



Corporate Governance Report 2010

INDEX

3	5.0 Introduction
5	5.1 Statement of Compliance
16	5.2 Shareholders' General Meeting
18	5.3 Management and auditing Bodies
30	5.4 Group Remuneration policy, Management and Audit bodies' Remuneration
44	5.5 Risk Management
63	5.6 Other information
67	5.7 Articles 447, 448 and qualified shareholdings
68	5.8 Appendix

5.0. Introduction

i) Message to shareholders

Dear shareholder,

Sonaecom has a serious commitment to the creation of long-term shareholder value and, as a result, we are focused on adopting Portuguese and international best practice in terms of corporate governance. We are fully compliant with the legal requirements of the Portuguese Securities Commission (“CMVM”), we comply with the vast majority of their recommendations on Corporate Governance and we will continuously improve our practices going forward.

This commitment is assumed throughout our organisation and our values and disclosure principles are widely disseminated. In the interests of total transparency, we also publish our governance regulations and guidelines on our website (www.sonae.com).

We want to be one step ahead by creating a “best in class” governance model and communicating our governance culture to all stakeholders.

We are particularly proud of the solid and objective principles that support our remuneration policy and methodology. Our remuneration policy is competitive, linked to performance, aligned with shareholder interests, transparent, reasonable, fair and remuneration awarded is disclosed in detail. Our principles clearly reflect our commitment in this area.

ii) Corporate Governance principles

Our corporate governance practices are based on the following main principles:

- Transparency
- Independence
- Oversight
- Risk management
- Shareholder engagement
- Governance model adaptation - One size does not fit all (we “comply” or “explain”)

What corporate governance means to Sonaecom?

By governance we mean our decision-making processes and the way in which our decisions are implemented, as well as the formal structures and different bodies that are involved in preparing, challenging, approving, implementing and reporting on these decisions.

For Sonaecom, corporate governance is about making sure that:

- Our management is leading the business in the right direction and is acting in the interest of the company and its shareholders;
- We protect our ethical standards and respect stakeholder interests;
- We comply with our statutes, and applicable laws and regulations;
- We pursue our corporate strategy in order to accomplish our performance objectives;



- We have the appropriate controls and procedures in place to manage risks effectively;
- Our management and our governance are assessed and monitored, by having the right structures and processes in place.

How does Sonaecom make corporate governance happen?

At Sonaecom, our governance happens throughout our organisational structure, our principles and our communication with and disclosure to stakeholders, which together create a governance culture. Our Board & Corporate Governance Officer supports the Sonaecom Chairman and the CEO, in keeping our governance under review to ensure that the right processes and procedures are in place to protect shareholder interests. Moreover, we have organised ourselves so that the different governing bodies, both statutory and non-statutory, take responsibility for assuring that we follow best practice in terms of corporate governance and optimise the alignment between management and shareholders.

5.1. Statement of Compliance

As required by Portuguese regulations and in line with the recommendations on corporate governance issued in January 2010 by the Portuguese Securities Commission (CMVM), the following section explains the roles, responsibilities and composition of our principal statutory and non-statutory governing bodies. This section also includes detailed disclosure and an explanation of our remuneration policy and of Directors' shareholdings.

Disclosure of the availability of information

The full text of the corporate governance guidelines currently adopted by Sonaecom, whether published by specific regulation, recommendation or voluntarily, including our Code of Conduct and, in particular, our guidelines covering Share Dealing and Conflicts of Interest – are made publicly available on our website www.sonae.com <<http://www.sonae.com>> and also at www.cmvm.pt <<http://www.cmvm.pt>>.

i) CMVM recommendations on Corporate Governance

The table below sets out all of the CMVM's recommendations on Corporate Governance (as issued in January 2010) and our assessment of our compliance as at 31 December 2010:

CMVM recommendations	Sonaecom compliance	Comments
1 Shareholders' General Meetings		
1.1 Board of the Shareholders' General Meeting	Yes	
1.1.1 The Chairman of the Board of the Shareholders' General Meeting shall be given adequate human and logistical resources, taking into consideration the financial position of the Company.		All resources requested have been made available by Sonaecom, via the relevant departments: Legal, Facilities, Finance, and others.
1.1.2 The remuneration of the Chairman of the Board of the Shareholders' General Meeting shall be disclosed in the annual Corporate Governance Report.	Yes	The remuneration is disclosed (see '5.2. Shareholders' General Meeting - Remuneration').
1.2 Participation at the meeting		
1.2.1 The requirement to deposit or block shares before Shareholders' General Meetings, contained in the Articles of Association, shall not exceed five working days.	Yes	The requirement contained in Sonaecom's Articles of Association is five working days, although blocking of shares is no longer required as the law has changed (see '5.2. Shareholders' General Meeting – Remuneration - Blocking of shares').
1.2.2 Should the Shareholders' General Meeting be suspended, the Company shall not require share blocking during the full period until the meeting is resumed, but shall apply the same period as for the first session.	Yes	In case of suspension, the Articles of Association only require the share blocking during the five working days prior to the date on which the meeting is resumed (see '5.2. Shareholders' General Meeting – Remuneration - Rules applicable to the blocking of shares in case of suspension of the General Meeting').

CMVM recommendations	Sonaecom compliance	Comments
1.3		
1.3.1	Yes	There are no restrictions on postal or electronic voting (see '5.2. Shareholders' General Meeting - Postal voting).
1.3.2	Yes	Our statutory deadline is three days (see '5.2. Shareholders' General Meeting - Deadline for receiving postal votes').
1.3.3	Yes	Sonaecom's Articles of Association comply with the one share-one vote principle (see '5.2. Shareholders' General Meeting - Number of shares corresponding to one vote').
1.4		
1.4	Yes	Our quorum corresponds to the minimum required by law.
1.5		
1.5	Yes	All required elements are made and remain available on the Company's website.
1.6		
1.6.1	Yes	There are no clauses that restrict or limit the number of votes.

CMVM recommendations	Sonaecom compliance	Comments
1.6.2 Defensive measures that automatically lead to serious erosion in the value of the Company's assets should not be adopted when there has been a change in control or a change in the Company's management, as this prevents the free transmission of shares and the ability of shareholders to effectively evaluate those responsible for managing the Company.	Yes	No such measures exist (see '5.2. Shareholders' General Meeting – Defensive measures in case of change of control or changes in the Board of Directors').
2 Management and audit boards		
2.1 General points		
2.1.1 Structure and duties		
2.1.1.1 In the Corporate Governance Report, the Board of Directors shall assess the governance model adopted by the Company, by identifying any restrictions that are holding back performance and by proposing actions to be taken that are judged to be appropriate to resolve them.	Yes	See '5.3.a) Management and auditing Bodies - Identification and Composition'.
2.1.1.2 Companies shall set up internal control and risk management systems in order to safeguard the company's worth and which will identify and manage the risk. Said systems shall include at least the following components: i) setting of the company's strategic objectives as regard risk assumptions; ii) identifying the main risks associated to the company's activity and any events that might generate risks; iii) analyse and determine the extent of the impact and the likelihood that each of said potential risks will occur; iv) risk management aimed at aligning those actual incurred risks with the company's strategic options for risk assumption; v) control mechanisms for executing measures for adopted risk management and its effectiveness; vi) adoption of internal mechanisms for information and communication on several components of the system and risk-warning; vii) periodic assessment of the implemented system and the adoption of the amendments that are deemed necessary.	Yes	These systems are in place and are further described in this report (see '5.5. Risk Management').
2.1.1.3 The Board of directors shall ensure the establishment and functioning of the internal control and risk management systems. The Statutory Audit Board shall be responsible for assessing the functioning of said systems and proposing the relevant adjustment.	Yes	These systems are in function and are assessed by Supervisory Bodies (see '5.5.a) Risk management – Internal control and risk management system - Report to management and supervisory bodies').
2.1.1.4 Companies shall: i) identify the main economic, financial and legal risks that the company is exposed to during the exercise of its activity and; ii) describe the performance and effectiveness of the risk management system in its Annual Corporate Governance Report..	Yes	See '5.5.b) Risk Management - Main risks and control actions'.
2.1.1.5 The Board of Directors and Statutory Audit Board shall establish internal regulations, which shall be disclosed on the Company's website.	Yes	These internal regulations are available on our website. See '5.3.b) Management and auditing Bodies – Corporate structure organization - Roles and competencies'. See also '5.5.c) Risk management – other risk management processes'.

CMVM recommendations	Sonaecom compliance	Comments
2.1.2 Incompatibility and independence		
2.1.2.1 The Board of Directors shall include a sufficient number of non-executive members to ensure that there is the capacity to effectively supervise, audit and assess the activity of the executive members	Yes	Out of total of eleven members, there are seven non-executive members on Sonaecom's Board of Directors (see '5.3.a) Management and auditing Bodies – Identification and composition').
2.1.2.2 Non-executive members shall include an adequate number of independent members, taking into account the size of the Company and its shareholder structure, but this shall never be less than one quarter of the total number of Board members.	Yes	There are currently three independent non-executive members on our Board of Directors (corresponding to more than one quarter of the total number of Board members authorised by the Articles of Association) (see '5.3.a) Management and auditing Bodies – Identification and composition').
2.1.2.3 The independence assessment of its non-executive members carried out by the Board of Directors shall take into account the legal and regulatory rules in force concerning the independence requirements and the incompatibility framework applicable to members of other corporate boards, which ensure orderly and sequential coherence in applying independence criteria to all the company. An independent executive member shall not be considered as such, if in another corporate board and by force of applicable rules, may not be an independent executive member.	Yes	The independence assessment is made through a specific questionnaire answer by the Non Executive members of the Board.
2.1.3 Eligibility criteria for appointment		
2.1.3.1 Depending on the governance model adopted, the Chairman of either the Statutory Audit Board, the Board Audit Committee or Financial Matters Committee shall be independent and possess the necessary skills to perform their duties.	Yes	Compliance with legal requirements on independence and necessary skills for the members of our Statutory Audit Board was confirmed through specific questionnaires implemented by Sonaecom (see '5.3f) Management and auditing bodies – Identification of the members of the Statutory Audit Board').
2.1.3.2 The selection process of candidates for non-executive members shall be conjured so as prevent interference by executive members.	Yes	Sonaecom selection process of candidates for non-executive members fully meets this recommendation (see '5.3.b) Management and auditing Bodies – Corporate structure organization - Roles and competencies').

CMVM recommendations	Sonaecom compliance	Comments
2.1.4 Policy on the reporting of irregularities		
2.1.4.1 The Company shall adopt a policy on reporting any irregularities that have allegedly occurred, which includes the following information: i) the means through which any irregularities may be reported internally, including the persons who are entitled to receive the reports; ii) how the report is to be handled, including confidential treatment, should this be requested by the reporter.	Yes	Sonaecom has adopted a policy that fully meets this recommendation (see '5.5.c) Risk management - Whistle-blowing policy').
2.1.4.2 General guidelines from this policy should be disclosed in the Corporate Governance Report.	Yes	Sonaecom discloses the general guidelines in this report and on our website (see '5.5.c) Risk management - Whistle-blowing policy').
2.1.5 Remuneration		
2.1.5.1 The remuneration of the Members of the Board of Directors shall be structured so that the formers' interests are capable of being aligned with the long-term interests of the company. Furthermore, the remuneration shall be based on performance assessment and shall discourage taking on extreme risk. Thus, remunerations shall be structured as follows: <p>i) The remuneration of the Board of Directors carrying out executive duties shall include a variable element which is determined by a performance assessment carried out by the company's competent bodies according to pre-established quantifiable criteria. Said criteria shall take into consideration the company's real growth and the actual growth generated for the shareholders, its long-term sustainability and the risks taken on, as well as compliance with the rules applicable to the company's activity.</p> <p>ii) The variable component of the remuneration shall be reasonable overall as regard the fixed component of the remuneration and maximum limits shall be set for all components.</p> <p>iii) A significant part of the variable remuneration shall be deferred for a period not less than three years and its payment shall depend of the company's steady positive performance during said period.</p>	No	Alignment with the interests of the Shareholders is ensured and this recommendation is met (see 'Group Remuneration Policy and Remuneration of Management and Audit Bodies') with the exception of 2.1.5.1 i). <p>Although António Lobo Xavier is a member of the Executive Committee, his remuneration package does not include any variable component. This is an exception to the general rule for members of the Executive Committee of Sonaecom and is not in compliance with particular recommendation. However, as António Lobo Xavier is member of the Sonaecom Ethics Committee and has responsibilities in terms of Governance, it was considered that it was not advisable for his remuneration package to include any variable component.</p> <p>Sonaecom's Remuneration Structure combines fixed and variable components, in alignment with European pay standards. Variable pay represents more than 40% in global pay.</p> <p>See '5.4.b) Directors Remuneration'.</p>

CMVM recommendations	Sonaecom compliance	Comments
<p>(iv) Members of the Board of Directors shall not enter into contracts with the company or third parties that will have the effect of mitigating the risk inherent in the variability of the remuneration established by the company.</p> <p>(v) The Executive Directors shall hold, at least twice the value of the total annual remuneration, the company shares that were allotted by virtue of the variable remuneration schemes, with the exception of those shares that are required to be sold for the payment of taxes on the gains of said shares.</p> <p>(vi) When the variable remuneration includes stock options, the period for exercising same shall be deferred for a period of not less than three years.</p> <p>(vii) The appropriate legal instruments shall be established so that in the event of a Director's dismissal without due cause, the envisaged compensation shall not be paid out if the dismissal or termination by agreement is due to the Director's inadequate performance.</p> <p>(viii) The remuneration of Non-Executive Board Members shall not include any component the value of which is subject to the performance or the value of the company.</p>		<p>No such contracts have been identified.</p> <p>Sonaecom implemented since 2008 a Share Holding and Retention Policy that fully complies with this recommendation.</p> <p>The variable remuneration does not include stock options.</p> <p>Sonaecom applies for the appropriate legal instruments available in law to this type of situations.</p> <p>Non-Executive Directors do not receive Annual Performance Bonuses nor do they participate in Sonaecom MTIP.</p>
<p>2.1.5.2 The statement on the remuneration policy of the management and audit bodies referred to in Article 2 of Law No. 28/2009 of 19 June, shall contain, in addition to the content therein stated, adequate information on: i) which groups of companies the remuneration policy and practices of which were taken as a baseline for setting the remuneration ii) the payments for the dismissal or termination by agreement of the Directors' duties</p>	No	<p>2011 AGM remuneration proposal will include such information.</p>
<p>2.1.5.3 The remuneration policy statement referred to in Article 2 of Law No. 28/2009 shall also include the persons discharging managerial responsibilities' remuneration which contain an important variable component, within the meaning of Article 248-B/3 of the Securities Code. The statement shall be detailed and the policy presented shall particularly take the long-term performance of the company, compliance with the rules applicable to its business and restraint in taking risks into account.</p>	No	<p>2011 AGM remuneration proposal will include such information.</p>
<p>2.1.5.4 A proposal shall be submitted at the General Meeting on the approval of plans for the allotment of shares and/or options for share purchase or further yet on the variations in share prices, to members of the management and audit bodies and other managers within the context of Article 248/3/B of the Securities Code. The proposal shall mention all the necessary information for its correct assessment. The proposal shall contain the regulation plan or in its absence, the plan's conditions. The main characteristics of the retirement benefit plans established for members of the management and audit bodies and other managers within the context of Article 248/3/B of the Securities Code, shall also be approved at the General Meeting.</p>	Yes	<p>Sonaecom's Medium Term Incentive Plan (MTIP) was approved at the 2007 Shareholders' General Meeting and the format of the MTIP has not changed since that date. No retirement benefit plans are in place. (see '5.4.a) Group remuneration policy').</p>

CMVM recommendations	Sonaecom compliance	Comments
2.1.5.5 At least one of the Remuneration Committee's representatives shall be present at the Annual General Meeting for Shareholders.	Yes	A representative of the Shareholders' Remuneration Committee has been present at the AGM.
2.1.5.6 The amount of remuneration received, as a whole and individually, in other companies of the group and the pension rights acquired during the financial year in question shall be disclosed in the Annual Report on Corporate Governance.	Yes	This disclosure is made. See '5.4.b) Directors remuneration'.
2.2 Board of directors		
2.2.1 Within the limits established by Portuguese Company Law for each management and audit governance structure, and unless the Company is restricted by its size, the Board of Directors shall delegate the day-to-day running of the Company and the powers and terms of the delegation should be set out in the Corporate Governance Report.	Yes	The day-to-day running of the Company is delegated to an Executive Committee (see '5.3.b) Management and auditing Bodies – Corporate structure organization - Roles and competencies').
2.2.2 The Board of Directors shall ensure that the Company acts in accordance with its objectives, and should not delegate its own responsibilities, including: i) definition of the Company's strategy and general policies; ii) definition of the corporate structure of the Group; and iii) decisions that are considered to be strategic due to the amounts, risks and special circumstances involved.	Yes	Such responsibilities are not delegated (see '5.3.b) Management and auditing Bodies – Corporate structure organization - Roles and competencies').
2.2.3 Should the Chairman of the Board of Directors have an executive role, the Board of Directors shall set up efficient mechanisms to co-ordinate the work of the non-executive members, to ensure that they may take decisions in an independent and informed manner, and shall also explain these mechanisms to the Shareholders in the Corporate Governance Report.	Yes	The Chairman of the Board of Directors does not have an executive role at Sonaecom (see '5.3.a) Management and auditing Bodies – Identification and composition').
2.2.4 The Annual Management Report shall include a description of the activity carried out by the non-executive Board Members and shall, in particular, report any restrictions that they encountered.	Yes	This description is included in Section 4 of the Annual Management Report.
2.2.5 The company shall expound its policy of portfolio rotation on the Board of directors, including the person responsible for the financial portfolio, and report on same in the Annual Corporate Governance Report.	Yes	See '5.3.b) Management and auditing Bodies – Corporate structure organization - Roles and competencies'.
2.3 Chief Executive Officer (CEO), Executive Committee and Executive Board of Directors		
2.3.1 When Directors who carry out executive duties are requested by other Board Members to supply information, they shall provide answers in a timely manner with information that adequately responds to the request made.	Yes	Sonaecom Executive Directors meet this recommendation.
2.3.2 The Chairman of the Executive Committee shall send the notices convening meetings and minutes of the respective meetings to the Chairman of the Board of Directors and, when applicable, to the Chairman of the Statutory Audit Board or the Audit Committee.	Yes	The Chairman of the Executive Committee meets this recommendation.

