PORTUGAL TELECOM SGPS SA
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of August 2010

Commission File Number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of registrant as specified in its charter)

Av. Fontes Pereira de Melo, 40
1069 - 300 Lisboa, Portugal

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

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First Half 2010

Consolidated report

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Portugal Telecom

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

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Portugal

		Revenues (Euromillion)
Wireline	• Retail, large corporates voice and data, ISP and broadband services [PT Comunicações100%] • SMEs voice and data [PT Prime 100%]	971
Mobile	• TMN 100%	689

Main international assets

			Revenues (Euromillion)
Vivo 29.71%	• Brazil	• Mobile	1,885
Unitel 25% (*)	• Angola	• Mobile	540
CTM 28%	• Macao	• Wireline, mobile	125
MTC 34% (*)	• Namibia	• Mobile	70
UOL 28.78%	• Brazil	• ISP, contents and Internet	63
CVT 40% (*)	• Cape Verde	• Wireline, mobile	36
Timor Telecom 41.12%	• East Timor	• Wireline, mobile	20
CST 51% (*)	• São Tomé e Príncipe	• Wireline, mobile	6

(*) These stakes are held by Africatel, which is controlled 75% by PT.

Support companies

Systems and IT [PT Sistemas de Informação 100%]; Innovation, research and development [PT Inovação 100%];

Backoffice and shared services [PT PRO 100%]; Procurement [PT Compras 100%];

Call centres and telemarketing services [PT Contact 100%]; Pension funds management [Previsão 82.05%]

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Financial review

Consolidated income statement

Consolidated income statement (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**1,908.8**	**1,629.7**	**17.1%**	**3,682.2**	**3,235.0**	**13.8%**
Wireline (2)	482.8	473.3	2.0%	971.0	965.3	0.6%
Domestic mobile • TMN (2)	343.6	367.1	(6.4)%	689.5	737.1	(6.5)%
Brazilian mobile • Vivo (1)	1,001.4	738.7	35.6%	1,884.8	1,442.4	30.7%
Other and eliminations	80.9	50.7	59.7%	136.9	90.2	51.9%
Operating costs, excluding PRBs and D&A	**1,245.1**	**1,034.2**	**20.4%**	**2,385.2**	**2,036.6**	**17.1%**
Wages and salaries	212.1	177.2	19.7%	410.7	338.8	21.2%
Direct costs	351.6	273.3	28.6%	675.7	534.7	26.4%
Commercial costs	304.4	261.7	16.3%	581.4	524.3	10.9%
Other operating costs	377.0	321.9	17.1%	717.3	638.9	12.3%
EBITDA (3)	**663.6**	**595.5**	**11.4%**	**1,297.0**	**1,198.4**	**8.2%**
Post retirement benefits	17.8	22.4	(20.5)%	35.6	44.8	(20.5)%
Depreciation and amortisation	395.2	341.5	15.7%	773.0	667.1	15.9%
Income from operations (4)	**250.6**	**231.5**	**8.2%**	**488.4**	**486.5**	**0.4%**
Other expenses (income)	**11.8**	**14.9**	**(20.4)%**	**22.5**	**17.6**	**28.2%**
Curtailment costs, net	4.1	1.6	147.5%	9.2	3.5	165.0%
Net losses (gains) on disposal of fixed assets	0.8	(0.4)	n.m.	0.8	0.1	n.m.
Net other costs (gains)	7.0	13.6	(49.0)%	12.5	14.0	(11.1)%
Income before financ. & inc. taxes	**238.8**	**216.7**	**10.2%**	**465.8**	**468.9**	**(0.7)%**
Financial expenses (income)	**6.3**	**35.9**	**(82.4)%**	**41.5**	**54.4**	**(23.7)%**
Net interest expenses	77.6	72.4	7.3%	150.5	144.7	4.0%
Equity in earnings of affiliates, net	(45.2)	(53.5)	(15.6)%	(83.9)	(102.2)	(17.9)%
Net other financial losses (gains)	(26.2)	17.1	n.m.	(25.1)	11.8	n.m.
Income before income taxes	**232.4**	**180.8**	**28.6%**	**424.3**	**414.6**	**2.4%**
Provision for income taxes	(16.9)	(62.6)	(73.0)%	(79.7)	(118.4)	(32.7)%
Income from continued operations	**215.5**	**118.1**	**82.5%**	**344.7**	**296.2**	**16.4%**
Losses (income) attributable to minority interests	(51.4)	(28.2)	82.3%	(80.2)	(39.6)	102.5%
Consolidated net income	**164.2**	**90.0**	**82.5%**	**264.5**	**256.6**	**3.1%**

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** Wireline and domestic mobile operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN, this impact amounted to Euro 3 million in 1H10. Wireline revenues include the impact of the change in the recognition of contract penalties as from 3Q09. **(3)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(4)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + other costs (gains).

