the issues reported in the Independent External Auditors' reports concerning the main accounting criteria used, the accounting methods employed for reporting unusual and/or frequent transactions, and the material judgments adopted.

We emphasize that the supervision of the adequacy and compliance with the accounting policies, procedures, practices and valuation criteria adopted, as well as the consistency and quality of the Company's accounting and financial information, was mainly carried out through the analysis of the reports, reviews and audits prepared

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with the Independent External Auditors, the Statutory Auditor and the Internal Audit Department of PT SGPS.

Also in accordance with the Committee's powers foreseen in the Company's By-laws and in its charter, the Audit Committee has given its opinion on: (i) the individual and consolidated Report and Accounts for the first semester of 2008, prepared by PT SGPS's Board of Directors; and (ii) the individual and consolidated Report and Accounts and the Management Report, for the year of 2008, to be submitted by the Board of Directors for the General Meeting's approval. Pursuant to its legal duties, this Committee also participated in the Executive Committee's meeting on which the individual and consolidated annual financial statements for the year ended in 2008 were discussed and approved.

This Committee, in accordance with its functions under its charter and considering PT SGPS's status as an issuer of securities admitted to negotiation on NYSE, was also responsible for: (i) reviewing the audited annual accounts included in *Form 20-F* for 2008 to be filed before SEC and giving its opinion to the Board of Directors on whether such audited annual accounts should be included therein; (ii) a global revision of *Form 20-F* for 2008 to be filed before SEC; (iii) review the "*Operating and Financial Review and Prospects*" section of the referred *Form 20-F* for 2008; and (iv) analyzing the procedures adopted by the Company in the context of the CEO and CFO *Form 20-F* annual certifications, within the overall supervision of the Company's internal control system carried out in 2008.

The Committee also held meetings with the Disclosure Committee as a part of its information disclosure monitoring process.

The same procedures were conducted by the Audit Committee with the Executive Director responsible for preparing and disclosing financial information, jointly with the accounting officers, in the context of the preparation and disclosure of the Company's non-audited quarterly statements.

In addition to these activities directly related with the preparation and disclosure of financial information, and within its actions concerning the supervision of the internal control system and compliance, the Committee reviewed, with the Internal Audit

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Department, the Independent External Auditors and the Statutory Auditor of PT SGPS: (i) the compliance with the internal control rules in force regarding the closing and reporting processes and the scope, planning and resources employed for drawing up and disclosing financial information; and (ii) the issues posed to the Company by the financial market regulators as well as the responses to them provided.

(b) – Appointment and supervision of qualifications and independence of the Independent External Auditors and Statutory Auditor

Under the Company's By-laws and its charter, this Committee is responsible for appointing and establishing the compensation of the Independent External Auditor, as well as submitting a proposal to the General Meeting for the appointment of the Statutory Auditor, and, furthermore, the supervision of the independence of both Statutory Auditor and Independent External Auditor.

The Committee assessed the independence and the scope, terms and conditions of the rendered services, as well as the work performed by the Effective Statutory Auditor, appointed by the General Meeting that took place on the 22 June 2007, under the proposal of this Committee, for the current term of office (2006/2008). The Committee has regularly met with the Statutory Auditor, from which it obtained periodical information regarding the monitoring of the functions to it attributed.

The Committee analyzed the quality control report to which the Statutory Auditor was submitted, pursuant to the annual public draw concerning quality control promoted by the Chartered Accountants Bar ("*Ordem dos Revisores Oficiais de Contas*") and has ascertained the positive conclusions of the aforementioned report regarding compliance with the applicable laws and regulations.

On the basis of our evaluation of its work, qualifications and independence, the Committee decided to renew the contract with the Company's Independent External Auditor – Deloitte & Associados, SROC, S.A. - for the financial year of 2008, establishing thereunder its remuneration. Under this renewal, we have obtained from the Independent External Auditors, under the terms set out by SEC's regulations, confirmation of their compliance with the applicable independence criteria.

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Notwithstanding this confirmation, the Committee carried out questioning on independence whenever it deemed necessary.

In accordance with the Company's By-laws and its charter, the Audit Committee is exclusively responsible for pre-approving all services to be rendered by the Independent External Auditors, namely tax advising and others, having periodically monitored the hired services and their fees. In this context, the Committee verified that: (i) the ratio defined for hiring non audit or audit related services, which currently have a low expression within the total hired services, was observed; and (ii) the hiring of these services complied with the established regulations. Additionally, the Committee supervised the compliance with SEC's and NYSE's rules constraining the hiring of auditors' employees by the Company and imposing the rotation of the lead partner of the independent external audit firm responsible for the independent external auditing of the Company.

Taking into account the results of the steps carried out, the Committee sustains the opinion that both the Statutory Auditor and the Independent External Auditors have acted in an appropriate and independent manner.

(c) Supervision of quality, integrity and effectiveness of the internal control system, risk management and internal audit function

The quality, integrity and effectiveness of the internal control system are, in the opinion of this Committee, the main assurances of the quality of the information made available by the Company's management and of the compliance with the applicable legal, regulatory and statutory provisions.

The Company maintains an internal control and risk management system, whose implementation, assessment and enforcement are under the responsibility of the executive management. This system, in compliance with the methodology requirements set out by COSO (Committee of Sponsoring Organizations), must be assessed and revised, and is subject to annual audits by the Independent External Auditors and by the Internal Audit Department, having already been certified by the Independent External Auditors under the terms set out in Section 404 of the SOX, by reference to the 2008 financial year. No significant deficiencies that might impair the

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effectiveness of the Internal Control and Risk Management System were reported by the Internal or Independent External Auditors.