CMVM recommendations	Sonaecom compliance	Comments
2.3.3 The Chairman of the Executive Board of Directors shall send the notices convening meetings and minutes of the respective meetings to the Chairman of the General and Supervisory Board and to the Chairman of the Financial Matters Committee.	Not Applicable	Sonaecom has not adopted this governance model.
2.4 General and Supervisory Board, Financial Matters Committee, Audit Committee and Statutory Audit Board		
2.4.1 In addition to fulfilling its supervisory and verification roles, the General and Supervisory Board shall fulfil the role of advisor, as well as monitor and continually assess the management of the Company by the Executive Board of Directors. Amongst the other matters on which the General and Supervisory Board should form an opinion are the following: i) definition of the strategy and general policies of the Company; ii) the corporate structure of the Group; and iii) decisions that are considered to be strategic due to the amounts, risks and special circumstances involved.	Not Applicable	Sonaecom has not adopted this governance model.
2.4.2 The annual reports on the activity of the General and Supervisory Board, the Financial Matters Committee, the Audit Committee and the Statutory Audit Board shall be disclosed on the Company's website together with the financial statements.	Yes	The annual report of the Statutory Audit Board is disclosed on Sonaecom's website.
2.4.3 The annual reports on the activity of the General and Supervisory Board, the Financial Matters Committee, the Audit Committee and the Statutory Audit Board shall include a description of the supervisory and verification work completed and shall, in particular, report any restrictions that they encountered.	Yes	The Statutory Audit Board's report includes such a description.
2.4.4 The General Supervisory Board, the Audit Committee or the Statutory Audit Board (depending on the governance model adopted) shall represent the Company, for all purposes, in the relationship with the external auditor. This shall include proposing who will provide this service, their respective remuneration, and ensuring that the Company provides adequate conditions to allow them to deliver their service, and also acting as the point of contact with the Company and being the first recipient of their reports.	Yes	Sonaecom fully complies with Portuguese Company Law in terms of the role and functioning of the Statutory Audit Board. The Statutory Audit Board liaises with the Board Audit and Finance Committee in this area as described later in this report.
2.4.5 The General Supervisory Board, the Audit Committee or the Statutory Audit Board (depending on the governance model adopted), shall assess the external auditor on an annual basis and should propose to the Shareholders' General Meeting that the external auditor be discharged, should justifiable grounds exist.	Yes	The Statutory Audit Board makes this annual assessment.
2.4.6 The internal audit services and those that ensure compliance with the rules applicable to the company (compliance services) shall functionally report to the Audit Committee or the Statutory Audit Board or, in the case of companies adopting the Latin model, an independent director or Statutory Audit Board, regardless of the hierarchical relationship that these services have with the executive management of the company.	Yes	"Internal Audit services report functionally both to the Board Audit and Finance Committee and to the Statutory Audit Board, being the latter independent from the Board of Directors (see '5.5. Risk management - Report to Management and Supervisory Bodies').

CMVM recommendations	Sonaecom compliance	Comments
2.5 Special purpose or specialised committees		
2.5.1 Unless the Company is restricted by its size, the Board of Directors and the General and Supervisory Committee, depending on the governance model adopted, shall set up the necessary committees in order to: i) ensure that a robust and independent assessment of the performance of the Executive Directors is carried out, as well as of its own overall performance and including the performance of all existing committees; and ii) consider the governance system adopted, assess its efficiency and propose measures to make improvements to the relevant bodies; and iii) in due time identify potential candidates with the high profile required for the performance of director's duties.	Yes	Board Audit and Finance Committee and, especially, the Board Nomination and Remuneration Committee were set up for these purposes (see '5.3.b Management and auditing Bodies - Corporate structure organization - Roles and competencies').
2.5.2 Members of the Shareholders' Remuneration Committee or similar, shall be independent from the members of the Board of Directors and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	See explanations below in respect of the effective independence of Paulo Azevedo (see 'CMVM Recommendations compliance').
2.5.3 Any natural or legal person which provides or has provided, over the past three years, services to any structure subject to the Board of Directors, to the Board of Directors of the company or that has to do with the current consultant to the company shall not be recruited to assist the Remuneration committee. This recommendation also applies to any natural or legal person who has an employment contract or provides services.	Yes	No such persons were recruited.
2.5.4 All committees shall draw up minutes of the meetings they hold.	Yes	Our Board committees draw up minutes.
3. Information and auditing		
3.1 General disclosure requirements		
3.1.1 Companies shall ensure that permanent contact is maintained with the market, upholding the principle of equal treatment for all Shareholders and avoiding any asymmetry in the access to information by investors. To achieve this, the Company shall set up an Investor Relations Office.	Yes	Sonaecom has set up an Investor Relations Office (see 5.6. Other information - Investor Relations').
3.1.2 The following information disclosed on the Company's Internet website, shall be available in English: a) The Company, its listed company status, registered office and the remaining information set out in Article 171 of Portuguese Company Law; b) Articles of Association; c) Identification of the members of the Statutory Governing Bodies and of the Representative for Relations with the Market; d) Investor Relations Office - its functions and contact details; e) Financial Statements; f) Half-yearly Calendar of Company Events; g) Proposals presented to Shareholders' General Meetings; h) Notices convening Shareholders' General Meetings.	Yes	All the information indicated is available in English on our website.
3.1.3 Companies shall advocate the rotation of auditors after two or three terms in accordance with four or three years respectively. Their continuance beyond this period must be based on a specific opinion from the Statutory Audit Board to formally consider the conditions of the auditor's independence and the benefits and costs of replacement.	Yes	Recommendation not applicable, as Sonaecom External auditors' mandate will end in 31 December 2011.

CMVM recommendations	Sonaecom compliance	Comments
3.1.4 The work performance of the statutory external auditor during 2010 is disclosed in the annual auditor report, available on our website www.sonae.com	Yes	All the requirements are specified in Sonaecom Management letter, issued by our external auditor.
3.1.5 The company shall not recruit the external auditor for services other than audit services, nor any entity with which same takes part or incorporates the same network. Where recruiting such services is called for, said services should not be greater than 30% of the total value of services rendered to the company. The hiring of these services must be approved by the Statutory Audit Board and must be expounded in the Annual Corporate Governance Report.	Yes	Sonaecom policy is to adopt services other than audit not greater than 20% of the total value of services rendered to the company. Particularly in 2010, this percentage of services totaled 5%.
4. Conflicts of Interest		
4.1 Shareholder Relationship		
4.1.1 Where deals are concluded between the company and shareholders with qualifying holdings or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be carried out in normal market conditions.	Yes	Sonaecom policy is to conduct these deals according with the normal market conditions. See '5.5.c) Risk management - Conflicts of Interest policy'.
4.1.2 Where deals of significant importance are undertaken with holders of qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be subject to a preliminary opinion from the Statutory Audit Board. The procedures and criteria required defining the relevant level of significance of these deals and other conditions shall be established by the Statutory Audit Board.	Yes	Sonaecom policy is to report such deals. See '5.5.c) Risk management - Conflicts of Interest policy'.

CMVM Recommendations compliance

On what concerns CMVM's Recommendations on Corporate Governance, we would like to add that concerning recommendation 2.5.2. (Independence of the members of the Shareholders' Remuneration Committee), we consider that we are compliant with this recommendation in terms of substance, although formally we do not comply as one of the members of this Committee (Duarte Paulo Teixeira de Azevedo) is also the Chairman of our Board of Directors.

Our opinion is based on the following considerations: (i) Duarte Paulo Teixeira de Azevedo represents our major reference Shareholder at the Shareholder's Remuneration Committee in his capacity of CEO of Sonae, SGPS, S.A., which is fully consistent with the purpose of this committee; (ii) he is a Non-Executive Chairman of our Board; (iii) he does not take part in any discussion where a conflict of interest might arise with his role as Chairman of our Board (for example, he does not discuss his own remuneration at Sonaecom, which is decided by the other independent member of our Shareholders' Remuneration Committee); and (iv) additionally, his remuneration at Sonaecom is not a significant value, being 60,700 euros in 2010.

In relation to independence, one further point to stress is that our Board Nomination and Remuneration Committee liaises with our Shareholders' Remuneration Committee to ensure that the latter has all the necessary information to assess the performance of our Directors (especially the Executive Directors), as the Shareholders' Remuneration Committee does not closely monitor their activity throughout the year. This support does not in any way impair the independence of the members of the Shareholders' Remuneration Committee but facilitates the assessments they make and the remuneration decisions they approve on behalf of our Shareholders.

On what concerns recommendation 3.1.3., Sonaecom adopted the current governance model in 2007, in which the external auditor is no longer part of the Statutory Audit Board. According to this model, the nomination for each mandate of the Statutory External Auditor is made in the Shareholders Annual General Meeting upon a proposal of the Supervisory Board. Additionally, the Statutory Audit Board undertakes an annual assessment of the external auditor, aimed at assuring that the rotation of the partner responsible for executing the work is completed (as required by Regulation no. 224/2008, of 20 November).

5.2. Shareholders' General Meeting

Composition of the Board of Shareholders' General Meeting

João Augusto Esmeriz Vieira de Castro	Chairman
António Agostinho Cardoso da Conceição Guedes	Secretary

Mandates

The current mandate of the members of the Board of the Shareholders' General Meeting covers the period from 2008 to 2011.

Remuneration

The Chairman of the Shareholders' General Meeting receives a fixed annual fee of 5,000 euros and the Secretary a fixed annual fee of 1,500. These amounts didn't suffer any change since 2008.

Blocking of shares

The Shareholders' General Meeting is composed of shareholders with the right to vote based on shares they own or equivalent subscription rights that have, within the five working days period prior to the General Meeting, provided confirmation of ownership to the Company.

Rules applicable to the blocking of shares in case of suspension of the General Meeting

The Articles of Association of the Company stipulate that, in the event of a suspension of the General Meeting, the blocking of shares applicable to the date on which the meeting is resumed is five working days.

Number of shares corresponding to one vote

Each share corresponds to one vote.

Statutory rules on limitations of the number of votes

The Articles of Association do not include any restrictions on the number of votes that may be counted nor do they allow for the existence of shares that do not grant the right to vote.

Postal voting

Postal voting is allowed in respect of all proposals for discussion and decision at a Shareholders' General Meeting, according to the terms and conditions set out in the Company's Articles of Association. The Chairman of the Board of the Shareholder's General Meeting is responsible for the authenticity and confidentiality of such votes.

Form used for postal voting

Printed postal voting forms are available and may also be downloaded from Sonaecom's website.

Deadline for receiving postal votes

Postal voting bulletins must be received at least three days before the Shareholders' General Meeting at the Company's Registered Office by means of registered mail or electronically and must be addressed to the Chairman of the Board of the Shareholder's General Meeting.

Electronic voting

Electronic voting is allowed for under Sonaecom's Articles of Association, provided the requirements imposed by the Chairman of the Shareholders' General Meeting, in the notice convening the respective General Meeting, in order to assure an equivalent level of security and authenticity, are respected.

Possibility of access to the extracts of the minutes of the General Meetings on the website of the Company

All shareholders have access to the extracts of the minutes on Sonaecom's website within the following five days.

Member of the Shareholders' Remuneration Committee that attended the General Meeting

The member of the Shareholders' Remuneration Committee who attended the 2010 Shareholders' General Meeting was Duarte Paulo Teixeira de Azevedo.

Approval of remuneration policy and assessment of the management of the Company

The Shareholders' Remuneration Committee (elected by the Shareholders' General Meeting) is responsible for approving the remuneration and other compensation of members of Sonaecom's Statutory Governing Bodies, including Executive and Non-Executive Directors and following the remuneration and other compensation policies already approved by Shareholders at Shareholders' General Meetings.

As required by Portuguese Company Law, the agenda for each AGM includes a point covering the assessment of the management and audit of the Company, under which the Shareholders have the opportunity to make this assessment. In line with the CMVM's Recommendations on Corporate Governance, such proposal will include persons discharging managerial responsibilities' remuneration in 2011.

Approval of share plans

Sonaecom's share plans are approved by the General Meeting and all relevant information is provided to the Shareholders in detail, in order to enable them to decide on a fully informed basis. The current plan was approved at the 2007 AGM and all relevant data is available on the Company's website.

Approval of retirement benefits

Sonaecom does not have any retirement benefits in place.

Existence of a statutory provision regarding the resolution of the General Meeting aiming at maintaining or revoking a statutory provision referring to the limitation on the number of votes that may be counted

No such provision exists, as there are no limitations on the number of votes that may be counted.

Defensive measures in case of change of control or changes in the Board of Directors

None of the so-called defensive measures exist.

Agreements with ownership clauses

A change in control of Sonaecom would allow France Télécom to terminate the Strategic Partnership Agreement entered into on 9 June 2005, which was renewed on 24 October 2008.

Agreements with members of the Board of Directors and other persons discharging managerial responsibilities ('Dirigentes') in case of termination of the mandate

Please refer to 5.4.c), Compensation for Board members on termination of office.

5.3. Management and auditing Bodies

a) Identification and composition

Board of Directors

Composition

Under Sonaecom's Articles of Association, the Board of Directors may be composed of any number of members between three and twelve, elected at a Shareholder's General Meeting. Board mandates are of four years, with the possibility of re-election. The current Board mandate covers the period from 2008 to 2011. The Board of Directors shall elect its Chairman.

Members

Duarte Paulo Teixeira de Azevedo	Chairman
António Sampaio e Mello	Independent Non-Executive Director
David Charles Denholm Hobley	Non-Executive Director *
Gervais Gilles Pellisser	Non-Executive Director
Jean-François René Pontal	Independent Non-Executive Director
Franck Dangeard	Independent Non-Executive Director
Nuno Manuel Jordão	Non-Executive Director
Ângelo Gabriel Ribeirinho dos Santos Paupério	Executive – CEO
António Bernardo Aranha da Gama Lobo Xavier	Executive Director
Maria Cláudia Teixeira de Azevedo	Executive Director and CEO of SSI and Online & Media
Miguel Nuno Santos Almeida	Executive Director and CEO of Optimus

Sonaecom's Board of Directors exhibits a healthy balance between the total number of Non-Executive Directors and the number of Independent Non-Executive Directors.

*See 'Independence Criteria'.

Statutory Audit Board

Composition

Sonaecom's Statutory Audit Board is composed of the following members:

Members

Arlindo Dias Duarte Silva	Chairman
Armando Luís Vieira de Magalhães	Member
Óscar José Alçada da Quinta	Member
Jorge Manuel Felizes Morgado	Substitute

Statutory External Auditor

Composition

Sonaecom's Statutory External Auditor is Deloitte & Associados, SROC, S.A. represented by Jorge Manuel Araújo de Beja Neves, who may be substituted, if required, by João Luís Falua Costa da Silva.

Company Secretary

Composition

Sonaecom's Secretary is Filipa Santos Carvalho, who may be substituted, if required, by Pedro Teixeira Sá.

Other committees with management and auditing competencies

In order to improve the operational efficiency of the Board and to meet best practices in Corporate Governance, Sonaecom's Board has created three Board Committees: the Executive Committee, the Board Audit and Finance Committee and the Board Nomination and Remuneration Committee.

Executive Committee

Composition

Under Sonaecom's Articles of Association, the Executive Committee is selected from the members of the Board of Directors. The Group's CEO and the three other Executive Directors comprise the Executive Committee.

Members

Ângelo Gabriel Ribeirinho dos Santos Paupério	Executive Director – CEO
Miguel Nuno Santos Almeida	Executive Director – Telecommunications and Deputy CEO
Maria Cláudia Teixeira de Azevedo	Executive Director – SSI and Online & Media
António Bernardo Aranha da Gama Lobo Xavier	Executive Director

Board Audit and Finance Committee

Composition

Sonaecom's Board Audit and Finance Committee (BAFC) consists of three members who are appointed by and from among the members of the Board. The fourth member is the Board and Corporate Governance Officer. The Committee currently includes three Non-Executive Directors, two of whom are independent, and is chaired by an Independent Non-Executive Director.

Members

Jean-François René Pontal	Chairman – Independent Non-Executive Director
António Sampaio e Mello	Independent Non-Executive Director
David Charles Denholm Hobley	Non-Executive Director*
David Graham Shenton Bain	Board and Corporate Governance Officer

*See 'Independence Criteria'.

Board Nomination and Remuneration Committee

Composition

Sonaecom's Board Nomination and Remuneration Committee (BNRC) consists of three members and includes the Chairman of the Board of Directors and two Independent Non-Executive Directors. The current composition is shown in the table below.

Members

Duarte Paulo Teixeira de Azevedo	Chairman – Non-Executive Director
Jean-François René Pontal	Independent Non-Executive Director
Franck Emmanuel Dangeard	Independent Non-Executive Director

Ethics Committee

Composition

Sonaecom's Ethics Committee consists of four members appointed by the Board of Directors, including one Independent Non-Executive Director, as Chairman of the Committee, an Executive Director, the Board and Corporate Governance Officer and the head of the Human Resources department. The current composition is shown in the table below.

Members

Jean-François René Pontal	Chairman – Independent Non-Executive Director
António Bernardo Aranha da Gama Lobo Xavier	Executive Director
David Graham Shenton Bain	Board and Corporate Governance Officer
Anabela Magalhães	Head of the Human Resources Department

Board and Corporate Governance Officer

Composition

Sonaecom's Board and Corporate Governance Officer (BCGO) is David Graham Shenton Bain.

Shareholders' Remuneration Committee

Composition

Sonaecom's Shareholders' Remuneration Committee ('Comissão de Vencimentos') comprises two members appointed by the Shareholders' General Meeting, under a four-year mandate, currently 2008 to 2011:

Sonae, SGPS, S.A. represented by	Duarte Paulo Teixeira de Azevedo ⁽¹⁾
Sontel, BV, represented by	Bruno Walter Lehmann ⁽²⁾

(1) CEO of Sonae, SGPS, S.A.

(2) Partner – Egon Zehnder International, with vast experience in remuneration policy matters.

b) Corporate structure organisation – roles and competencies

Sonaecom's Corporate Governance structure sets out clearly the roles, duties and responsibilities of its different governing bodies.