Consolidated operating revenues

In 1H10, consolidated operating revenues increased by 13.8% y.o.y to Euro 3,682 million, as a result of revenue growth in wireline and international operations, namely Vivo, Timor Telecom and Dedic, PT s contact centre and outsourcing business in Brazil.

In 1H10, revenues from domestic operations decreased by 2.3% y.o.y. The revenue performance of domestic operations was negatively impacted by lower equipment sales (Euro 7 million), lower MTRs (Euro 4 million),

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and lower customer revenues at TMN, which more than offset the increase of wireline revenues, notwithstanding the negative impact of the change in the recognition of contract penalties (Euro 8 million).

In 1H10, wireline operating revenues increased by 0.6% y.o.y, from Euro 965 million to Euro 971 million. Adjusting for the change in revenue recognition of contract penalties referred to above, wireline revenues would have increased by 1.4% y.o.y, underpinned by retail revenues and data and corporate and despite lower wholesale revenues. Retail revenues were broadly flat at Euro 484 million in 1H10. Adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 0.9% y.o.y, on the back of the continued strong performance of the Meo triple-play offer (voice, data and pay-TV), which continues to mitigate significantly fixed line net disconnections, which stood at 36 thousand in 1H10 compared to 65 thousand in 1H09 and 110 thousand in 1H08. Moreover, net disconnections of traffic generating lines stood at only 13 thousand in 1H10, compared to 44 thousand in 1H09, an improvement of almost 70% y.o.y.

In the wireline, retail net additions reached 156 thousand in 1H10, up by 13.9% y.o.y, driven by the success of PT s Meo triple-play offer, which is contributing to gain in broadband market share and record losses in terms of fixed line net disconnections. ADSL retail customers increased by 19.5% y.o.y in 1H10, reaching 933 thousand customers. Broadband retail net additions reached 71 thousand in 1H10, in line with the improving trend posted during 2009. PT s Meo offer continues to see strong demand in the market having reached an estimated market share of 27% and surpassed the 700 thousand customer threshold. Pay-TV net additions reached 122 thousand in 1H10 and total pay-TV customers stood at 702 thousand, equivalent to 75.3% penetration of the ADSL retail customer base, up by 18.6pp y.o.y. Retail RGU per access increased by 11.3% y.o.y in 1H10 to 1.60.

In 1H10, TMN s operating revenues decreased by Euro 48 million (-6.5% y.o.y) to Euro 689 million, mainly due to: (1) lower customer revenues (Euro 19 million), against a backdrop of adverse economic conditions and increased penetration of on-net flat-fee prepaid tariff plans in prepaid customers; (2) lower equipment sales (Euro 17 million), and (3) lower interconnection revenues (Euro 8 million), partially as a result of the negative impact of lower MTRs (Euro 3 million). Non-SMS data revenues continued to be an important source of growth, on the back of increasing penetration of smartphones and wireless data cards. Non-SMS data revenues increased by 9.1% y.o.y in 1H10, now representing 60.6% of total data revenues. Data revenues reached 24.2% of service revenues, up by 1.5pp y.o.y.

In 1H10, Vivo s operating revenues increased by 30.7% y.o.y in Euros and 6.6% y.o.y in Reais, improving the revenue trend seen in 2009 and in 1Q10, on the back of continued customer growth (19.6% increase y.o.y in the customer base) and data revenue growth.

Other revenues, including intra-group eliminations, increased by 51.9% y.o.y in 1H10 to Euro 137 million. This performance was mainly due to: (1) the increase of 32.1% y.o.y at Timor Telecom; (2) the improved trends at Dedic, and (3) the consolidation of GPTI, an IT / IS company acquired by Dedic, as from 1 March 2010. These effects more than offset the revenue contraction at CVT in Cape Verde, which was primarily due to weak economic conditions and adverse regulation.