Also in this regard and as foreseen in its charter, the Committee discussed and has given a prior opinion to PT SGPS' Executive Committee in favour of the 2008 Report on the Company's internal control, drawn up under Section 404 of SOX and in the context of the issuing of *Form 20-F*.

During 2008, the Committee continued to pursue its activities of (i) supervision of the quality, integrity and effectiveness of the internal control and risk management system and (ii) supervision of the improvements designed to overcome insufficiencies. Furthermore, the Committee discussed and periodically analyzed the implementation of this system with PT SGPS' Executive Committee and the Group's main subsidiaries.

The activities of this Committee for the purposes of supervision of the quality, integrity and effectiveness of the Internal Audit Function are described in (d) hereunder.

(d) Overseeing the performance of the functions of the Independent External Auditors, Statutory Auditor and Internal Audit Department

The Audit Committee activities' on the supervision/assessment of the independence and work conducted by the Statutory Auditor and by the Independent External Auditors are described in (a) and (b) above.

Additionally, the Committee analyzed and approved the plans of activities of the Independent External Auditors (including, *inter alia*, a description of the scope, planning and resources employed and information on quality control procedures of the Independent External Auditors) and held periodic meetings for the assessment of their work and analysis of the results obtained.

Furthermore, the Committee obtained from the Independent External Auditors: (i) limited reports on the individual and consolidated interim financial statements for the semester ended 30 June 2008 and an audit report relating to the financial year ended 31 December 2008 (having given prior opinion to the Board of Directors on the basis

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of the memos and drafts of reports prepared by the Independent External Auditors in this regard); and (ii) an audit report on the annual accounts included in *Form 20-F* referring to the financial year ended 31 December 2008 (which was also discussed with the Executive Committee).

In accordance with the Company's By-laws and its charter, the Audit Committee is also responsible for the supervision of the account auditing carried out by the Statutory Auditor, a task that was carried out throughout the examination and discussion of the content of the legal certification (*certificação legal de contas*) of the individual and consolidated financial statements for financial year ended 31 December 2008.

Therefore, during the year 2008, the Audit Committee has represented the Company, for all due purposes, before the Statutory Auditor and the Independent External Auditors, having its reports been subject to appreciation by this Committee. In its capacity as supervisory body, the Committee has also carried out the assessment and the supervision of the performance of its functions of statutory auditing and independent external auditing in 2007 and 2008.

In the context of the oversight of the Internal Audit Function, this Committee assessed and issued a prior opinion in favour of the allocation of financial resources to the Internal Audit Department and of the risk assessment and work plans prepared by such Department. The Committee also held quarterly meetings for the follow-up of the activities carried out, and monthly meetings for the analysis of the main issues and of the implementation by the Executive Committee of the proposals included in this Department's reports.

The Audit Committee also approved the Executive Committee's proposal to appoint the new Internal Audit Department Officer, as well as its remuneration and performance fees, following the dismissal of the former Internal Audit Department Officer in the end of 2007.

(e) Whistleblowing and compliance

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The Company has maintained, since 2005 and under this Committee's direct functional responsibility, a whistleblowing system which ensures confidentiality and anonymity, in compliance with SOX and the remaining applicable legal provisions (so-called "*Sistema de Participações Qualificadas de Práticas Indevidas*"). This system encompasses actions or omissions attributed to Group's employees that may impact on the financial statements or on the information sent to SEC or cause losses regarding the Group's assets.

Within the whistleblowing system ("*Sistema de Participações Qualificadas de Práticas Indevidas*"), this Committee has taken steps to ensure that all reported irregularities are duly received and forwarded. In 2008, the Committee also held periodic meetings with the Whistleblowing Office ("*Núcleo de Análise de Participações Qualificadas*" or "NAPQ") – an office with no decision-making powers that is responsible for handling complaints – in order for the Committee to analyze and decide on reported matters as well as to introduce improvements and to ensure internal disclosure of the system.

In order to supervise the Company's management and the compliance with the applicable legal, regulatory and statutory provisions, this Committee carried out the activities in (a) to (e) above, including: (i) supervising the internal control system; (ii) assessing the statutory auditing review and the external and internal Company's auditing; and (iii) discussing and reviewing the issues raised by supervisory authorities having impact on the financial information or on the compliance with accounting policies, having ascertained that all of which were given a satisfactory and timely response.

(f) General Activities

The Audit Committee held 13 meetings in 2008, maintaining regular monthly meetings and having drawn up minutes describing the resolutions taken and all vote statements.

The Audit Committee's members participated in training courses with a view to updating their knowledge on their area of activity, in particular regarding relevant legal and regulatory changes, such as: (i) amendments to the Portuguese Securities Code implementing the so-called "Transparency Directive", approved by Decree-Law 357-

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A/2007, of 31 October; and (ii) the revocation of Regulation 7/2001 approved by CMVM (the Portuguese Securities Market Commission) by Regulation 1/2007 (in force from 1 January 2009); (iii) the revocation of CMVM's Regulation 4/2004 by Regulation 5/ 2008 (in force as from 15 October 2008).

For the purpose of complying with its powers, the Committee held meetings with the Executive Committee's members, Independent External Auditors, the Effective Statutory Auditor, the Internal Audit Department and other employees of Portugal Telecom Group.

At the end of its activities for 2008, the Committee prepared a self-assessment report for such financial year, having such report been brought to the knowledge of the Board of Directors.

III – Conclusions

In light of the above said, the Audit Committee is of the opinion that it has carried out, throughout 2008, the tasks required for the compliance with its powers, duties and responsibilities, without facing any constraints and having the necessary resources for such purpose.

Lisbon, 23 March 2009

THE CHAIRMAN

(João Manuel de Mello Franco)

THE MEMBERS

(Thomaz Paes de Vasconcellos)

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(José Guilherme Xavier de Basto)