We highlight below the key duties and responsibilities of Sonaecom's governing bodies:

Board of Directors

The Board of Directors is responsible for assuring the management of the Company's business, monitoring risks, managing conflicts of interests and developing the organisation's goals and strategy.

Sonaecom's Articles of Association permit the Board to delegate day-to-day Company business, duties and responsibilities, as considered appropriate, to an Executive Committee (as described in more detail under the Executive Committee section) but do not allow the Board to approve share capital increases, which must be approved at a Shareholders' General Meeting.

Policy of rotation

Executive Commission roles at Sonaecom are rotated based on matching the skills and competencies required for the role, at any point in time, with the capabilities, experience and career plans of the individuals currently serving. Alternative candidates are identified and considered, as part of the Company's annual succession and contingency planning processes.

Sonaecom does not have a formal policy in relation to the rotation of the executive roles of the Board of Directors, in the sense that no rotation of any of the executive roles is mandatory. Sonaecom does not agree with rotation for rotation's sake, which to the best of our knowledge does not exist in any other international Corporate Governance Code or in any of the Best Practice Guidelines issued by institutional investors or their advisors. We believe that there would be no benefit to Shareholders or to the Company from forcing the rotation of a competent and successful CFO or the holder of any other Executive Commission role.

Statutory Audit Board

The main responsibilities of Sonaecom's Statutory Audit Board consist of auditing the Company's activities, assessing the Company's management and supervisory bodies and monitoring the Company's compliance with the law and the Company's Articles of Association.

The annual report on the activity of the Statutory Audit Board includes a description of the analysis and verification work completed and, in particular, any restrictions encountered. These reports are available on the Company's website.

The Statutory Audit Board appraises the work of the external auditor on an annual basis and should propose to the Shareholders' General Meeting that the external auditor be discharged, should justifiable grounds exist.

Shareholders' Remuneration Committee

The Committee is responsible for approving the remuneration and other compensation of members of Sonaecom's Board of Directors and of its other Statutory Governing Bodies, on behalf of the Shareholders, in accordance with the remuneration and other compensation policies approved by Shareholders at a Shareholders' General Meeting.

Company Secretary

The Company Secretary is responsible for:

- (i) Keeping the formal minute books and attendance lists at Shareholders' General Meetings;
- (ii) Forwarding the legal documentation to convene Shareholders' General Meetings;
- (iii) Supervising the preparation of supporting documentation for the Shareholders' General Meetings and meetings of the Board of Directors and preparing the respective formal minutes;
- (iv) Responding to Shareholders' requests for information within the scope of the law;
- (v) Legal registration of any act or resolutions of the Company's Statutory Governing Bodies.

Executive Committee

The Executive Committee may deliberate on matters that relate to general management and not on matters that are exclusively within the powers of the Board of Directors. Powers and the responsibility to manage and carry out Sonaecom's day-to-day operations are delegated to the Executive Committee, except as follows:

- (i) To appoint the Chairman of the Board;
- (ii) To co-opt a substitute to replace a member of the Board;
- (iii) To convene Shareholders' General Meetings;
- (iv) To approve the Annual Report and Accounts;
- (v) To grant any pledge, guarantee or charge over Sonaecom's assets, if those are in excess of an accumulated value of 500,000 euros in any financial year;
- (vi) To decide to change the registered office or to approve any share capital increases;
- (vii) To decide on mergers, demergers, modifications to the corporate format and any other projects relating to association with other legal entities to form new companies;
- (viii) To approve Sonaecom Group's Business Plan and Annual Budget;
- (ix) To define the key features of personnel compensation policies, including stock incentive plans and variable compensation plans applicable to Executives (Sonaecom Group Management Levels G3 and above), in areas that do not require decisions from the Shareholders' Remuneration Committee ('Comissão de Vencimentos') or deliberations at Shareholders' General Meetings;
- (x) To define or change major accounting policies of any company included in the consolidation perimeter of the Group;
- (xi) To approve Sonaecom's quarterly Accounts and half-year Report and Accounts;
- (xii) To sell, acquire directly or by long-term lease or transact, in any other way, investments classified as tangible fixed assets where the individual transaction value is in excess of 1,000,000 euros, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board;
- (xiii) To purchase or subscribe for new shares in the share capital of any subsidiary companies where the accumulated amount exceeds 5,000,000 euros in any financial year, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board;

- (xiv) To invest in any other companies or in other financial assets when the accumulated value is in excess of 1,000,000 euros in any financial year, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board;
- (xv) To make any other financial investments which exceed the accumulated amount of 1,000,000 euros in any financial year, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board;
- (xvi) To dispose of assets or make other divestments, if such transaction has a significant effect on Sonaecom's operating results (defined as equal to or greater than 5%) or affects the jobs of more than 100 employees, unless covered by the Group's Annual Budget or Business Plan duly approved by the Board.

To ensure that the Board of Directors is kept well informed by the Executive Committee, all significant decisions taken by the Executive Committee are systematically extracted from the minutes of their meetings and are reported, in writing, to the Board of Directors.

Board Audit and Finance Committee (BAFC)

The BAFC operates under Terms of Reference approved by the Board and is responsible for monitoring and supervising Sonaecom's financial reporting processes, reviewing accounting policies and for evaluating risk associated with its activities on behalf of the Board, and additionally for overseeing Corporate Governance within the Company. The BAFC also meets directly with the Group's Statutory External Auditors and the Internal Audit Team. The duties of the BAFC are:

- (i) To review the Company's annual and interim financial statements and reports to the market, and report its findings to the Board, before these documents are approved or signed by the Board;
- (ii) To advise the Board on its reports to Shareholders and financial markets to be included in the Company's annual and half-year Accounts and in the quarterly Earnings Announcements;
- (iii) To advise the Board on the adequacy and appropriateness of internal information provided by the Executive Committee, including systems and standards on internal business controls applied by the Executive Committee;
- (iv) To advise the Board on the appointment of, the assignments to and the remuneration of the Statutory External Auditor and also on the appointment of the Internal Audit Manager;
- (v) To review the scope of the Internal Audit Function and its relation to the scope of the Statutory External Audit and discuss with the Statutory External Auditor and Internal Auditor Manager their intermediate and year-end reports, as well as their reports on internal control, and advise the Board thereon.

The full Terms of Reference of the BAFC are available on the Company's website (www.sonae.com).

Sonaecom's BAFC reports in writing, on a regular basis, to the Board of Directors concerning the work accomplished, results obtained and concerns identified, thus ensuring the effectiveness of the Committee's work.

Board Nomination and Remuneration Committee (BNRC)

The BNRC operates under Terms of Reference approved by Sonaecom's Board and is responsible for identifying candidates for appointment to the Board of Directors or Senior Management positions within the Group, for supervising the preparation of proposals on remuneration and other compensation on behalf of the Board of Directors, for the succession planning and for monitoring Sonaecom's talent management and contingency planning processes. The BNRC reports in writing to the Board, whenever necessary, and liaises with Sonaecom's Shareholders' Remuneration Committee ('Comissão de Vencimentos') to obtain their approval, on behalf of shareholders, for the remuneration and other compensation of the Board of Directors and other Statutory Governing Bodies. The BNRC may receive assistance from external entities, which are required to ensure absolute confidentiality in relation to all the information obtained.

The full Terms of Reference of the BNRC:

- The Sonaecom Board Nomination and Remuneration Committee (BNRC) consists of up to three members: the Chairman of the Sonaecom Board and up to two independent Non-Executive Directors (NEDs) appointed by the Board. The Sonaecom Chairman will chair the BNRC, provided he or she is not remunerated as an Executive by the Company. Otherwise, the senior independent NED appointed will chair the BNRC.
- Members shall be appointed to serve on the BNRC for a period of four years (following the Board mandates).
- The Sonaecom Chief Executive Officer (CEO) will attend the meetings of the BNRC, unless the BNRC on an ad hoc basis, decides otherwise.
- The Secretary to the BNRC will be the Sonaecom Board & Corporate Governance Officer.
- The BNRC is responsible for the succession planning and nomination processes for Board members, for reviewing all remuneration and other compensation policies and proposals for Board members and other Sonaecom Senior Executives (covering Management Levels G2 and above), for supervising the Sonaecom Medium Term Incentive Plan (“MTIP”) and for monitoring Sonaecom’s talent management and contingency planning processes.
- The BNRC will normally meet at least twice a year (in late February or Early March, preferably before the annual meetings of the Sonaecom Shareholder Remuneration Committees – “Comissão de Vencimentos” (See Note below) and in late October or early November). Other meetings may be called by the Chairman or the Board, as necessary.
- The BNRC will report and, when necessary, propose to the full Sonaecom Board and will also liaise with the Sonaecom Shareholder Remuneration Committees through the Sonaecom Chairman.
- The BNRC may take advice from external experts at the expense of the Company. Such experts will be held to absolute secrecy on the topics upon which they opine.
- The agenda of the February/March meeting will always include the review of proposals for the remuneration and other compensation of Executive and Non-Executive Directors of Sonaecom and other Sonaecom Senior Executives. The Sonaecom CEO and other members will withdraw individually from the meeting, when their own remuneration is discussed.
- Remuneration and other compensation proposals, which are submitted to the BNRC for review on behalf of the Sonaecom Board, are prepared based on proposals made by the Sonaecom Chairman (for NEDs and for the CEO) and by the CEO (for other Executive Directors and for Senior Executives), are supported by market and are derived from individual appraisals and KPI analyses.
- The remuneration and other compensation of the Sonaecom Chairman is decided directly by the independent member of the Sonaecom Shareholders’ Remuneration Committee.
- Minutes of BNRC meetings will be prepared and extracts of these will be circulated to all Board Members.

Note: Under Article 27 of the Company Statutes, Sonaecom has a Shareholders Remuneration Committee (“Comissão de Vencimentos”) with 2 members, being: Paulo Azevedo (representing Sonae SGPS) and Bruno Walter Lehmann (representing Sontel BV). All remuneration and other compensation proposals involving the Officers of the Company (“Órgãos Sociais”), including the Board of Directors, must have the agreement of and be formally approved by this Body on behalf of Sonaecom SGPS shareholders.

During 2010, Sonaecom BNRC hired external advisory services in remuneration policy benchmarking and best practices.

Ethics Committee

The Ethics Committee is responsible for supervising and maintaining the Company's Code of Conduct and for monitoring its application and ensuring compliance by all Officers and employees of Sonaecom companies.

The Committee is also responsible for reporting to the Company's Board of Directors on compliance with the Code of Conduct, at least once a year, and additionally, whenever requested.

It is the responsibility of the Ethics Committee to receive, discuss, investigate and assess any alleged irregularities that are reported, in accordance with Sonaecom's 'whistle-blowing' policy. The Committee decides the appropriate measures that should be taken in each case reported.

The full Terms of Reference of the Ethics Committee are available on the Company's website (www.sonae.com).

Board and Corporate Governance Officer (BCGO)

The BCGO reports to the Board of Sonaecom as a whole, through the Chairman, and also, when appropriate, through the senior Independent Non-Executive Director.

In particular, the main duties of the BCGO are:

- (i) Ensuring the smooth running of the Board and Board Committees;
- (ii) Participating in Board Meetings and relevant Board Committee Meetings and, when appointed, serving as a member;
- (iii) Facilitating the acquisition of information by all Board and Committee members;
- (iv) Supporting the Board in defining its role, objectives and operating procedures; Taking a leading role in organising Board evaluations and assessments;
- (v) Keeping under close review all Legislative, Regulatory and Corporate Governance issues; Supporting and challenging the Board to achieve the highest standards in Corporate Governance;
- (vi) Ensuring that the Board is conscious of the concept of stakeholders and the need to protect minority interests, when important business decisions are being taken;
- (vii) Helping to ensure that the procedure to nominate and appoint Directors is properly carried out and assist in the induction of new Board Members;
- (viii) Acting as a primary point of contact and source of advice and guidance for, particularly, Non-Executive Directors as regards the Company and its activities; Facilitating and supporting the Independent Non-Executive Directors in the assertion of their 'independence';
- (ix) Helping to ensure compliance with the continuing obligations of the Portuguese Listing Rules;
- (x) Participating in making arrangements for and managing the whole process of Shareholders' General Meetings;
- (xi) Participating in the arrangement of insurance cover for Directors and Officers;
- (xii) Participating, on behalf of the Company, in external initiatives to debate and improve Corporate Governance regulations and practices in Portugal.

The full job description of the BCGO is available on the Company's website (www.sonae.com).

c) Governing bodies – terms of reference, nomination and substitution

The terms of reference of the corporate bodies and the established committees are available on the Company's website. There is neither an internal definition of incompatibilities nor a maximum number of offices held by members of the Board of Directors in other companies.

Members of the Board of Directors and of the Statutory Audit Board are elected and removed by the Shareholders' General Meeting, without prejudice to legal rules applicable to the appointment of members of the Board of Directors.

According to our Articles of Association, if Shareholders representing at least 10% of the share capital of the Company have voted against the successful proposal for the appointment of the members of the Board of Directors, then there will be an election of an additional Director, which will be voted on by the respective minority Shareholders, at the same General Meeting, and the Director so elected shall automatically replace the least voted Director from the successful list or, in case of even voting, shall automatically replace the last person mentioned on that list. In these circumstances, should candidates be proposed by more than one group of Shareholders, there will be a vote taken to choose between them.

If Shareholders representing at least 19% of the share capital of the Company have voted against the successful proposal for the appointment of the members of the Board of Directors, then there will be an election of a second Director, which will be voted on only by the Shareholders of the second minority, at the same General Meeting, and the Director so elected shall automatically replace the second least voted Director from the successful list or, in case of even voting, shall automatically replace the second last person mentioned on that list. In these circumstances, only Shareholders or a group of Shareholders holding shares representing more than 19% and less than 30% of the share capital of the Company may propose candidates.

d) Information on the number of meetings held during 2010

Board meetings

Sonaecom's Board of Directors meets at least four times a year, as required by its Articles of Association, and whenever the Chairman or two Board members call for a meeting. During 2010, there were five Board meetings and the attendance rate was 93%. Sonaecom's Non-Executive Directors (Non-Executive Directors) also hold separate meetings to discuss their ability to assert their independence within the Board and to make suggestions to improve Board procedures and Corporate Governance in general. During 2010, there were two Non-Executive Director meetings and the attendance rate was 79%. The Non-Executive Directors have confirmed, at these meetings, that there have been no restrictions on the scope of their activities during 2010.

Statutory Audit Board meetings

The Statutory Audit Board meets at least once every quarter. There were eight formal Statutory Audit Board meetings during 2010 and the attendance rate was 96%.

Executive Committee meetings

Sonaecom's Executive Committee normally meets once every two weeks and whenever the CEO or a majority of its members call for a meeting. There were 21 meetings of the Executive Committee in 2010 and the attendance rate was 98%.

BAFC meetings

The BAFC meets at least five times a year and whenever the Chairman, the Board of Directors, the Executive Committee or, exceptionally, the Statutory External Auditor believe a meeting is necessary. Between meetings, the BAFC follows projects and monitors activity by conference calls. During 2010, the Committee met five times with an attendance rate of 96% and also held four conference calls.

BNRC meetings

The BNRC meets at least twice a year and whenever the Chairman or the Board of Directors deem necessary. There were two formal BNRC meetings during 2010 and the attendance rate was 100%.

Shareholders' Remuneration Committee meetings

This Committee meets at least once a year. There were two meetings during 2010 and the attendance rate was 100%.

Ethics Committee meetings

The Ethics Committee normally meets once per semester and whenever its Chairman or two of its members deem necessary. There were two meetings during 2010 and the attendance rate was 100%.

e) Executive and Non-Executive members of the Board of Directors

The list below identifies again the members of the Board of Directors, with a distinction between executive and non-executive members and, among the latter, the identification of independent members, who fulfil the independence criteria set out in Article 414^o n^o 5 of Portuguese Company Law and are not subject to any of the circumstances foreseen in Article 414-A, 1 of that Law:

Duarte Paulo Teixeira de Azevedo	Chairman – Non-Executive
António Sampaio e Mello	Independent Non-Executive
David Charles Denholm Hobley	Non-Executive*
Gervais Gilles Pellisser	Non-Executive
Jean-François René Pontal	Independent Non-Executive
Franck Dangeard	Independent Non-Executive
Nuno Manuel Jordão	Non-Executive
Ângelo Gabriel Ribeirinho dos Santos Paupério	Executive – CEO
António Bernardo Aranha da Gama Lobo Xavier	Executive
Maria Cláudia Teixeira de Azevedo	Executive
Miguel Nuno Santos Almeida	Executive

*See 'Independence Criteria'.

Independence Criteria

During 2010, three Independent Non-Executive Directors served on Sonaecom's Board of Directors: António Sampaio e Mello, Jean-François René Pontal and Franck Dangeard.

To the best of the Board of Directors' knowledge and belief, the independence of these three non-executive members has not been affected, since their election, by any subsequent events. The assessment of the independence was made by reference to the legal requirements and, especially, as a result of the enquires addressed to them, that have confirmed that these Directors are not associated with any special interest groups connected to Sonaecom nor are they affected by any circumstance which might threaten the independence of their analysis or restrict their decision making capabilities.

Sonaecom considers David Hobley to be an Independent Non-Executive Board member, as he effectively acts as such. His nomination was based on a proposal presented by Sonae SGPS (and not by France Télécom) and his independence was assessed and accepted by Sonaecom's Board Nomination and Remuneration Committee prior to his election. However, David Hobley is not formally classified as Independent, due to the fact that he also serves as an Independent Non-Executive Director within the France Telecom Group, which owns a 20% stake in Sonaecom.

It should also be noted that all the members of the Statutory Audit Board fulfil the independence criteria set out in Article 414^o n^o 5 of Portuguese Company Law and are not subject to any of the circumstances foreseen in Article 414-A, 1 of that Law.

f) Qualifications, experience and offices held by members of the management bodies

Board of Directors

A description of the qualifications, professional experience and responsibilities during the preceding five-year period and the number of Sonaecom shares held by each member of Sonaecom's Board of Directors are disclosed in the Appendix to this Report.