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Revenues by region (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Domestic operations (2)	798.0	805.5	(0.9)%	1,595.2	1,632.9	(2.3)%
Brazil (1) (3)	1,051.4	764.6	37.5%	1,967.9	1,489.2	32.1%
Other and eliminations (4)	59.4	59.5	(0.3)%	119.2	112.9	5.5%
Total operating revenues	**1,908.8**	**1,629.7**	**17.1%**	**3,682.2**	**3,235.0**	**13.8%**

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** Domestic operations include the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. **(3)** Includes mainly Vivo, Dedic, PT s contact centre business, and GPTI. **(4)** Includes fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

In 1H10, the contribution from fully and proportionally consolidated international assets to operating revenues stood at 57.2%, up by 7.4pp y.o.y, and Brazil accounted for 53.4% of consolidated operating revenues, an increase of 7.4pp y.o.y.

Consolidated Operating Costs

(excluding post retirement benefit costs and depreciation and amortization)

Consolidated operating costs excluding depreciation and amortization costs and post retirement benefits, increased by 17.1% y.o.y to Euro 2,385 million in 1H10, as compared to Euro 2,037 million in the same period of last year. Using a constant exchange rate, operating costs would have increased by 4.1% y.o.y in 1H10 to Euro 2,120 million, primarily explained by higher contributions from: (1) the wireline business (Euro 38 million), reflecting higher programming costs, due to the continued growth of pay-TV customers, and increases in commissions and marketing and publicity expenses, as a result of the continued efforts in the marketing of pay-TV and triple-play offers and higher sales to corporate customers; (2) Vivo (Euro 65 million), as continued customer growth led to increases in both services rendered and direct costs; and (3) Portugal Telecom s call centre operation in Brasil. These effects were partially offset by a reduction at TMN (Euro 41 million), primarily as a result of strict cost control and strong focus on the profitability of operations.

Wages and salaries increased by 21.2% y.o.y in 1H10 to Euro 411 million, primarily explained by higher contributions from: (1) Vivo, reflecting the impact of the appreciation of the Brazilian Real and the insourcing of certain activities related to marketing and sales, namely stores, that were previously being outsourced; (2) Dedic, our call centre operation in Brazil, following the investments made in 1H10 for the expansion of this business; and (3) GPTI, which was consolidated since 1 March 2010. Using a constant exchange rate, wages and salaries would have increased by 10.4% y.o.y to Euro 374 million in 1H10. Wages and salaries accounted for 11.2% of consolidated operating revenues.

Direct costs increased by 26.4% y.o.y to Euro 676 million in 1H10 and accounted for 18.4% of consolidated operating revenues. This growth is primarily explained by higher contributions from: (1) Vivo (Euro 122 million), reflecting the impact of the appreciation of the Real (Euro 74 million) and increases in interconnection costs and lease costs 3G related; and (2) the wireline business (Euro 18 million), with the increase in programming costs (Euro 19 million), related to the roll-out of the pay-TV service, being partially offset by lower interconnection costs, mainly related to lower MTRs.

Commercial costs increased by 10.9% y.o.y to Euro 581 million in 1H10 and accounted for 15.8% of consolidated operating revenues. Using a constant exchange rate, commercial costs would have decreased by 3.7% y.o.y in 1H10 to Euro 505 million. This reduction was primarily explained by decreases at: (1) TMN (Euro 33 million), reflecting lower sales and the continued focus on increasing the number of exclusive

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handsets and reducing the breadth of TMN s handset portfolio; and (2) Vivo (Euro 9 million), with the decline in costs of products sold, mainly due to a reduction in sales and the higher take-up of SIM card only offers, being partially offset by an increase in commissions related to the significant growth in sales of modems and smartphones enabled with data plans.

Other operating costs, which mainly include support services, supplies and external services, indirect taxes and provisions, increased by 12.3% y.o.y to Euro 717 million in 1H10. Using a constant exchange rate, other operating costs would have remained broadly flat at Euro 641 million, as compared to Euro 639 million in the same period of last year, with the higher contribution from Vivo (Euro 12 million) and the impact of the consolidation of GPTI as from 1 March 2010 (Euro 6 million) being partially offset by a lower contribution from domestic operations (Euro 14 million). The increase at Vivo is primarily explained by higher spectrum fees, partially offset by the effects of cost control and insourcing of certain marketing and sales activities that were previously being outsourced. The reduction in the domestic operations reflects the halting of the redundancy programme in favour of insourcing, notwithstanding the increase in customer care and support costs related to the strong growth in pay-TV.