The month and the year of first appointment of each member of the Board of Directors is as follows:

Duarte Paulo Teixeira de Azevedo	September 1998
António Sampaio e Mello	July 2006
David Charles Denholm Hobley	September 2005
Gervais Gilles Pellisser	July 2006
Jean-François René Pontal	July 2003
Franck Dangeard	July 2008
Nuno Manuel Jordão	April 2008
Ângelo Gabriel Ribeirinho dos Santos Paupério	April 2007
Maria Cláudia Teixeira de Azevedo	April 2006
Miguel Nuno Santos Almeida	April 2005
António Bernardo Aranha da Gama Lobo Xavier	April 2010

Offices held by the members of the Board of Directors

Information on other offices held by each of the members of Sonaecom's Board of Directors – distinguishing between offices within Sonaecom Group and others – are disclosed in the Appendix to this Report.

Statutory Audit Board

A description of the qualifications, professional experience and responsibilities during the preceding five-year period and the number of Sonaecom shares held by each member of Sonaecom's Statutory Audit Board are disclosed in the Appendix to this Report.

The month and year of first appointment of each member of the Statutory Audit Board is as follows

Arlindo Dias Duarte Silva	April 2007
Armando Luís Vieira de Magalhães	April 2007
Óscar José Alçada da Quinta	April 2007
Jorge Manuel Felizes Morgado	April 2007

The period of the term of office of the members of the Statutory Audit Board is the same as for all Statutory Governing Bodies under the current four-year mandate, which is from 2008 until 2011.

Offices held by the members of the Statutory Audit Board

Information on other offices held by each of the members of Sonaecom's Statutory Audit Board – distinguishing between offices in Sonaecom Group and others – can be found in the Appendix to this Report.

5.4. Group Remuneration policy, Management and Audit bodies' Remuneration

a) Sonaecom's remuneration policy

i) Remuneration Policy Principles

Our remuneration policy aims to be:

- **Competitive**

Sonaecom aims to have a competitive remuneration policy in comparison with peer companies and be able to attract good quality talent across the company. To achieve this, Sonaecom designs its remuneration policy based on market benchmark values for peer companies ensuring competitiveness of its Policy

- **Linked to performance**

An important part of Sonaecom Executive's remuneration policy is determined by the company's success. A significant part of executive's remuneration is linked to corporate and individual performance

- **Aligned with Shareholder's interests**

Part of the executive's remuneration is paid in shares that are retained for a three year period. Having into consideration that the value of shares is defined by the performance of the company, the remuneration paid is affected by the Executive's contribution to the results of that performance, hence aligning the Directors with the shareholders interests and long-term performance

- **Transparent and adequately disclosed**

All aspects of the remuneration structure are clear to employees and openly disclosed. This communication process contributes at fostering fairness and independence

- **Reasonable and Fair**

Executive's remuneration at Sonaecom aims to be reasonable, ensuring the balance between the Companies interests and market positioning, the expectations and motivations of our employees and our talent retention needs

ii) Who are our peer companies?

Sonaecom compares its executive Remuneration Policy with generic market trends provided by the main market studies on this area for Portugal and European markets. Sonaecom presently uses the Mercer and HayGroup market studies.

The companies forming our peer group for all reward purposes are the companies that comprise the PSI20 (Portuguese Stock Index and European businesses).

iii) What are our remuneration components?

Sonaecom's remuneration policy for all employees may be composed of the following components:

- Fixed remuneration, which is paid as annual salary (salaries are paid 14 times per annum in Portugal);
- Variable remuneration, which is paid in the first quarter of the following year(through payment in cash, or Long term retirement saving plans or transference of shares with discount) – short term bonus, and in March 10 of the following year in the form of deferred compensation, under the Sonaecom Medium Term Incentive Plan (MTIP), applied to more senior employees (Sonaecom Group Management Levels – 'Grupos Funcionais' or 'GF' 1 to 6); These variable remuneration constitutes a discretionary component of the remuneration policy.
- Results participation.

Fixed remuneration

Annual remuneration and other elements of the compensation package are defined as a function of each employee's level of responsibility and are reviewed annually. Each employee is classified under a 'Sonaecom Management Level' grid, designed using Hay's international model for classification of corporate functions to facilitate market comparisons as well as to help promote internal equity.

Variable remuneration

a) The short term bonus

The short term bonus is aimed at rewarding the achievement of certain pre-defined annual objectives which are linked to both Business and Personal Key Performance Indicators (KPIs) and can be paid to employees in cash, or through Long term retirement saving plans or transference of shares with discount.

The target variable remuneration amount is based on a percentage of the employee's fixed remuneration, which ranges between 12% and 65%, depending on the employee's Management Level. Business KPIs (which include economic, operational and financial indicators based on approved budgets, relative share price performance, individual business unit performance as well as the performance of the Group as a whole) drive between 35% and 70% of the Variable remuneration, depending on the employee's Management Level, being normally objective indicators.

The remaining percentage of the Variable remuneration is based on Personal KPIs, which are a mix of objective and subjective indicators. Variable remuneration paid relate to the actual performance achieved or assessed and can represent anything from 0% to 120% of the target variable remuneration for Business KPIs and 0% to 120% of the target Variable remuneration for Personal KPIs. Combining both components, the maximum range that can apply to any individual is 0% to 120% of the target variable remuneration.

The Business KPIs and their weightings for 2010 were:

Indicator – Description	Weight
Turnover	30.0%
EBITDA	30.0%
Free Cash Flow	30.0%
Relative Share Price Performance	10.0%

b) The Medium Term Incentive Plan ('MTIP')

(i) General terms

Sonaecom's MTIP is aimed at enhancing employees' loyalty, aligning their interests with those of Shareholders, and increasing their awareness of the importance of their performance on the overall success of the organisation, as reflected by changes in Sonaecom's share price.

The MTIP applies to all Sonaecom Group companies, with the exception of WeDo Consulting which follows a specific incentive plan. In relation to Público Group companies, the attribution rules are more restricted and this is not expected to change. Additionally, the inclusion of employees working in editorial areas (journalists) is not recommended, as this could risk the independence required for these activities.

The general terms of the MTIP and any significant amendments must be approved by shareholders at a Shareholders' General Meeting, based on a proposal submitted by the Board of Directors, after the Board has taken advice from the Board Nomination and Remuneration Committee ("BNRC"). The participation in the MTIP of the members of Sonaecom's Executive Committee (ExCom) requires approval by the Shareholders' Remuneration Committee ("Comissão de Vencimentos"), in line with the Group's Remuneration Policy, which is approved by shareholders at a Shareholders' General Meeting. The participation of other Senior Executives is approved, annually, by the Sonaecom ExCom.

The MTIP was approved by shareholders at the Annual General Meeting held on 23 April 2010.

The MTIP is an equity-based discretionary deferred compensation plan with a three year period between the award date and the date on which the award vests. MTIP awards are made in March each year, in respect of performance during the previous financial year. The size of an award made under the MTIP is linked to an individual's value rewarded from the application of the short term variable remuneration criterion for the same 'performance year'. Historically, the MTIP awards were made on 31 March of each year, but, for 2006 onwards, the award date has been changed to 10 March or the last working day before that date. The vesting dates for all open plans have also been adjusted to this new timing. In the case of Sonaecom Executive Board members, the delivery of the MTIP on the vesting day depends on the overall success of the society during this period, esteemed in accordance with objectives set by the Remuneration Committee for each period of three years.

As the MTIP is share based, Sonaecom's Board of Directors decided that the plan should be presented to Shareholders for approval at the Shareholders' Annual General Meeting in 2010, in order to comply with best practice in Corporate Governance. The MTIP was approved by shareholders at the Annual General Meeting held on 23 April 2010.

(ii) MTIP assessment

All Sonaecom employees with Management Levels GF1 to GF6, are eligible to participate in the MTIP, as long they joined the Company before the 31 December of the year being evaluated or they are promoted to GF6, or above, at the annual review process in the first quarter of that year.

The value awarded is determined by applying the following percentages to the amount resulted from the application of the criterion described on the short term Variable remuneration, in respect of the last financial year, according to Sonaecom Management Levels:

Sonaecom Management Levels ('Grupos Funcionais') (1)	Percentage
GF6	Up to 70%
GF5	Up to 80%
GF4	Up to 90%
GF3	Up to 100%
GF2	100%
GF1	100%

(1) Sonaecom Group Management Levels ('Grupos Funcionais' or 'GF') are attributed according to Hay's international model for the classification of corporate functions.

For Sonaecom's senior employees who are at Group Senior Executive Level (GF1), up to 40% of the awards under the MTIP are linked to Sonae SGPS shares (the 'Sonae SGPS Share Plans'), and, for Sonaecom's senior employees who are at the Senior Executive Level (GF2), up to 30% of the awards under the MTIP are linked to Sonae SGPS shares. This link to Sonae SGPS shares was introduced to promote cooperation, maximise synergies and promote the exchange of knowledge between the Company and Sonae SGPS, Sonaecom's controlling Shareholder. For Senior Executive or above (GF1, GF2) with Executive Management positions in Sonaecom or any of its Companies, the MTIP awarded is equal to the value rewarded from the application of the variable remuneration criterion for the same 'performance year'.

On vesting, the transfer of the shares depends on the overall success of the society during this period, esteemed in accordance with the objectives set by the Remuneration Committee for each period of three years. If the criterion for continuing positive performance of our organisation, mentioned above, is met, the shares, corresponding to the initial number of shares, adjusted for dividends and other changes in issued share capital, are transferred to the beneficiaries on the third anniversary of the award date, at the share price on that date, with the Company having the option to apply a discount over the share price. The Company, subject to approval from the Board Nomination and Remuneration Committee, has the option to pay the cash equivalent to the value of the shares at the vesting date.

Results participation

In some cases, the Board of Directors of each subsidiary, after approval of the Board Nomination and Remuneration Committee, can propose, to the Shareholders, the company's results distribution to employees. After the assessment of the total amount to be distributed, the value to be received by each employee will depend on the achievement of certain annual objectives, which are linked to both Business and Personal Key Performance Indicators (KPIs) as described for the Variable remuneration.

Summary of shares under the MTIP – Sonaecom's Share Plans

The awards outstanding under the Sonaecom Share Plans in 2010 can be summarised as follows:

Sonaecom Share Plans outstanding during 2010

	Vesting period			At 31 December 2010	
	Share price at award date*	Award date	Vesting date	Aggregate of number participants	Number of options / shares
Sonaecom Shares					
2006 Plan	4.697	09 Mar 2007	08 Mar 2010	-	-
2007 Plan	2.447	10 Mar 2008	09 Mar 2011	379	1,625,795
2008 Plan	1.117	10 Mar 2009	09 Mar 2012	394	3,476,627
2009 Plan	1.685	10 Mar 2010	08 Mar 2013	403	2,473,756

* Average share price for the month prior to the award date, except for the 2006 Plan for which the share price corresponds to the average share price between 3 March and 5 April 2007. This exception was due to the timing of the end of the Portugal Telecom bid and was approved by the Board Nomination and Remuneration Committee at that time.

The number of shares awarded, and shares unvested or vested under Sonaecom's MTIP in the year ended 31 December 2010, are shown in the following table:

Sonaecom's shares under the MTIP

	Sonaecom shares	
	Aggregate number of participants ⁽¹⁾	Number of shares
Outstanding at 31 December 2009		
Unvested	1,192	6,575,867
Total	1,192	6,575,867
Movements in the year		
Awarded	408	2,498,790
Vested	(381)	(943,725)
Vested early	(8)	(96,880)
Cancelled / Lapsed	(35)	(457,874)
Outstanding at 31 December 2010		
Unvested	1,176	7,576,178
Total	1,176	7,576,178

(1) The number of participants is the cumulative number for all plans. The participant in three plans counts as three.

The number of shares on the table corresponds to the MTIP value committed.

Summary of shares under the MTIP – Sonae SGPS Share Plans

Awards under the Sonae SGPS Share Plans outstanding during 2010 can be summarised as follows:

	Vesting period			At 31 December 2010	
	Share price at award date*	Award date	Vesting date	Aggregate of number participants	Number of options / shares
Sonae SGPS Shares					
2006 Plan	1.680	09 Mar 2007	08 Mar 2010	-	-
2007 Plan	1.160	10 Mar 2008	09 Mar 2011	4	186,234
2008 Plan	0.526	10 Mar 2009	09 Mar 2012	4	389,258
2009 Plan	0.761	10 Mar 2010	08 Mar 2013	4	302,131

*The lower of the average closing share prices for the 30 trading days prior to the Annual General Meeting and the closing share price on the day after the Annual General Meeting, except for the 2006 Plan for which the share price corresponds to the average closing share price between 13 February and 26 March 2007. This exception was due to the timing of the end of the Portugal Telecom bid and was approved by the Board Nominations and Remunerations Committee.

The number of awarded, unvested or vested, and cancelled, lapsed or adjusted Sonae SGPS shares under the MTIP in the year ended 31 December 2010, are shown in the following table:

Sonae SGPS shares under the MTIP

	Sonae SGPS shares	
	Aggregate of number participants (1)	Number of shares
Outstanding at 31 December 2009		
Unvested	17	877,654
Movements in the year		
Awarded	4	290,000
Vested	(5)	(131,764)
Cancelled / lapsed / adjusted(2)	(4)	(158,267)
Outstanding at 31 December 2010		
Unvested	12	877,623

(1) The number of participants is the cumulative number for all plans. The participant in three plans counts as three.

(2) Adjustments are made to allow for the effects of dividends paid and changes in share capital.

MTIP hedging agreements and accounting impact

Sonaecom has hedged its MTIP and related obligations, up to and including the 2009 Plan. The plans are hedged through own shares acquired in 2007 to 2010 and held by Sonaecom. Sonae SGPS shares plans have been hedged through a cash-settled share swap transaction, with an external party. Sonaecom has entered into agreements with its subsidiaries to recharge the corresponding hedging costs to each one of them.

For Sonaecom's share plans, the total responsibility is calculated taking into consideration the share price at 2 January 2009, the date which the change to settlement of share plans became effective, with the exception of the plan attributed in 2009 and 2010, which responsibility is calculated based on the corresponding award date. The total responsibility for the mentioned plans is 4,812,753 euros and was recorded under the heading of 'Reserves'.

The Sonae SGPS shares plans correspond to the delivery of Sonae SGPS shares, but, as they are attributed by Sonaecom and not by Sonae SGPS, the plans are treated as cash-settled plans. As a result of the cash-settled share swap transactions implemented to hedge these plans, the liability is included under 'Other Liabilities' capped at a maximum share price of 1.031 euros, 0.612 euros and 0.832 euros for the MTIP 2007, 2008 and 2009, respectively. Until 31 December 2010, the total amount provided for is 658,399 euros.

The cost of Sonaecom's MTIP is recognised in the accounts over the respective deferral period for each annual plan. As at 31 December 2010, 26.8 million euros had been recognised as a cost (3.4 million euros during 2010 and 23.4 million euros in previous years).

b) Directors remuneration

Sonaecom's Directors' compensation policy is aimed at remunerating in a fair, effective and competitive manner, taking into consideration the individual responsibilities and performance of each Director, both at a subsidiary company level and at a Sonaecom Group level.

Sonaecom's Shareholders' Remuneration Committee is responsible for the approval of the remuneration and other compensation of the Board of Directors, including both Executive and Non-Executive Directors following the remuneration and other compensation policies approved by Shareholders at a Shareholders' General Meeting.

Executive Directors

Remuneration and compensation proposals for Sonaecom's Executive Directors (excluding the CEO) are based on proposals made by the CEO, which are prepared taking into account:

- (i) Market comparables;
- (ii) Other Sonaecom and Sonae comparables;
- (iii) Individual appraisals of each Executive Director.

The Executive Directors' remuneration and other compensation include: (a) a fixed component, which includes an Annual Salary (salaries are paid 14 times per annum in Portugal), an Annual Responsibility Allowance and a package of benefits linked to level of responsibility; and (b) a variable component composed by (i) "Variable remuneration", which is paid during the first quarter of the following year, as previously described for all employees, and (ii) a discretionary variable component, attributable on 10 March of the following year, as a deferred performance bonus

under Sonaecom's Medium Term Incentive Plan, which vests on the third anniversary of the attribution date, detailed below:

(a) Fixed Component:

Individual compensation packages will be defined as a function of the level of responsibility of each Executive Director and will be reviewed annually. Each Executive Director is attributed a Sonaecom Management Level ("Grupo Funcional" or "GF"). Sonaecom's Executive Directors are normally either "Group Senior Executive" (GF1) or "Senior Executive" (GF2). Sonaecom Management Levels are applied in a similar way across all Sonae Group companies and are related to Hay's international model for the classification of corporate functions, thereby facilitating market comparisons, as well as helping to promote internal equity. The compensation packages to be awarded to Executive Directors will be benchmarked using market surveys of the compensation of Portuguese and European top executives, with the aim of setting fixed remuneration close to the median and total compensation close to the third quartile in comparable circumstances;

(b) Variable Component:

(i) Variable remuneration will be aimed at rewarding the achievement of certain pre-defined annual objectives, which are linked to both "Key Performance Indicators of Business Activity" (Business KPIs) and "Personal Key Performance Indicators" (Personal KPI's). The target amounts attributed will be based on a percentage of the fixed component of the compensation package, which will range between 33% and 60%, depending on the Executive Director's Management Level. Business KPIs, which include economic and financial indicators, will be based on approved budgets, share price performance, individual business unit performance as well as the performance of our Group as a whole, will derive 70% of the Variable remuneration and are objective indicators. The remaining 30% of the Variable remuneration will derive from Personal KPI's, which include both objective and subjective indicators. Actual amounts paid will be based on the real performance achieved or assessed and can represent anything from 0% to 120% of the target amount attributed;

(ii) The Medium Term Incentive Plan will be aimed at enhancing the loyalty of Executive Directors, aligning their interests with shareholders, and increasing their awareness of the importance of their performance on the overall success of our organisation, including the future evolution of our share price and the Total Share Return delivered to our shareholders, as well as rewarding their continuing contribution to the positive performance of our organisation over the vesting period of the Plan.