EBITDA

EBITDA increased by 8.2% y.o.y in 1H10 to Euro 1,297 million, equivalent to a margin of 35.2%. EBITDA performance in the period was underpinned by growth at Vivo and other international assets and resilient performance in the domestic businesses. In 2Q10, the EBITDA performance of domestic businesses continued to show sequential improvement, notwithstanding lower revenues at TMN and the continued investment in the roll-out of triple-play offers, as a result of cost control and efficiency improvements. In 2Q10, EBITDA increased by 11.4% y.o.y benefiting from an improved sequential performance across all PT businesses.

EBITDA by business segment (1) (2) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Wireline	187.7	200.6	(6.4)%	376.3	408.7	(7.9)%
Domestic mobile • TMN	161.1	161.7	(0.4)%	325.2	331.4	(1.9)%
Brazilian mobile • Vivo (1)	293.4	214.6	36.7%	549.7	418.2	31.4%
Other and eliminations	21.4	18.7	14.8%	45.9	40.1	14.5%
EBITDA (2)	**663.6**	**595.5**	**11.4%**	**1,297.0**	**1,198.4**	**8.2%**
EBITDA margin (%)	34.8	36.5	(1.8)pp	35.2	37.0	(1.8)pp
Domestic operations (3)	347.3	360.8	(3.7)%	698.8	737.0	(5.2)%
Brazil (1) (4)	297.2	217.4	36.7%	556.5	422.6	31.7%
Other (5)	19.2	17.3	10.9%	41.7	38.8	7.6%

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. **(4)** Includes mainly Vivo, Dedic and GPTI. **(5)** Includes only fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

Wireline EBITDA amounted to Euro 376 million in 1H10, equivalent to a 38.8% margin. In 2Q10, wireline EBITDA amounted to Euro 188 million, equivalent to a margin of 38.9%, showing an important sequential improvement when compared to recent quarters. EBITDA loss in

2Q10, when compared to 1Q10, improved significantly and was reduced to a mere Euro 1 million. In 1H10, EBITDA margin continued to be impacted primarily by higher programming, customer acquisition and support service costs in connection with the roll-out of the triple play offers. The improvement in EBITDA trend, even more visible in 2Q10, is owed to streamlined cost structure resulting from fixed-mobile convergence and restructuring of the domestic business

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around customers segments. In 1H10, wages and salaries in the wireline segment declined by 1.3% y.o.y, as a result of strong focus on cost reduction,notwithstanding the halting of the redundancy programme, which resulted in lower costs associated to pre-retirements. Projected benefit obligations related to salaries payable to pre-retired and suspended employees fell by 5.7% y.o.y (Euro 45 million), and the corresponding cash outflow was 9.5% lower in the period (Euro 7 million).

In 1H10, TMN s EBITDA decreased by 1.9% y.o.y to Euro 325 million, mainly as a result of lower customer revenues and sales. Due to a strong and continuous focus on cost cutting to increase efficiency, EBITDA margin reached 47.2%, an increase of 2.2pp compared to 1H09. In 2Q10, EBITDA at TMN was broadly flat y.o.y at Euro 161 million.

In 1H10, Vivo s EBITDA increased by 31.4% y.o.y, underpinned by customer and revenue growth and by the appreciation of the Brazilian Real. Vivo s EBITDA, in Reais, increased by 7.3% y.o.y in the period showing an improved trend in 2Q10 (+10.6% y.o.y) when compared to 1Q10 (+3.9% y.o.y). Vivo s EBITDA margin reached 29.2% in 1H10, an improvement of 0.2pp compared to 1H09. In 1H10, net adds were up by 125.8% to 4,233 thousand, whilst the share of net adds in the semester stood at 37.9%, which compares to Vivo s market share of 30.2%.

Other EBITDA increased by 14.5% y.o.y to Euro 46 million in 1H10 as a result of: (1) the 9.6% y.o.y growth in Timor Telecom; (2) the improved trends at Dedic, and (3) the consolidation of GPTI as from 1 March 2010. These effects more than offset the EBITDA contraction at CVT in Cape Verde, primarily due to weak economic conditions and adverse regulation.

Fully and proportionally consolidated international assets contributed to 48.8% of PT s consolidated EBITDA in 1H10, up by 7.6pp y.o.y. Brazilian businesses accounted for 42.9% of EBITDA in the period and fully consolidated African businesses accounted for 4.8% of EBITDA.

Net income

Post retirement benefit costs amounted to Euro 36 million in 1H10, compared to Euro 45 million in 1H09. The decline of 20.5% y.o.y is mainly due to: (1) the reduction of Euro 105 million in post retirement liabilities, that occurred during 2009, following the halting of the redundancy programme; (2) the increase in fair value of plan assets, from Euro 2,132 million to Euro 2,370 million, that occurred in 2009 as a result of the performance of the plan assets, and the contributions to the pension funds, and (3) the reduction of the discount rate from 5.75% to 5.50%.