The terms under which Executive Directors will be awarded a Medium Term Performance plan are the following:

a) The target Medium Term Performance plan is attributed at the beginning of each year, normally representing 100% of the target variable remuneration for the same year;

b) On 10 March of the following year, based on the % of achievement of the KPIs used for the Medium Term Performance Bonus, aimed at measuring shareholder value created over the medium term, the target value is increased or reduced accordingly and the resulting value is converted into equivalent shares by dividing by the average stock exchange price (Euronext Lisbon) over the last 30 trading sessions.

c) These shares, or the equivalent value in cash, are delivered after a deferral period of 3 years. This delivery depends on the overall success of the society during this period, esteemed in accordance with the objectives set by the Remuneration Committee for each period of three years. However, should dividends be distributed, the nominal value of the shares altered, or the share

capital be changed, during the deferral period, the initial number of shares under the Medium Term Incentive Plan will be altered to reflect the effects of the above changes in order for the Plan to be aligned with the Total Share Return achieved. This linkage is based on Sonaecom shares but a component, representing up to 40% of the overall value, is linked to Sonae, SGPS shares. At the vesting date, if the criterion for continuing positive performance of our organisation, mentioned above, is met, payment is made by delivering shares at the share price on that date, with the Company having the option to apply a discount over the share price, although Sonaecom retains an option to pay an equivalent value in cash.

CEO and Non-Executive Directors

Remuneration and other compensation for the CEO and remuneration for the Non-Executive Directors (excluding the Chairman) are based on proposals made by the Sonaecom Chairman.

The remuneration of the Chairman is decided by the other independent member of the Shareholders' Remuneration Committee.

For the CEO, the methodology used is the same as for the Executive Directors.

The remuneration of our Non-Executive Members of our Board (Non-Executive Directors) is based on market comparables and be structured as follows:

- (1) a Fixed Remuneration (of which approximately 15% depends on attendance at Board, Board Audit and Finance Committee and Board Nomination and Remuneration Committee meetings)
- (2) an Annual Responsibility Allowance which amounted, in 2010, to 1,900 euros.

For each Non-Executive Director, fixed remuneration assumes an agreed commitment of time during 2010, including the preparation and attendance of at least five Board Meetings each year. In addition, for External Non-Executive Directors who are Chairman of Board Committees, fixed remuneration is further increased by approximately 5%.

Meeting attendance fees are payable for each meeting actually attended by each Non-Executive Director as follows: Board meetings: 940 euros, BAFC meetings: 650 euros and BNRC meetings: 390 euros. The Chairman of the Board does not receive attendance fees for Board Committee meetings.

The BNRC may define additional remuneration for specific projects allocated to individual NEDs by the Board or by the Board Committees.

On resignation of any member of the Board, it is Group policy to pay whatever compensation is legally required, or to negotiate, in each situation, a value considered to be fair and appropriate by the parties involved. No additional compensation conditions exist for members of the Board who are treated in the same way as all employees.

Remuneration and compensation received by the Board of Directors

The remuneration of Sonaecom's Directors was as follows during 2010 and 2009. These values include fixed remuneration and Annual Performance Bonuses (both computed on an accruals basis) and the Medium Term Incentive Plan in respect to the performance years of 2010 and 2009, and that will be awarded in 2011, for 2010 values, and were awarded in 2010, for 2009 values.

Amounts in euros	2010				2009			
	Fixed Remuneration	Annual Performance Bonus	Medium Term Incentive Plan	Total	Fixed Remuneration	Annual Performance Bonus	Medium Term Incentive Plan	Total
Individual breakdown								
Executive Directors								
Ângelo Gabriel Ribeirinho dos Santos Paupério (CEO)	409,400	297,700	297,700	1,004,800	415,283	287,900	287,900	991,083
Maria Cláudia Teixeira de Azevedo	212,525	94,400	94,400	401,325	209,469	88,400	88,400	386,269
Miguel Nuno Santos Almeida	275,375	137,900	137,900	551,175	251,477	119,900	119,900	491,277
António Bernardo Aranha da Gama Lobo Xavier (eight months in 2010) ⁽³⁾	133,547	-	-	133,547	-	-	-	-
Luis Filipe Campos Dias Castro Reis (twelve months in 2009) ⁽¹⁾	-	-	-	-	311,736	164,300	164,300	640,336
George Christopher Lawrie (four months in 2009) ⁽²⁾	-	-	-	-	73,603	37,633	37,633	148,870
	1,030,847	530,000	530,000	2,090,847	1,261,568	698,133	698,133	2,657,835
Non-Executive Directors								
Duarte Paulo Teixeira de Azevedo (Chairman)	60,700	-	-	60,700	60,600	-	-	60,600
Jean François René Pontal	40,180	-	-	40,180	40,180	-	-	40,180
David Charles Denholm Hobley	37,750	-	-	37,750	37,450	-	-	37,450
António Maria Theotonio Pereira Sampaio Melo	35,960	-	-	35,960	37,450	-	-	37,450
Nuno M. M. Trigo Jordão	34,300	-	-	34,300	34,200	-	-	34,200
Frank Emmanuel Dangeard	35,280	-	-	35,280	34,980	-	-	34,980
Gervais Pellissier	-	-	-	-	-	-	-	-
	244,170	-	-	244,170	244,860	-	-	244,860
Total	1,275,017	530,000	530,000	2,335,017	1,506,428	698,133	698,133	2,902,695

(1) On 10 December 2009, Luis Filipe Reis resigned from the Board of Directors. The amount for the 2009 remuneration refers to 12 months.

(2) On 4 May 2009, George Christopher Lawrie resigned from the Board of Directors.

(3) On 23 April 2010, António Bernardo Aranha da Gama Lobo Xavier was appointed to the Board of Directors.

In presenting the figures above, the remuneration for each Board member has been disclosed based on the period of their Board service.

The Annual Performance Bonuses of the Executive Directors in the table above represent the actual values for performance during 2010. The final values have been determined after real performance has been fully assessed and after the resulting bonuses have been approved by the Board Nomination and Remuneration Committee, on behalf of the Board of Directors, and by the Shareholders' Remuneration Committee, on behalf of the Shareholders.

During 2010, Sonaecom had 20 persons discharging managerial responsibilities, "Dirigentes". As at 31 December 2010, the amount paid (which comprises total fixed and total variable remuneration) was of 3,305,557 euros. The total MTIP award totaled 902,011 euros. (for a more detailed information please see chapter 6, on the notes to the accounts, note 40).

Directors' participation in the MTIP

Sonaecom Executive Directors have been awarded compensation under the Sonaecom MTIP. Sonaecom's Non-Executive Directors do not participate in the MTIP.

Directors' participation in the Sonaecom MTIP (see below)

	Plan 2006	Plan 2007	Plan 2008	Plan 2009	Total
Award date	09 Mar 2007	10 Mar 2008	10 Mar 2009	10 Mar 2010	
Sonaecom shares					
Share price at award date ⁽¹⁾	4.697	2.447	1.117	1.685	
Share price at vesting date	1.720	-	-	-	
Share price at 31 December 2010 ⁽²⁾	1.350	1.350	1.350	1.35	
Ángelo Gabriel Ribeirinho dos Santos Paupério (CEO)					
Number of shares at 01 January 2010	-	67,086	143,259	-	210,345
Number of shares at 31 December 2010	-	67,086	143,259	102,516	312,861
Miguel Nuno Santos Almeida					
Number of shares at 01 January 2010	18,942	31,009	65,801	-	115,752
Number of shares at 31 December 2010	-	31,009	65,801	42,694	139,504
Maria Cláudia Teixeira de Azevedo					
Number of shares at 01 January 2010	11,818	21,369	47,502	-	80,689
Number of shares at 31 December 2010	-	21,369	47,502	36,724	105,595
António Bernardo Aranha da Gama Lobo Xavier⁽⁵⁾					
Number of shares at 01 January 2010	17,079	7,624	58,156	-	82,859
Number of shares at 31 December 2010	-	7,624	58,156	42,997	108,777
Total					
Number of shares at 01 January 2010	47,839	127,088	314,718	-	489,645
Number of shares at 31 December 2010	-	127,088	314,718	224,931	666,737
Sonae SGPS shares					
Share price at award date	1.680	1.160	0.526	0.761	
Share price at vesting date	0.855	-	-	-	
Share price at 31 December 2010 ⁽³⁾	0.780	0.780	0.780	0.780	
Ángelo Gabriel Ribeirinho dos Santos Paupério (CEO)					
Number of shares at 01 January 2010	-	101,008	211,160	-	312,168
Number of shares at 31 December 2010	-	105,233	219,994	157,657	482,884
Miguel Nuno Santos Almeida					
Number of shares at 01 January 2010	28,184	30,014	62,350	-	120,548
Number of shares at 31 December 2010	-	31,269	64,959	65,658	161,886
Maria Cláudia Teixeira de Azevedo					
Number of shares at 01 January 2010	17,585	20,683	45,011	-	83,279
Number of shares at 31 December 2010	-	21,549	46,894	36,307	104,750
António Bernardo Aranha Gama Lobo Xavier⁽⁵⁾					
Number of shares at 01 January 2010	25,412	27,051	55,106	-	107,569
Number of shares at 31 December 2010	-	28,183	57,411	42,509	128,103
Total					
Number of shares at 01 January 2010	71,181	178,756	373,627	-	623,564
Number of shares at 31 December 2010	-	186,234	389,258	302,131	877,623
Values					
CEO					
Value at award date	332,201 ⁽⁴⁾	281,329	271,090	-	552,419
Value at vesting date	296,647	-	-	-	296,647
Values at 31.12.2010	-	172,648	364,995	261,369	799,012
Miguel Nuno Santos Almeida					
Value at award date	136,320	110,695	106,296	-	353,311
Value at vesting date	56,678	-	-	-	56,678
Values at 31.12.2010	-	66,252	139,499	108,850	314,601
Maria Cláudia Teixeira de Azevedo					
Value at award date	85,052	76,282	76,736	-	238,070
Value at vesting date	35,362	-	-	-	35,362
Values at 31.12.2010	-	45,656	100,705	77,897	224,258
António Bernardo Aranha da Gama Lobo Xavier⁽⁵⁾					
Value at award date	122,912	50,035	93,946	-	266,893
Value at vesting date	51,103	-	-	-	51,103
Values at 31.12.2010	-	32,275	123,291	91,203	246,769
Total					
Value at award date	676,485	518,341	548,068	-	1,742,894
Value at vesting date	439,790	-	-	-	439,790
Values at 31.12.2010	-	316,831	728,491	539,319	1,584,641

(1) Average share price in the month prior to the award date, except for the 2006 Plan where the share price corresponds to the average share price between 3 March and 5 April 2007;

(2) On 8 January 2010, the share price hit a high of 2.007 euros and a low of 1.230 euros per share on 28 April 2010;

(3) On 13 January 2010, the share price hit a high of 0.939 euros and a low of 0.720 euros per share on 25 May 2010;

(4) For the former CEO, the vesting of the 2006 deferred plan was anticipated and cash equivalents were paid on 31 December 2007, in lieu of the delivery of Sonaecom and Sonae SGPS shares. For the former CEO plans 2006, the vesting date corresponds to the anticipated vesting date (3 May 2007);

(5) On 23 April 2010, António Bernardo Aranha da Gama Lobo Xavier was appointed to the Board of Directors.

Directors' participation in the Sonaecom MTIP (see below)

Amounts (in euros)	Sonaecom		Sonaecom SGPS		Sonae Investimentos		Sonae RP - Retail Properties		Total
	Role	Total remuneration	Role	Total remuneration	Role	Total remuneration	Role	Total remuneration	
Name									
Ângelo Gabriel Ribeirinho dos Santos Paupério	CEO	1,004,800	Non Executive	6,000	-	-	-	-	1,010,800
Duarte Paulo Teixeira de Azevedo	Chairman	60,700	Executive	1,062,171	-	-	-	-	1,122,871
Nuno M. M. Trigo Jordão	Non Executive	34,300	Non Executive	192,750	Non Executive	87,570	Non Executive	24,037	338,657

Sonaecom stock plan

Sonaecom stock plan determines that each executive Director is required to withhold 50% of the shares delivered to each plan, maintaining permanently a number of shares equivalent to the value of 2 (two) annual fixed salaries. The requirement for retention of the shares delivered in each plan, ceases from the time that the executive director in question has already retained a number of shares equivalent to the defined objective, either by Sonaecom Plans allocated either by the acquisition personnel shares. For this purpose, annual salary is the monthly base salary paid 14 times a year.

Regarding Sonaecom stock plan, we fully uphold our share retention policy.

Compensation for Board members on termination of office

In the event of early termination of office of any member of the Board, it is the Group policy to pay whatever compensation is legally required, or to negotiate, in each situation, a value considered to be fair and appropriate by the parties involved. No additional compensation conditions exist for members of the Board, who are treated in the same way as all employees.

For recent senior managers (“Dirigentes”) in case of termination of contract, it is agreed an indemnity payment equal to the fixed remuneration due until the end of the mandate period up to maximum of 12 months, or the return to previous function as a dependent employee.

c) Remuneration of the members of the Statutory Audit Board

The remuneration of the members of the Statutory Audit Board was as follows during 2010 and 2009:

	2010	2009
Amounts in euros		
Individual breakdown		
Statutory Audit Board		
Arlindo Dias Duarte Silva	8,910	9,900
Armando Luís Vieira Magalhães	6,910	7,900
Óscar José Alçada Quinta	6,910	7,900
Jorge Manuel Felizes Morgado	-	-
Total	22,730	25,700

These amounts correspond to the fixed remuneration. The members of the Statutory Audit Board do not receive Annual Performance Bonuses and do not participate in the Sonaecom MTIP.

d) Remuneration Policy Process

The following table provides information on the main milestones on the subject of Sonaecom remuneration policy process in 2010. It is established that the Shareholders Remuneration Committee meets between July and December but only if there are any changes in the Board membership. As no changes occurred prior to 2010 Annual General meeting, last SRC meeting was held in May 2010.

Month	Remuneration cycle
February	BNRC meets: Close Performance year annual review and awards: <ul style="list-style-type: none"> - Fixed remuneration 2011 (real) - Annual short term performance bonus (real) - Annual short term performance bonus 2011 (target) - Deferred MTIP 2010 (real) - Deferred MTIP 2011 (target) - Review annual appraisal process - Review remuneration - Disclosure in MR&A
March	SRC meets: <ul style="list-style-type: none"> - Post BNRC meeting, before annual payments are made
April	BNRC reports: <ul style="list-style-type: none"> - Close detail of 2011 Executive Commission Individual KPIs (only if not possible to close them earlier)
May	SRC meets: <ul style="list-style-type: none"> - Only if Board membership changes at AGM
July	BNRC reports: <ul style="list-style-type: none"> - Progress on 2011 KPIs
October	BNRC meets: <ul style="list-style-type: none"> - Progress on 2011 KPIs - Review MTIP pipeline and shares retained - Contingency and succession planning - Talent management - Review BNRC terms of reference and NY annual plan
December	BNRC meets: <ul style="list-style-type: none"> - Forecast Full Year 2010 KPIs - Adjustment needs for 2012 KPIs

5.5. Risk Management

This section contains a description of the functioning and effectiveness of the risk management system and an identification of the main risks affecting the company.

Sonaecom is committed to developing and implementing best practices in terms of risk management and risk control, as these areas are considered to be one of the fundamental pillars of company strategy, which is supported by a sound Corporate Governance system. The company has implemented a system that places the responsibility for internal control and risk management on the functional areas of each business, supported by the central Risk Management team, together with the Internal Audit team, the External Auditors and Planning and Control team. The BAFC, operating on behalf of the Board, and the SAB are responsible for supervision and oversight of the risk management system.

Processes to identify risks and controls, monitor and report, as well as to assess the effectiveness and to improve the internal control and risk management system are in place. The processes are based on corporate best practice and international standards for Enterprise Risk Management (ERM), from which the main risk management and control approaches in the company are derived. Sonaecom organises its risks under a Business Risk Model (BRM) that helps to identify our risks and their underlying causes, as well as to promote a culture of risk awareness throughout the company.

Efforts have been focused on implementing actions to further improve control levels on Economic risks, particularly on the intrinsic business risks related to the technical-operational activities in the telecommunications business unit. This has been achieved by developing specific risk management programs, or by implementing day-to-day control activities and by the existence of dedicated teams. Financial and Legal risks are, in general, perceived as having a lower level of risk within Sonaecom and they have been managed by assuring compliance with internal and regulatory requirements. There are also other risk management policies and procedures, including a Code of Conduct, implemented to govern and manage particularly sensitive areas such as conflicts of interest, transactions with related parties, remuneration practices and communication of irregularities that apply to all our officers, employees and business partners.

a) Internal Control and Risk Management System

At Sonaecom, we acknowledge that certain risks are involved in all management processes. Accordingly, managers at the various levels of the organisation have to be aware of the specific risks in their areas and are held responsible for managing those risks.

Internal Control and Risk Management Organisation

The responsibilities and objectives of the key players in the Internal Control and Risk Management systems are:

- Business areas – Each functional department in Sonaecom's business units is, as part of its responsibility over the functional processes, responsible for implementing internal controls and managing its specific risks. Additionally, for the development of certain risk management programmes, a specific risk management organisation, such as a Risk Committee or a Working Group, comprising an executive sponsor, a committee of business unit managers and a group of business unit representatives.
- Planning and Control functions – Responsible for elaborating and monitoring the execution of the annual Action and Resource Plans and the budgets/forecasts, as well as all the processes leading to its realization, both on the financial and operational components. Business plans are also monitored on the financial component. Promotes and supports the integration of risk management in the planning and control processes of the Sonaecom companies.

- Risk Management functions – Contributes with tools, methodology, support and know-how to the business areas. It also promotes and monitors the implementation of programmes and actions aimed at bringing risk levels to the acceptable boundaries established by management. Promotes the awareness, the measurement and the management of business risks that interfere with achieving the objectives and value creation of the organisation.
- Internal Audit area – Evaluates the risk exposure and verifies the effectiveness of the risk management and internal control of the business processes, information and telecommunication systems. It proposes measures to improve controls and monitors the evolution of risk exposure associated to the main audit findings.
- Statutory External Auditor – In the scope of the yearly auditing process verifies the efficiency and functioning of internal control mechanisms and reports any shortcomings. It is responsible for verifying the accounts and all the financial statements of the company and issuing a legal certification of the accounts and an audit report.