Depreciation and amortisation costs increased by 15.9% y.o.y to Euro 773 million, reflecting higher contributions from: (1) Vivo, which accounted for 75.1% of the increase in D&A, mainly as a result of the appreciation of the Brazilian Real (Euro 78 million), and (2) wireline in Portugal, as a result of the investments in the rollout of pay-TV service. In 1H10, D&A included the depreciation of Vivo s CDMA network, which was already fully depreciated as at the end of 2Q10.

Curtailment costs amounted to Euro 9 million in 1H10 as compared to Euro 3 million in 1H09. The low level of curtailment costs in both 1H10 and 1H09 is explained by the decision to halt the curtailment programme, which is continuously reflected in both lower payments and lower present benefit obligations related to pre-retired and suspended employees.

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Net interest expenses increased to Euro 150 million in 1H10 from Euro 145 million in 1H09, mainly as a result of the appreciation of the Brazilian Real and the increase in the cost of debt in domestic operations, notwithstanding the decrease in the cost of debt in Vivo. Consolidated cost of debt was 5.2% in 1H10. Excluding Brasil, PT s cost of debt was 4.7% in 1H10.

Equity in earnings of affiliates in 1H10 amounted to Euro 84 million. In 1H09, this caption included PT s share in the earnings of Médi Télécom, which was sold in 4Q09. Adjusting for the contribution of Médi Télécom in 1H09 and for the depreciation of the Kwanza against the Euro, equity accounting in earnings of affiliated companies would have remained broadly flat at Euro 96 million.

Net other financial gains, which include net foreign currency gains, net gains on financial assets and net other financial expenses, amounted to Euro 25 million in 1H10, as compared to net losses of Euro 12 million in 1H09. Net foreign currency gains amounted to Euro 40 million in 1H10 (Euro 2 million in 1H09), primarily due to the transfer of positive foreign currency adjustments (Euro 32 million) to net income following the share capital reductions at Brasilcel related to repatriation of capital. Additionally, gains recorded in 1H10 and 1H09 are also explained by the impact of the appreciation of the US Dollar against the Euro in both periods on net assets denominated in US Dollars. Net gains on financial assets amounted to Euro 0.8 million in 1H10, which compares to Euro 7 million in 1H09, resulting primarily from the impact of the appreciation of the US Dollar against the Euro on Euro/Dollar free-standing cross currency derivatives, which were settled in April 2009. Other financial expenses, which include banking services, financial discounts and other financing costs, decreased to Euro 16 million in 1H10 from Euro 21 million in the same period of last year.

Income taxes decreased to Euro 80 million in 1H10 from Euro 118 million in 1H09, corresponding to an effective tax rate of 18.8% and 28.6%, respectively. In 1H10, this caption includes: (1) a gain of Euro 48 million related to corporate restructuring of Africatel businesses that resulted in lower taxable profits, and (2) a gain of Euro 4 million corresponding to the impact, on deferred taxes, as at 1 January 2010, of the change in the statutory tax rate applicable in Portugal from 26.5% to 29.0% for companies with taxable profits higher than Euro 2 million. Adjusting for these effects, income taxes would have amounted to Euro 132 million in 1H10, corresponding to an effective tax rate of 31.1% (28.6% in 1H09).

Income attributable to minority interests increased by Euro 41 million to Euro 80 million in 1H10, reflecting the increase in minority interests from Vivo (Euro 16 million) and from the African businesses (Euro 24 million). The increase in minority interests from Vivo was related to the improvement in its earnings during the period and the appreciation of the Brazilian Real. The increase in minority interests from Africatel is primarily explained by the share of minority interests in the tax gain and accounting gains resulting from the corporate restructuring of the African businesses.

Net income increased by 3.1% y.o.y in 1H10 to Euro 264 million, as compared to Euro 257 million in 1H09 with the improvement in EBITDA, the increase in net other financial gains and the tax gains recognised in 2Q10 offsetting higher depreciation and amortisation costs and lower equity in earnings of affiliated companies. In 2Q10, net income increased by 82.5% y.o.y to Euro 164 million.