The company has two specialised risk areas: the Risk Management central function and Internal Audit team. Their mission is to contribute to the effective management of Sonaecom's business risks. They assist Sonaecom in accomplishing its objectives, adding value and improving its operations by bringing a systematic and disciplined approach to evaluating and helping to improve the organisation's risk management, internal controls and governance processes.

The Risk Management area has a central function at corporate level that promotes awareness of critical business risks, proposes risk management policies for the company and co-ordinates cross-organisational programmes or projects for implementing risk management processes. There are also risk management functions in the business areas, namely when the existence of representatives is relevant for some risk management disciplines. For example: Business Continuity Management and Information Security Management.

The Internal Audit team activity is defined under the Internal Audit Charter, approved by the Supervisory bodies. It is an independent and objective assurance and consulting activity, governed by adherence to The Institute of Internal Auditors guidance, including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IIA Standards). The annual Internal Audit plan is developed based on Sonaecom annual Action and Resource Plan, on a prioritization of audit work, using a risk-based methodology, and on input from the Executive Committee, other senior management, the BAFC and the SAB.

In accordance with international best practices, there are 15 certifications in Audit standards and in Risk Management programmes. These include the Certified Internal Auditor (CIA), Certified in Control Self Assessment (CCSA), Certified Information System Auditor (CISA), Certified Fraud Examiner (CFE), Management of Risk Foundation and Practitioner (MoR), Associated Business Continuity Professional (ABCP), Certified by Business Continuity Institute (CBCI), Certified Continuity Manager (CCM), Certified Information System Security Professional (CISSP), ISO 27001 Lead Implementer and Project Management Professional (PMP).

Report to Management and Supervisory Bodies

The responsibilities on the creation, functioning and periodic evaluation of the internal control and risk management systems are generally distributed as follow:

- The Board of Directors, through delegation on the Executive Committee, guarantees the creation and functioning of the internal control and risk management system.
- The BAFC, under Terms of Reference approved by the Board of Directors, advises the Board on the adequacy and appropriateness of systems and standards on internal business controls and risk management activities applied by the Executive Committee.
- The SAB, under Terms of Reference and as the independent supervisory body, oversees the effectiveness of the overall risk management, internal control and internal audit systems.
- The Board of Directors establishes the Internal Audit function and its responsibilities are reviewed by the BAFC.
- The BAFC liaises with the SAB to ensure that the SAB is in agreement with the role agreed for Internal Audit.
- The BAFC advises the Board of Directors on the quality and independence of the Internal Audit function and should be consulted by management in relation to the appointment and removal of the Chief Audit Executive.
- The BAFC and SAB, according to the Internal Audit Charter, approve the appointment or removal of the Chief Audit Executive and can request information in relation to the performance evaluation, annual compensation and salary adjustment of the Chief Audit Executive.
- The BAFC advises the Board of Directors on the appointment, the assignments to and the remuneration of the Statutory External Auditor.
- The SAB liaises with the BAFC on the matters related to the Statutory External Auditor.
- The BAFC reviews the scope of the Internal Audit function and its relation to the scope of the work of the Statutory External Auditor. The BAFC discusses with the Statutory External Auditor and the Internal Audit their reports and advises the Board of Directors thereon.
- The Statutory External Auditor verifies the effectiveness and the functioning of the internal control mechanisms and reports deficiencies.
- The Statutory External Auditor in the scope of the yearly auditing process, verifies the efficiency and functioning of internal control mechanisms and reports any shortcomings..
- The Internal Audit activity is subjected to the assessment of the BAFC and SAB that are responsible for supervising the effectiveness of the internal audit system and that may propose the adoption of eventually necessary modifications. Additionally, the Chief Audit Executive informs the BAFC and SAB on the Internal Audit quality assurance and improvement program, including the results of internal or external assessments, which should be completed at least every five years. Accordingly, during 2010, the Internal Audit activity was subjected to an external assessment.
- The Risk Management central function presents for the BAFC evaluation, and shares it with SAB, a periodic report on the Enterprise Wide Risk Management cycle (method and results) and may get inputs to adjust it.

The **reporting lines** of the Internal Audit (IA) and Risk Management (RM) are as follow:

- IA reports hierarchically to the Sonaecom CEO.
- IA reports functionally jointly to the Sonaecom BAFC and SAB. The last one assures the existence of a reporting line to a body that is independent from the Board of Directors. IA can request private meetings to report to the BAFC or SAB to take place without management being present.
- RM central function has similar reporting lines within Sonaecom.

The **internal mechanisms for information and communication** about the system and for risk alerts include:

- Internal Audit (IA) and Risk Management (RM) functions **periodical reports**:
 - IA reports to the Executive Committee following the conclusion of each internal audit engagement.
 - IA can issue an interim report at any time to communicate information that requires immediate attention.
 - IA quarterly reports to Sonaecom BAFC and semi-annually to SAB, presenting a summary of all major internal audit conclusions.
 - RM central function has similar periodical reports within Sonaecom, regarding risks control projects/actions.
- Risk monitoring processes such as:
 - The existence of processes and dashboards in place in all business areas to monitor operations and KPIs.
 - The existence of departments dedicated to monitor specific business risks and produce alerts. For instance: the Fraud and Revenue Assurance teams in the telecommunications unit.
 - The implementation of indicators and alerts for service interruption and security incidents at operational level.
 - The development of business risk indicators for key drivers at management level..

Risk Management Approach

The diagram bellow illustrates the main phases included in the Sonaecom risk management cycle, which can be applied to all business units in its portfolio. The risk management process is supported by a consistent and systematic methodology, aligned with Sonae Group "Standard for Risk Management" which is based on the international standard "Enterprise Risk Management - Integrated Framework", issued by COSO (Committee of Sponsoring Organisations of the Treadway Commission).

ERM - Enterprise Risk Management cycle



ERM - Enterprise Risk Management cycle
 Framework is based on the 'Standard for Risk Management', from the Sonae Risk Management Consulting Group (2008)

- Phase 1: Identify business risks**
 - Identify relevant business risks
 - Prioritise business risks and define risk matrix (impact and probability)
- Phase 2: Identify sources**
 - Identify drivers of critical business risks
 - Define key drivers of critical risks
 - Identify triggers (underlying causes)
 - Define key triggers (vital and manageable)
- Phase 3: Measure triggers**
 - Determine trigger indicators
 - Select risk indicators
 - Measure current value of indicators and set target value
- Phase 4: Manage risks**
 - Identify and determine risk management options
 - Establish action plans to manage risk
 - Integrate risk management action plans into business planning
- Phase 5: Monitor risks**
 - Monitor progress of action plan's execution
 - Monitor changes in risk indicators
 - Report progress

Derived from this general framework, the management and control of Sonaecom main risks is achieved through the following key approaches and methods:

EWRM – Enterprise Wide Risk Management

Approach: The Enterprise Wide Risk Management aligns the risk management cycle with the strategic planning cycle. This approach, allows Sonaecom businesses to prioritise and identify critical risks that might compromise their performance and goals and to take actions to manage those risks, within the pre-defined levels of acceptance. This is achieved through constant monitoring of risks and the implementation of certain corrective measures.

Method: 1 Identify business risks >> 2. Identify sources >> 3. Measure triggers >> 4. Manage risks >> 5. Monitor risks

BCM – Business Continuity Management

Approach: The implementation of Business Continuity Management processes has the purpose of mitigating the risk of interruption of business critical activities, which may arise as a consequence of disasters, technical-operating failures or human failures. The scope of this process also includes the assessment and the management of physical security risks at the company critical sites.

Method: 1. Business understand >> 2. Define resiliency strategies >> 3. Develop and implement Business Continuity and Crisis Management plans >> 4. Test, maintain and audit the BCM plans and processes

ISM – Information Security Management

Approach: The implementation of processes for Information Security Management is intended to manage the risks associated with the integrity, confidentiality and availability of information. Intends to develop and maintain the Information Security Policy, to verify compliance of the procedures with the policy, to develop training and awareness programs, and to establish and monitor KPIs for Information Security.

Method: 1. Identify critical Information >> 2. Detail critical systems/resources supporting Information >> 3. Evaluate security risk level >> 4. Define and implement indicators >> 5. Manage and monitor risks mitigation actions

RMCP – Risk Management Cycles or Processes

Approach: The development of specific risk management cycles/processes enables the mitigation of critical risks that can impact certain processes, areas or entities, positioning these risks within the levels defined by management. Identifies and monitors other operational risks that management considers as relevant.

Method: 1. Identify specific risks >> 2. Identify sources >> 3. Manage risks >> 4. Monitor risks

The setting of strategic objectives of the company regarding risk-taking considers:

- The aligning of the risk management cycle with the strategic planning cycle, namely during the definition of the annual Business Plan (Action and Resource Plan) when the business units identify the risks that can potentially affect the achievement of their target objectives and define actions to overcome.
- The risk-taking objectives are derived and aligned with the overall strategic objectives of the Sonaecom companies.

There are several mechanisms to control the execution and the effectiveness of the risk management actions, including:

- The controlling of Action and Resource Plans execution: The activity of business units is monitored and progress reports are made (financial and operational). The analysis of the business units actions is supported by the Planning and Control functions, including preparing notes on the major discrepancies identified and anticipation of future issues.
- The execution of Risk Management cycles: During the Evaluation and Source phases, the risk-taking tolerance (low, medium, high or very-high) and the selected strategy (avoid, retain, reduce or transfer) are identified for key risk drivers. During the Monitor phase, main risks are cross checked with the actions defined in the annual Action and Resource Plan, in order to verify their evolution.
- The execution of Internal and External Audits: The effectiveness of the internal controls and risk management actions are evaluated regarding business process and systems.
- The execution of Findings Monitoring: An internal follow-up procedure aimed at monitoring the relevant findings status and the adoption of corrective actions by business areas is carried out by on a semi-annual basis.

b) Main risks and control actions

This section refers to the identification of the main risks related to actual business activities, including the description of some events that can trigger those risks and the main control actions implemented to manage them.

During 2010, in relation to Sonaecom's business risks, a particular focus was placed on the execution of a risk management cycle update for the telecommunications business unit. The status of its main risks was updated, through the revision of the most relevant risk drivers, the assignment of risk owners and the identification of existent controls or new actions to manage those risks. This revision will continue throughout 2011 resulting in an updated risk matrix, including the analysis of impact and probability for each potential risk.

Within the economic, financial and legal categories, the risks are herein presented and ordered in this section according to the classification and structure of the Sonaecom Business Risk Model (BRM). The BRM is a systematic way of identifying the risks that affect the organisation (common language) and allows defining and grouping the risks as well as its main drivers (risk dictionary).

Economic risks

According to the Sonaecom Business Risk Model (BRM), economic risks relate to these risk categories: Business Environment, Strategic, Operations, Information Processing and Technology, and Empowerment and Integrity.

Economic Influences

Optimus is exposed to the current adverse economic environment in Portugal and consequently to possible general consumption reduction (see Chapter 2 regarding the Portuguese telecoms market).

Although Portugal's highly competitive telecommunications market proved to be remarkably resilient to the global recession during 2009 and to a lesser extent 2010, this trend may become less applicable during 2011. In this context, even though no decrease in customer numbers is expected, there is the risk that the average revenue per customer might be affected due to consumption reduction.

Optimus has in place several initiatives that may help to mitigate this risk through tighter cost controls.

Regarding other Sonaecom companies, it is relevant to note that because of the pace of WeDo Technologies' expansion and internationalisation, the impact of the adverse economic environment on the business is more diluted. Furthermore, the company has already anticipated these possible effects by expanding its product portfolio and by targeting other business sectors (see Business Portfolio risk, below).

Technological Innovation

For Optimus having an optimized technological infrastructure is a critical success factor, which helps to reduce potential failures in leveraging on technical evolutions.

Among current possible causes for this risk are the pace of introduction of 4G mobile networks based on Long-Term Evolution (LTE) technology; the 4G legacy compatibility issues; the increasing fixed-mobile services convergence; and the need to support the growing usage of multimedia services by customers.

During 2010 Optimus continued actions to leverage on technological innovation, allowing the business to mitigate these possible risk causes.

WeDo Technologies has recently achieved the certification in Management of Research, Development and Innovation (NP 4457:2007). Together with its existing quality certification (ISO 9001:2008), this new certification helps the company to continue to innovate in a sustainable way and helps to mitigate potential risk drivers, setting innovation risk as not significant for this Sonaecom subsidiary. WeDo Technologies was one of the first software vendors to invest in the Revenue Assurance market and was the first to do so for Business Assurance.

Mainroad faces the technological innovation challenges of cloud computing. This technological trend is characterised by a growing and heavy adoption of server virtualisation and service-oriented architectures by the customers. On the service providers side, an effort has to be made in order to keep up the pace, to adapt infrastructures and to shift the operations model to a service-oriented model.

Some relevant risks generally associated with cloud computing are: the shift from traditional data centres (customised to fit customers' proprietary solutions) to cloud computing service data centres (more standardised); a fraction of IT consulting and application support services that can be threatened because customers can stop using proprietary applications; some problems in the integration of cloud computing architecture with current systems that may bring complexity; the need for customers to improve security controls, due to the fact that cloud computing is a service shared by several customers, making it necessary to increase the level of control over information.

In this context, Mainroad has continued its approach towards handling cloud computing issues, as follows:

- Enhance the existent IT Outsourcing and IT Managed Services offer.
- Evaluate the possibility of delivering applications-as-a-service using partnerships.
- Leverage on the co-ordination and management of Sonae Group initiatives regarding cloud computing, which has already been tested internally in the Group.
- Update the methodology and processes to keep up with cloud computing demands.
- Develop its three main business areas to work as complementary for leveraging cloud computing opportunities:
 - Data Centre Services – Mainroad provides two data centres for customer equipment, including specialised housing and telecommunications infrastructures that allows customers to have their virtualised servers hosted.
 - Support Services – This area provides IT management and support services for customers' systems and applications as well as support services for technological infrastructure, including full or selected IT Outsourcing services.
 - Professional Services – This is Mainroad's projects area, which delivers specialised services in consulting (solutions design) and implementation (integration and tailoring of IT solutions), including IT Security services.

Competition

Optimus has been an active agent of transformation within the Portuguese telecommunications market and is today the integrated player best positioned to act as a true alternative to the incumbent operator. In this context, Optimus is exposed to competition risks from other players in its business environment.

Some of the risks that Optimus is exposed can be summarised as: the value destruction in certain customer segments and services (pricing issues); the aggressive competition in the wireline residential market (loss of indirect access revenues); the optical fibre leverage challenges; and the mobile network effect.

WeDo Technologies is a worldwide leader in the telecom revenue assurance market (source: 2009 Stratecast report "Revenue Assurance and Cost Management Global CSP"), so this risk is not significant.

Business Portfolio

In WeDo Technologies, one of the main objectives has been the expansion and internationalisation of the business, which could have been adversely affected if the company had continued with a single line of products, focused on one business sector. This risk is being mitigated because the company continued to consolidate its global presence outside Portugal for several years, has targeted new business sectors since 2009 and has increased its product portfolio.

In this context, during 2010 WeDo Technologies has continued its strategy by:

- Expanding its product portfolio from Revenue Assurance and Fraud Management to Business Assurance.
- Enlarging its offer beyond its traditional telecommunication customer base, by including other business sectors like retail and finance.
- Making clear its two product lines:
 - Business Assurance – This is targeted at Telecom, Retail, Energy and Finance/Insurance sectors. It is based on “Business Assurance RAID 6.0”, which is independent and end-to-end Revenue, Assurance, Fraud Management and Business Control Processes software. This software has been extended with modules to manage assurance beyond core revenue protection operations to include incentives, collections and partner settlement processes. This line of products is complemented by Business Assurance consulting services.
 - Business Management and Support systems – This is niche-targeted at Telecom and Energy. It is based on several systems and solutions for Roaming Management, Collections and Credit Control, Incentives Management, Process Management, Data Retention and Customer Value Management. This line of products is complemented by Professional Services and Training and Support services.

Business Interruption (Business Continuity Management)

Given that Sonaecom business (Telecom, SSI and Media) rely mostly on the use of technology, potential failures in technical-operational resources (network infrastructures, information system applications, servers etc.), could cause a significant business interruption risk if not properly managed. This could bring other risks to the company, such as adverse impacts on reputation, on brand, on revenue integrity, on customer satisfaction and on quality of service that can ultimately lead to loss of customers (churn). In the telecommunications sector, the business interruption and other associated risks could be aggravated because services are real time (voice, data/internet and TV) and customers typically have a low tolerance towards interruption.

In order to identify this specific set of risks and to implement prevention and mitigation actions that guarantee the continuity of critical operations and services, Sonaecom has put in place over several years the BCM - Business Continuity Management programme. This programme is sponsored by a member of the Sonaecom Executive Committee (Optimus CEO), is co-ordinated by the Risk Management central function and has a permanent working group with management and operational representatives from relevant business units.

Crisis Management

The strengthening of the Crisis Management Plan procedures, with the focus on technical-operational failure scenarios in the telecommunications unit, was the most significant part of 2010's BCM activities. It involved all business departments, with particular emphasis on the core activities of the Technical Division, Information Systems, Facilities and Customer Service departments, as well on the communication activities co-ordinated by the Corporate Communication department. The actions involved covered:

- Update of the Crisis Organisational Charts of all departments, including the allocation of responsibilities for the critical activities and designation of substitutes.
- Revision of the Impact Assessment and Crisis Level Matrix (operational and business criteria), as well as the escalation procedures and articulation with incident management procedures.

- Redefinition of Notification rules, supported by e-mail and SMS notifications tools.
- Redesign of Crisis Communications flows, guidelines and responsibilities to manage communication with relevant internal and external stakeholders.
- Implementation of tools and resources to support the plan, including a web-based tool to document and maintain the plan. This enabled the definition of crisis procedures tailored for all crisis roles, based on hyperlinked action check-lists.
- Execution of training and simulation sessions for the plan, comprising around 200 employees at the operational, tactical and strategic levels of the company.

Business Continuity Plans and Maintenance

During 2010, Sonaecom continued to enhance its BCM process implementation and maintenance activities, including the following actions:

- Implementation of supplementary resilience strategies for some critical platforms of the telecommunications' network.
- Update of the existing IT/IS disaster recovery solution, envisaging geographic high-availability for some critical applications, with focus on those applications that support Optimus Customer Care activities.
- Execution of physical security risks audits to Optimus switch centres and Mainroad data centres. Definition of standards to manage physical risks at these critical facilities (security infrastructures and procedures).
- Beginning the BCM Focus revision, in order to reflect the evolution of Optimus's service portfolio and updated critical activities.
- Co-ordination with external official entities for catastrophic scenarios, security of critical infrastructures and crisis communication, including collaboration on the update of Civil Protection Plans.
- Participation in the Study on Electronic National Communications Security promoted by the sector regulator (ICP – ANACOM), that involved all major communications operators in Portugal.

Availability, Integrity and Confidentiality (Information Security)

Information Security Management (Telecom, SSI and Media)

Bearing in mind that Sonaecom is mostly a Technology, Media and Telecommunications (TMT) company, all its subsidiary companies make intensive use of technology and information, which are typically subjected to availability, integrity and confidentiality risks. Given this, during 2010 Sonaecom decided to increase its commitment to the management of these risks by creating the Information Security Governance, Risk and Compliance (GRC) Committee.

The Information Security GRC Committee is a working group mandated by the Executive Committee, sponsored by the CIO and co-ordinated by the Risk Management central function. It has the highest decision level for Information Security matters, makes decisions on policies at Sonaecom level and suggests recommendations. It also develops and proposes an annual action plan; and gathers the most relevant areas of information security.

During 2010, the Information Security GRC Committee co-ordinated several risk management actions, the most relevant being:

- The revision of Sonaecom's Information Security Policy, including the related Security Charter, Standards and Procedures documents.
- The execution of an awareness campaign to strength a culture of Information Security among employees, partners and key stakeholders. Besides being a technological issue, security should be seen as a cultural and behavioral issue, thus the relevance of an awareness campaign. This campaign included articles in internal magazine and newsletters and the launch of an interactive internal website dedicated to Information Security. The main focus areas were: confidentiality of data (information sharing, personal data and storage); workstation usage (remote access, protection, equipment); web usage (internet, social networks and e-mail); credentials management (passwords, social engineering and phishing); software (malicious and licensing); and mobile devices (configuration and usage).

- The implementation of a dashboard with the most relevant risk indicators related to Information Security, in order to: monitor the performance of the Information Security function; identify trends, causes of changes and opportunities for improvement; and also to support decision making processes, justifying investments in human or technical resources.
- The start of a detailed risk assessment to get an overview of the information security risk status in Sonaecom. This will also enable the business to prioritise and to support decision making processes and to complete the collection of security risk indicators throughout 2011.

Customer Information and Security (Telecom)

Within security matters, bearing in mind that Optimus is a customer-driven company, a greater effort has been put on the customer perspective. The evolution of telecommunication services functionalities and its ability to support customer information flow has increased security risks, both on the technical and customer behaviour sides. During 2010, several control actions were developed regarding telecommunications services security:

- Identification, analysis and prevention of mobile malware and malicious application threats, to protect Optimus and customers from attacks. Optimus has selected a Global Security Solution for integration within handsets/smartphones to protect customers from virus, spyware, Trojans, worms, malicious browsing, theft, etc. and its implementation strategy is under development to be effective during 2011.
- Publication of a Customer Educational Programme on the Sonaecom and Optimus websites to create awareness about common risks and to advise customers on the best anti-fraud and security practices to follow when using telecoms services.
- Further development of the e-Privacy project to mitigate and protect access to sensitive customer information by the business operational support systems.
- Participation at the GSM MoU Association Security Group, to study best practices and to propose cost-effective technical security measures to avoid telecommunications fraud and to prevent security breaches at the service support platform and network level.

Product-Service Failure (Professional Liability)

Knowing that Sonaecom companies are customer-oriented, special attention is given to the impact that potential failures in products and services could bring to its customers, namely liability issues. These are business-intrinsic and are usually related to accidents, unintentional acts, errors or omissions performed by employees or subcontractors. Risk events can be physical (e.g. damage to equipments or facilities) or non-physical (e.g. error in a software installation), being relevant in companies like Sonaecom subsidiaries, which provide mainly services based on technology and information. In the event of a service failure, given that liability is derived from contractual relationship with the customers, Professional Liability issues can arise.

Some examples of potential drivers for the risk of service failure could be: downtime period within the process of activation of telecommunication services; project delivery issues (e.g. delays in the delivery of software integration) or project performance issues (e.g. hardware seizing problems in integrating software with the customer hardware) in SSI companies; failure to publish advertisements in newspapers.

The risk management strategy selected by Sonaecom for this type of risk, besides implementing internal controls, was to transfer the risk by using insurance. In this context, during 2010, several actions were taken regarding Professional Liability insurance:

- Execution of a specific risk assessment for professional liability, to identify potential risk drivers and to systematise their respective controls.

- Implementation of improvements in some internal controls to further mitigate risk causes.
- Enhancement of the existent professional liability insurance, with a new insurance incorporating an enlarged scope of coverage and tailored to the business realities facing Sonaecom companies, including:
 - Technology Protection module for Optimus, WeDo Technologies, Mainroad, Saphety and Bizdirect.
 - Multimedia module for Optimus and Público.

Revenue and Cost Assurance (Telecom Business Assurance)

Telecommunications businesses are subject to inherent operational risks regarding the assurance and monitoring of customer revenues. Throughout 2010 we continued to improve our risk controls, with the following key objectives:

- Detect any register loss between customer handset usage and invoicing;
- Mitigate losses in the quality of service or deterioration caused by integrity breaches;
- Prevent revenue loss arising from the implementation of new products and services.

This monitoring is supported by the 'RAID' system, a leading application developed by WeDo Technologies. This platform already includes our fixed-mobile convergent offers.

Business Assurance has continued to broaden its control to cost assurance activities, including items such as the efficient allocation of technical resources in the network. This trend is expected to continue throughout 2011, broadening its scope to control some areas of the incentive management system (sales force and dealers commission fees).

Fraud (Telecom Fraud Management)

Customer or third-party fraud is a common risk in the telecommunications sector. Fraudsters can take advantage of potential process, service or network vulnerabilities. With this in mind, Optimus has had a dedicated Fraud Management team in place for some time. During 2010, the business concentrated its efforts on the development and implementation of the following control actions:

- Focus on the mitigation and control of IRSF (International Revenue Share Fraud), one of the main fraud types affecting telecommunications operators worldwide. Several prevention and control measures have been taken such as: blocking specific risk destinations; changing service functionalities to better protect customers; reviewing retail tariff plans, etc.
- Creation with TMN and Vodafone of a common and standard methodology to classify and measure Telecom Fraud at national level in order to improve co-operation and mitigation procedures.
- Improvement of fraud monitoring and detection through the expansion of the Near Real Time Roaming Data Exchange (NRTRDE) system to other network operators and the implementation of new controls for Prepaid, Postpaid, Roamers IN and Roamers OUT customers.
- Participation at the GSM MoU Association Fraud Forum, in order to share experiences, study the most common fraud types committed against telecom companies and foster worldwide co-ordination of mitigation and detection actions against telecom crimes. Optimus has promoted and contributed to the creation of the GSMA Hot B Number Database, a risk list of the most common international destinations used for Telecom Fraud.
- Co-operation with WeDo Technologies regarding the design and development of RAID FMS (Fraud Management System) for future implementation at Optimus, expected to take place during 2011.

Financial risks

According to Sonaecom Business Risk Model (BRM), financial risks mainly relate to Financial risk category.

In this section Sonaecom acknowledges that it is potentially exposed to risks related to financial reporting and accounting processes, as are other listed companies with similar activities, and to a variety of other financial risks such as market risk (particularly, exchange rate and interest rate risks), liquidity risk and the credit risk. Sonaecom attitude towards financial risks management is conservative and prudent, and those principles were followed during 2010.

The **roles and responsibilities** regarding **financial risks** are generally allocated as follow:

- The Finance and Accounting department manages and controls the risks; and liaises as necessary with all other business and support areas that contribute to control financial risks.
- The SAB oversees and approves the disclosure of financial information under its responsibility; oversees the work performed by the Statutory External Auditor on the company financial statements; and issues an annual report on its supervisory work, as well as an opinion on the report of the Board of Directors, consolidated and separate financial statements.
- The BAFC reviews the financial statements to be disclosed and reports its findings to the Board of Directors; monitors significant financial exposures; monitors major judgmental areas in financial and accounting areas; oversees compliance with accounting standards; and oversees compliance with statutory and legal requirements and regulations in particular in the financial domain.
- The Internal Audit evaluates the risk exposure; verifies the effectiveness of the risk management and internal controls; and proposes measures to improve controls.
- The Statutory External Auditor verifies if the main elements of the internal control and risk management system, regarding accounting and financial statements, are presented in the annual Corporate Governance Report and issues the legal certification of accounts and an audit report, in which attests if the Corporate Governance Report includes all the elements as required by Article 245 - A, of the Portuguese Securities Code.

Accounting and Financial Reporting (Financial Risks Control System)

The existence of an effective internal control environment, particularly in the financial reporting process, is a commitment of the Sonaecom Board of Directors, seeking to identify and improve the most relevant processes in terms of preparation and disclosure of financial information, with the objective of transparency, consistency, simplicity and materiality. The objective of the internal control system is to ensure reasonable assurance regarding the preparation of financial statements, in accordance with adopted accounting principles, and the quality of financial reporting.

The internal control system for **accounting and preparation of financial statements** include the following **key controls**:

- The process of disclosure of financial information is formalized, the risks and associated controls are identified, being duly established and approved the criteria for its preparation and disclosure, which are periodically reviewed.
- There are three main types of controls: high level controls (entity level controls), controls of information systems (IT level controls) and controls in terms of processes (process level controls). It includes a set of procedures relating to the execution, supervision, monitoring, and process improvement, with the objective to prepare the company financial reporting.
- The use of the accounting principles, which are explained throughout the notes to the financial statements (see chapter 6.2, note 1), constitute one of the fundamental pillars of the control system.
- The plans, procedures and registers in the Group allow a reasonable assurance that transactions are executed only with a

general or specific authorisation of management and that those transactions are recorded to allow that financial statements comply with generally accepted accounting principles. It also assures that the company keeps updated assets register, that the access to assets depends on a management authorisation and that the assets register is verified against existing assets and appropriate measures are taken, whenever differences occur.

- During the process of preparing and reviewing financial information, a chronogram is previously established and shared with the different areas involved and all documents are reviewed in detail. This includes the review of the principles used, the verification of the accuracy of the information produced and the consistency with the principles and policies defined and used in previous periods.
- The Group financial statements are prepared and analysed by Finance and Accounting department, under the supervision of the Group Executive Committee. The Management Report and the Corporate Governance Report are prepared by the Investor Relations Department, with input and further review of the several business and support areas, with support and supervision of the Director of Corporate Governance and the Law and Regulation department. The set of documents that make up the annual report are sent for review and approval by the Sonaecom Board of Directors. After approval, the documents are sent to the Statutory External Auditor that issues its legal certification of accounts and the External Auditor Report. These documents are sent, together with the Annual Report, to the Statutory Audit Board for review, which approves the documents and issue the Report and Statutory Audit Board opinion.

Among the risk drivers that can materially impact accounting and financial reporting we highlight the following:

- Accounting estimates – The most significant accounting estimates are described in (see chapter 6.2, Note 1.aa) of the financial statements and other following notes. The estimates were based on the best information available during the preparation of financial statements and based on the best knowledge and experience of past and/or present events.
- Balances and transactions with related parties – The most significant balances and transactions with related parties are disclosed in the notes the financial statements (see chapter 6.2, note 35) Attached to the report, we present a list of all related parties of Sonaecom Group. These are mainly associated to the operational activities of the Group, as well as the granting and obtaining loans, being made at market prices.

More specific information on how these and other risks drivers were mitigated can be seen throughout the notes to the financial statements (see chapter 6.2, note 1.ab).

Sonaecom undertakes several actions regarding the continual improvement of the Financial Risks Control System including:

- Control documentation enhancement – Following the 2010 actions, during 2011 Sonaecom will continue to enhance the documentation and systematization of the risks and the internal control system related to preparation of financial information. This action includes the identification of risk/drivers (initial risk), the identification of process with higher materiality, the controls documentation and the final analysis (residual risk) after the implementation of potential improvements in the controls.
- Compliance analysis – The Investor Relations department, in cooperation with the Finance and Accounting department, the Law and Regulation department, the Internal Audit and Risk Management department and other departments as necessary, coordinates a periodic analysis of the compliance with the legal requirements and regulations regarding the underlying governing processes and corresponding financial information that are reported in the Management Report and the Corporate Governance Report.

Currency

The Group operates internationally and has subsidiaries operating in Brazil, United Kingdom, Poland, United States of America, Mexico, Australia, Egypt and Malaysia (branch). Subsidiaries have local employees and operate in local currency. The Group's exposure to exchange rate risk comes mostly from the fact that some of its subsidiaries report in currencies other than the euro, being immaterial to the risk associated with operating activities.

Foreign exchange risk management seeks to minimise the volatility of investments and transactions made in foreign currency and, whenever possible, the Company uses natural hedges to manage exposure or derivative financial hedging instruments. In the notes to the financial statements (see chapter 6.2, note 1.ab) further information is presented on how this risk is managed and controlled, including a summary of the Group exposure to exchange rate risk and its sensitivity to changes in exchange rates.

Interest Rate

Sonaecom total debt is indexed to variable rates, exposing the total cost of debt to a high risk of volatility. The impact of this volatility on the company results or on its Shareholders funds is mitigated by the effect of the following factors: (i) relatively low level of financial leverage; (ii) possibility to use derivative instruments that hedge the interest rate risk, as mentioned below; (iii) possible correlation between the level of market interest rates and economic growth the latter having a positive effect in other lines of the company results, and in this way partially offsetting the increase of financial costs ("natural hedge"); and (iv) the existence of stand alone or consolidated liquidity which is also bearing interest at a variable rate.

The Company only uses derivatives or similar transactions to hedge interest rate risks considered significant, namely, interest rate swaps and other derivatives. The counterparties of the derivative hedging instruments are limited to highly rated financial institutions. Sonaecom Board of Directors approves the terms and conditions of the financing with significant impact in the company, based on the analysis of the debt structure, the risks and the different options in the market, particularly as to the type of interest rate (fixed /variable). Under the policy defined above, the Executive Committee is responsible for the decision on the occasional interest rate hedging contracts, through monitoring the conditions and alternatives existing in the market. In the notes to the financial statements (see chapter 6.2, note 1.ab) further information is presented on how this risk is managed and controlled, including the sensitivity analysis to interest rate risk (see note 20).

Liquidity

The existence of liquidity in the company requires the definition of some policies for an efficient and secure management of the liquidity, allowing us to maximize the profitability and to minimise the opportunity costs related with that liquidity. The main underlying policies correspond to the variety of instruments allowed, the maximum acceptable level of risk, the maximum amount of exposure by counterparty and the maximum periods for investments.

In the notes to the financial statements (see chapter 6.2, note 1.ab) further information is presented on how this risk is managed and controlled.

Credit

The company exposure to credit risk is mainly associated with the accounts receivable related to current operational activities. The credit risk associated with financial operations is mitigated by the fact that the Group, related to telecommunication operators, only negotiates with entities with high credit quality.

The management of this risk seeks to guarantee that the amounts owing are effectively collected within the periods negotiated without affecting the financial health of the company. To assist in mitigating this risk, the Group uses credit rating agencies, subscribes credit insurances and has specific departments for Credit Control, Collections and Management of Litigation.

Legal risks

According to Sonaecom Business Risk Model (BRM), legal risks relate to Business Environment risk category. To monitor the drivers of actual and potential risks, as well as to assure the fulfilment of the legal and regulatory framework in place, Sonaecom has a dedicated team, which includes the Law and Regulation department, that follows legal and regulatory issues very closely. Despite this, we cannot totally exclude the risk of possible infringement processes against Sonaecom companies due to different views on the practical meaning of the legal and regulatory framework. Sonaecom also collaborates with the authorities aiming at the definition of the legal and regulatory framework that, according to our view, promotes the development of the communications sector in Portugal. Such collaboration may be proactive or involve sending comments to the public consultations that are launched.

Legal and Regulatory

Within Sonaecom's business portfolio, regulatory issues are more relevant in the telecommunications unit that is subjected to specific rules, mainly defined by the sector regulator ICP - Autoridade Nacional de Comunicações (ICP - ANACOM).

The decisions of the regulator may have a great impact on the development of Optimus's activities, including those relating to: spectrum awarding conditions, mobile termination rates, the regulatory framework for next generation networks (NGNs), within which should be defined the conditions of access to third parties' NGN, wholesale offers conditions (namely, access to ducts, leased lines and access to local loop unbundling) and universal service financing. As already mentioned, ICP - ANACOM is responsible for setting the conditions for spectrum award. This is particularly relevant to Optimus's activities since the regulator has already announced that it intends to promote the awarding of spectrum for LTE during the first part of 2011.

There are also other issues that affect the company activity, which are directly decided by the Government, though assisted by ICP - ANACOM, namely the designation of the universal service provider, regulatory fees (spectrum, numbering, regulatory activity) or other fees to be imposed to the communications providers and consumer protection rules, like the one imposed during 2010 regarding terminal equipment unlocking.

Additionally, Sonaecom's has also to comply with rules that are defined at European level, and have direct effect on Portugal as a Member State of the European Union, as happens with the regulation on roaming services, which limits the conditions of the provision of roaming services either at wholesale and retail level.

Besides the specific rules regarding the telecommunications sector, Optimus is also subjected to horizontal legislation, including competition law, whereas other Sonaecom companies, such as WeDo Technologies, face an additional risk. This is the result of them having a presence in several countries around the world, which involves specific risks related to very different legal frameworks, where additional effort is needed to be fully understood.

c) Other Risk Management Processes

The last part of the section on risk management covers Sonaecom policies and processes in relation to three areas that are generally considered to be risk sensitive and are areas on which there is a focus from shareholders and other stakeholders and interested parties: Conflicts of Interest, Remuneration Practices and Whistle-blowing and the Reporting of Irregularities. Although these are important and sensitive areas, Sonaecom considers that, given the governance structure, policies and processes we have in place, these areas involve lower levels of risk when compared, for example, with some of the economic risks intrinsic to the business, which have already been described in this section".

Conflicts of Interest policy

It is a matter of good governance that, in all dealings at Sonaecom, integrity and reputation cannot be compromised when any party to the dealing has a conflict of interest, either actual, potential, perceived, or is a third party. Given that, internal control processes are in place that allow addressing conflicts of interest, within the several dimensions of the organisation

For all employees, Sonaecom has adopted a Code of Conduct that includes the following guidance on conflicts of interest:

- It is applicable to all employees, including Board level and company officers, as well as permanent external consultants and outsourcing personnel (also referred to as business partners). As a matter of corporate principle, all employees are encouraged to disclose potential conflicts of interest to their immediate supervisor in the hierarchy.
- Employees should avoid intervening in decision making processes that involve, directly or indirectly, organisations with which they collaborate or have collaborated or people with whom they are or have been connected by ties of kinship or friendship. If it is impossible to abstain from intervention in these processes, employees should inform their administrative superior of the existence of these connections.
- Employees should abstain from participating in or carrying out duties in organisations whose activities may be incompatible with the performance of their duties at Sonaecom or whose goals might be incompatible with those of Sonaecom.
- The Code of Conduct, as well as the functioning of its related processes under the supervision of the Ethics Committee, are made available to all current and new employees or business partners and are also published on Sonaecom's website and intranet.

Additionally, at Board level there is a Regulation governing Policy and Procedures on Conflicts of Interest approved by the Board, which determines that:

- It is applicable to all Directors, which includes all members of the Board of Directors, as well as other Senior Executive Managers who regularly participate in Board meetings, Executive Committee meetings or any Board Committees.
- A Director, or entities in which a Director has a significant interest and/or influence, who or which enter or propose to enter into a transaction with the Company shall make full disclosure immediately.
- Such conflicts will be reported to the Board of Directors, normally via the BAFC. The Board of Directors, on advice from the BAFC, may approve the transaction or request that further pre-defined steps should be taken as are necessary and reasonable to remove any conflict of interest.
- For all Directors, a register should be maintained by the Secretary of the Board of Directors regarding significant and relevant outside directorships and other significant roles or activities (supervised by the BNRC), as well as a register of all significant shareholdings held (supervised by the BAFC). Directors should reconfirm the contents of the register in writing at least once a year.

At Company level, in relation to shareholder relationships and related party transactions:

- When executing related party transactions, Sonaecom companies should act in a diligent, careful and organized manner and should ensure that transactions are well documented. The interests of parties involved should be respected ensuring that, globally, transactions are implemented on an “arm’s length” basis, observing general market practices (carried out as if the parties to the transaction were independent entities carrying out comparable transactions). Transactions should serve the long term interests of the parties involved (including the fair treatment of any minority shareholders) and should take into account the interests of other relevant parties such as employees, clients and creditors, thereby ensuring the sustainability of the companies.
- Where deals of significant importance are undertaken with holders of qualifying shareholdings, or with entities which are classified as related parties, such deals shall be subject to a preliminary opinion from the SAB. The SAB, under its Terms of Reference, obtains from the Board of Directors, normally through the BAFC, all the necessary information relating to the operational and financial progress of the company, changes to its business portfolio, the terms of any sensitive or related party transactions that have occurred and the details of decisions taken. Under its Terms of Reference, the BAFC devotes particular attention to material transactions with related parties, especially any transactions that could involve significant transfer pricing risk.
- Relevant information regarding reference shareholders and related parties is disclosed in section 5.6, including Sonaecom qualified holdings under “Qualified Shareholdings” and the existence of other material non-operational transactions with related parties, if any, under “Relevant transactions with related parties”.

Remuneration policy

Sonaecom is committed to applying generally recommended risk management guidelines in terms of remuneration:

- The design of the remuneration policy for all officers and employees should take into account their potential risk taking behaviour, by giving a sufficient, but a balanced, weighting to their variable component transposing some of the activity risk into the officers or employees own assumed risk by linking their own reward to individual and corporate performance.
- Additionally, the remuneration of the members of the Board of Directors should be structured so that their interests are aligned with the long term interest of the company. Their remuneration should be based on an independent assessment of their performance and should be structured to discourage excessive risk taking.

A risk assessment of Sonaecom's remuneration policy can be obtained by considering the following information:

- The remuneration principles applied for all officers and employees and how the different remuneration components contribute to a controlled environment in terms of risk taking behaviour is explained in section 5.4 of this report. Entitled Group Remuneration Policy, Remuneration of Management and Audit bodies.
- The remuneration policy decision and approval process involves different governing bodies in order to ensure independent scrutiny, equity and adequate risk management of the processes. In particular, the BNRC has an important role in overseeing risk given its key function in reviewing all remuneration and compensation policy and all remuneration proposals, as well as, supervising the MTIP.
- The remuneration principles and practices that apply at Board level are further explained and detail of individual remuneration is disclosed in section 5.4 under Directors' remuneration. The BNRC reports in writing to the Board, whenever necessary, and liaises with Sonaecom Shareholders Remuneration Committee ("Comissão de Vencimentos ") to obtain their approval, on behalf of shareholders, of the remuneration and other compensation of the Board of Directors and other Statutory Governing Bodies.
- Finally, the fact that comprehensive information is disclosed in section 5.4 on the remuneration policy adopted promotes transparency and is itself a contributing factor in mitigating the risk of potential problematic pay practices.

Whistle-blowing policy

Sonaecom has a policy and process for communicating alleged irregularities carried out by officers, employees and business partners which sets out procedures to respond to any irregularities reported.

The SAB has statutory responsibilities in relation to this process, in particular:

- To receive communications of alleged irregularities reported relating to the Company and presented by the Company's shareholders, employees or other parties.
- To record any alleged irregularities that were reported, to promote investigation with due diligence by the Board of Directors, the Internal and/or the External Auditor and to report its conclusions.

The responsibility for supervising this process has been delegated to the Sonaecom Ethics Committee, which is required:

- To assess the alleged irregularities considering the policy stated in the Code of Conduct.
- To receive, discuss, investigate and assess any alleged irregularities that are reported and to decide on the appropriate measures that should be taken in each case reported.
- To review and evaluate the efficiency and effectiveness with which the policy and process for communicating irregularities operates.

The whistle-blowing process can be summarised as follow:

- Anyone wishing to communicate any irregularity believed or known to have been committed by any Sonaecom officer, member of staff or business partner, must address a letter or an e-mail containing a summary description of the facts to the Ethics Committee. The identity of the whistle-blower will be kept anonymous, if explicitly requested.
- The letter will be analysed by the Ethics Committee and, if the Committee finds grounds for the reported irregularity, measures will be taken, as deemed appropriate.

5.6. Other information

Share capital structure

Sonaecom's share capital is divided into three hundred and sixty six million, two hundred and forty six thousand and eight hundred and sixty eight ordinary, registered and book-entry shares with a nominal unit value of one Euro. There are no special share categories.

Qualified shareholdings

In accordance with the Portuguese Securities Code, shareholdings amounting to or exceeding the thresholds of 2%, 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.66% and 90% of the total share capital must be reported to the Portuguese Securities Market Commission and disclosed to the capital market. Reporting is also required if the shareholdings fall below the same percentages.

Sonaecom qualified holdings

Shareholders	Number shares held	% Shareholding as at 31 December 2010
Sonae SGPS	194,714,119	53.17%
France Télécom	73,249,374	20.00%
BCP S.A	12,500,998	3.41%
Santander Asset Management	7,408,788	2.02%

Sonaecom's largest Shareholders continue to be Sonae SGPS, a Portuguese multinational Group also with interests in retail, shopping centres and insurance, with a shareholding position of just over 53%, and France Télécom, one of the largest telecom operators in the world, with a 20% stake in Sonaecom.

The free float, as at 31 December 2010 (% of shares not held or controlled by Shareholders with qualified holdings and excluding own shares) stood at approximately 18.87%.

During 2010, there were no changes to the number of shares issued by Sonaecom.

Shareholders holding special rights

There are no Shareholders with special rights.

Restrictions on the transfer and ownership of shares

There are no restrictions on the transfer and ownership of shares.

Shareholders' agreements known to the Company

Sonaecom is not aware of any Shareholders' agreements which contain restrictions on the transfer of shares or voting rights in the Company.

Rules applicable to the amendment of Company's Articles of Association

Changes to the Company's Articles of Association require approval at a Shareholders' General Meeting, which decides, in accordance with the applicable law, by a majority of two-thirds of the votes cast.

Control mechanisms for employees participating in the share capital

There are no systems in place concerning the attribution of shares of the Company to its employees that result in the respective employees not being able to freely exercise their voting rights.

Share price performance

Sonaecom's shares ended 2010 with a market price of 1.350 euros per share, 30.1% below the closing price of 1.932 euros per share at 31 December 2009. The share price reached a maximum of 2.007 euros per share on 8 January 2010 and a minimum of 1.230 euros on 28 April 2010.

At the end of 2010, Sonaecom's market capitalisation was approximately 494 million euros. The average daily trading volume reached 466 thousand shares, an increase of 3.35%, when compared to 2009. The total number of Sonaecom shares traded during 2010 exceeded 121 million shares, more than 33% of the total share capital of the Company.

During 2010, Sonaecom's share price evolution and liquidity were mainly influenced by the following news:

- 3 March 2010: Sonaecom announces a three-year bond issue;
- 8 March 2010: full-year 2009 consolidated results released;
- 26 March 2010: Sonaecom announces a five-year bond issue;
- 23 April 2010: Shareholders' Annual General Meeting held with release of information about approved decisions;
- 6 May 2010: first quarter 2010 consolidated results released;
- 29 July 2010: first-half 2010 consolidated results released;
- 3 November 2010: first nine months 2010 consolidated results released.

Dividend distribution policy

At the Shareholders' Annual General Meeting, held on 23 April 2010, Sonaecom's Shareholders approved the proposal from the Board of Directors to apply net results to retained earnings, with no dividend distribution, reflecting Sonaecom's strategy and the business opportunities available.

Proposals to distribute dividends (as for every proposal for the appropriation of net results) are made by the Board of Directors, subject to compliance with Portuguese Company Law and the Company's Articles of Association, and the decision on any such proposals are taken by the Annual General Meeting as described below.

The Board of Directors prepares proposals relating to dividend distribution based on, among other considerations, business and investment opportunities and their corresponding profitability, the financing requirements of the Company and Shareholders' expectations.

There are no articles in the Company's Articles of Association that in any way limit dividend distribution or the proposals from the Board of Directors. Article 33 thereof provides that "The net results shown in the annual financial statements, after deduction of the amounts legally required to create or to add to the legal reserve, will be applied as determined by the Shareholders' General Meeting, which can distribute them totally or partially or transfer them to reserves".

The Company has not distributed any dividends in the last three financial years. However, regarding 2010 results, our Board of Directors will propose the distribution of a gross dividend per share of 0.05 euros at 2011 Shareholders Annual General Meeting.

Relevant transactions with related parties

The relevant transactions with related parties are described in paragraph 21 of the Notes to the Individual Financial Statements. There were no other material non-operational transactions during 2010 with related parties (including Sonaecom Officers and Governing Bodies, such as members of the Board of Directors and the Statutory External Auditor, owners of qualified shareholdings or with controlling or Group companies), apart from the Strategic Partnership agreement with France Telecom entered into on 9 June 2005 and renewed on 24 October 2008.

Reports of the Statutory Audit Board

The annual report of the Statutory Audit Board is disclosed on Sonaecom's website.

Investor Relations

The Investor Relations department is responsible for managing Sonaecom's relationship with the financial community – current and potential investors, analysts and market authorities – with the goal of enhancing their knowledge and understanding of Sonaecom's businesses and activities, by providing relevant, timely and reliable information.

The department regularly prepares presentations and communications covering quarterly, half-year and annual results, as well as issuing announcements to the market whenever necessary, to disclose or clarify any relevant event that could influence Sonaecom's share price.

To further enhance the effective communication with the capital market and guarantee the quality of information provided, the Investor Relations department organises road-shows covering the most important financial centres of Europe and participates in various conferences. Also, a wide variety of investors and analysts have the opportunity to talk to management in one-on-one meetings or conference calls.

Any interested party may contact the Investor Relations department using the following contact details:

Carlos Alberto Silva

Investor Relations Manager

Tel: (+351) 93 100 2444

Fax: (+351) 93 100 2229

Email: carlos.alberto.silva@sonae.com / investor.relations@sonae.com

Address: Rua Henrique Pousão, 432 – 7º Piso, 4460-191 Senhora da Hora, Portugal

Website: www.sonae.com

During 2010, the Investor Relations department participated in 31 one-on-one and group meetings, one roadshow and three investor and telecommunications conferences, providing analysts and investors with information on Sonaecom's performance and future prospects.

The representative for relations with capital markets and the Portuguese Securities Market Commission is António Lobo Xavier who can be contacted by phone or e-mail:

Tel: (+351) 93 100 2232

Fax: (+351) 93 100 2229

E-mail: antonio.xavier@sonae.com / investor.relations@sonae.com

Morada: Rua Henrique Pousão, 432 – 7º Piso, 4460-191 Senhora da Hora, Portugal

Fees of the Statutory External Auditor

During 2010, Sonaecom Group paid the following fees to the Statutory External Auditor Deloitte and their network of companies:

	2010		2009	
Statutory Audit	232,762	81%	218,736	79%
Other Compliance & Assurance Services	42,756	15%	14,125	5%
Audit services	275,518	95%	232,861	84%
Tax Compliance	13,283	5%	44,176	16%
Total	288,801	100%	277,037	100%

Sonaecom's Risk Management Policy, which is supervised by the BAFC in liaison with the Statutory Audit Board, monitors the non-audit services requested from the Statutory External Auditor and their respective network of companies, in order to ensure that auditor independence is not compromised. Annual fees paid by Sonaecom Group to the Deloitte Group represented less than 1% of their total global fees in Portugal. Additionally, an Independence Letter is obtained each year from Deloitte confirming that they meet international guidelines on auditor independence.

5.7. Articles 447, 448 and qualified shareholdings

Please refer to 4.4 under the 'Our management' section.

5.8. Appendix

5.8.1. Qualifications and professional experience of the members of the Board of Directors

Please refer to 4.1 under the 'Our management' section

5.8.2. Shares held by the members of the Board of Directors and respective transactions during 2010

Please refer to 4.3 under the 'Our management' section

5.8.3. Offices held by the members of the Board of Directors

Please refer to 4.2 under the 'Our management' section

5.8.4. Qualifications, professional experience and shares held by the members of the Statutory Audit Board

Arlindo Dias Duarte Silva

Academic qualifications: Degree in Economics from Porto University.

Professional experience: Member of the Institute of Statutory Auditors, Statutory External Auditor and member of several Statutory Audit Boards.

Number of Sonaecom shares held: does not hold any shares.

Armando Luís Vieira de Magalhães

Academic qualifications: Degree in Economics from Porto University. Executive MBA – European Management, from IESF/IFG.

Professional experience: Statutory Auditor in various Portuguese companies.

Number of Sonaecom shares held: does not hold any shares.

Óscar José Alçada da Quinta

Academic qualifications: Degree in Economics from Porto University.

Professional experience: Member of the Institute of Statutory Auditors, Partner of Óscar Quinta, Canedo da Mota & Pires Fernandes, SROC and member of several Statutory Audit Boards.

Number of Sonaecom shares held: does not hold any shares.

Jorge Manuel Felizes Morgado

Academic qualifications: Degree in Economics from Porto University.

Professional experience: Statutory Auditor and Member of the Statutory Audit Board in various Portuguese companies.

Number of Sonaecom shares held: does not hold any shares.

5.8.5. Offices held by the members of the Statutory Audit Board

Arlindo Dias Duarte Silva

Offices held in companies in which Sonaecom is a Shareholder:

Does not hold any office in a company in which Sonaecom is a Shareholder.

Other offices held:

DMJB – Consultadoria de Gestão, S.A.

(Statutory External Auditor)

Sonae, SGPS, S.A.

(Member of the Statutory Audit Board)

Sonae Investimentos, SGPS, S.A.

(Member of the Statutory Audit Board)

Rochinvest – Investimentos Imobiliários e Turísticos, S.A.

(Member of the Statutory Audit Board)

Offices in non-profitable institutions:

ALADI – Associação Lavrense de Apoio ao Diminuído Intelectual

(Member of the Statutory Audit Board)

Centro Social e Paroquial Padre Ângelo Ferreira Pinto

(Member of the Statutory Audit Board)

Associação Cultural do Senhor do Padrão

(Member of the Statutory Audit Board)

Liga dos Amigos do Hospital Pedro Hispano

(Member of the Statutory Audit Board)

Armando Luís Vieira de Magalhães

Offices held in companies in which Sonaecom is a Shareholder:

Does not hold any office in a company in which Sonaecom is a Shareholder.

Other offices held:

Sonae Capital, SGPS, S.A.

(Statutory Audit Board)

Sonae Indústria, SGPS, S.A.

(Statutory Audit Board)

Offices in non-profitable institutions:

Fundação Eça de Queirós

(Statutory Audit Board)

Futebol Clube do Porto – Futebol, S.A.D; Porto Comercial – Sociedade de Comercialização e Sponsorização, SA;

Porto Estádio – Gestão e Exploração de Equipamentos Desportivos, SA.

(Statutory Audit Board)

Óscar José Alçada da Quinta

Offices held in companies in which Sonaecom is a Shareholder:

Does not hold any office in a company in which Sonaecom is a Shareholder.

Other offices held:

BA GLASS I – Serviços de Gestão e Investimentos, S.A.

(Statutory Audit Board)

Óscar Quinta, Canedo da Mota & Pires Fernandes, SROC

(Member of the Board of Directors)

Sonae Distribuição, SGPS, S.A.

(Statutory Audit Board)

Sonae Indústria, SGPS, S.A.

(Statutory Audit Board)

Jorge Manuel Felizes Morgado

Offices held in companies in which Sonaecom is a Shareholder:

Does not hold any office in a company in which Sonaecom is a Shareholder.

Other offices held:

Sonae Capital, SGPS, S.A

(Statutory Audit Board)

Sonae Indústria, SGPS; S.A.

(Statutory Audit Board)

Sonae, SGPS, S.A.

(Statutory Audit Board)

Sonae Sierra, S.A.

(Statutory Audit Board)