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Capex

Capex decreased by 4.5% y.o.y in 1H10 to Euro 484 million, equivalent to 13.1% of revenues, notwithstanding: (1) the continued investments in future proof technologies, namely FTTH, 3G and 3.5G; (2) the investments in new services, namely IPTV, (3) the strong growth of pay-TV customers (58.6% y.o.y in 1H10), and (4) the appreciation of the Real against the Euro (Euro 37 million). This decline was more evident in 2Q10, as capex decreased by 9.8% when compared to 2Q09.

Wireline capex decreased from Euro 227 million in 1H09 to Euro 212 million in 1H10 (6.7% y.o.y decline), as the investments in legacy network infrastructure declined in the period, notwithstanding: (1) the continued efforts in the rollout of future proof infrastructures, namely FTTH, and (2) the increase in customer related capex associated to the growth in pay-TV services. Other investments, namely infrastructure backbone SI/TI, also decreased as the result of PT s focus on efficiency and cash flow, benefiting from significant investments during 2008 and 2009 and fixed-mobile integration. Capex at wireline represented 21.8% of revenues, down by 1.7pp when compared to 1H09.

Capex by business segment (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Wireline	99.7	125.9	(20.9)%	212.1	227.3	(6.7)%
Domestic mobile • TMN (2)	29.1	33.4	(13.1)%	52.6	58.0	(9.4)%
Brazilian mobile • Vivo (1)	105.6	104.7	0.8%	171.6	191.3	(10.3)%
Other	20.4	18.2	11.8%	47.5	29.7	60.1%
Total capex	254.7	282.4	(9.8)%	483.7	506.2	(4.5)%
Capex as % of revenues (%)	13.3	17.3	(4.0)pp	13.1	15.6	(2.5)pp

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

TMN s capex decreased by 9.4% y.o.y to Euro 53 million in 1H10, equivalent to 7.6% of revenues. The decrease in TMN s capex is primarily explained by the focus on cash-flow generation, with TI/SI related capex decreasing by 30.5% y.o.y as a result of the fixed-mobile integration. Capex continued to be directed primarily towards expanding network capacity and coverage, namely in the urban areas and in the main roads. Infra-structure related capex was broadly flat as a result of the continued focus on the provision of mobile voice and data services of excellence to customers and on accommodating increased voice and data usage. Approximately 70% of network capex is being directed towards 3G and 3.5G networks. Against a backdrop of the high quality of the network and services offered to customers, TMN s network quality continues to stand out in the context of the Portuguese market for its coverage and reliability.

Capex at Vivo decreased by 10.3% y.o.y to Euro 172 million in 1H10, notwithstanding the appreciation of the Brazilian Real. Vivo s capex in Reais decreased by 26.8% to R$ 818 million. Capex at Vivo was directed towards: (1) increasing network capacity to support the accelerated growth of voice traffic in the 2G network; (2) expanding coverage of 3G and 3.5G networks to support the growth in wireless broadband, and (3) improving network quality to continue to be the most reliable and best quality network in Brazil. Vivo s 3G and 3.5G network covers 608 municipalities and more than 61% of Brazilian population and it is expected that 2,800 municipalities will be covered by the end of 2011. Additionally, Vivo continues to lead in overall quality metrics measured by the Brazilian telecoms regulator, Anatel. Capex at Vivo represented 9.1% of revenues, down by 4.2pp when compared to 1H09.

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In 1H10, other capex increased to Euro 48 million, compared to Euro 30 million in 1H09, as a result of investments made in 1H10 in the expansion of Dedic, PT s contact centre and outsourcing operation in Brazil, including the construction of new sites.

Cash Flow

EBITDA minus Capex increased from Euro 692 million in 1H09 to Euro 813 million in 1H10 (+17.5% y.o.y) as a result of: strong EBITDA growth in international operations and continued focus on cost cutting across the various business segments in Portugal, and (2) capex reduction in the main operations, following the recent deployment of future proof technologies, namely FTTH in Portugal, 3G and 3.5G in Portugal and Brazil.

Operating cash flow amounted to Euro 466 million in 1H10, compared to Euro 476 million in 1H09, with the increase in working capital investment (Euro 136 million) more than offsetting the improvement in EBITDA minus CAPEX. The increase in working capital investment is mainly attributable to: (1) Vivo, resulting primarily from the increase in the annual payment of Fistel fees (Euro 20 million), in line with the increase in Vivo s customer base, and (2) wireline business, resulting primarily from a higher working capital investment related to capex (Euro 59 million), as the higher capex in 4Q09 compared to 4Q08 led to higher payments to fixed asset suppliers in 1H10.

Free cash flow **Euro million**

	2Q10	**2Q09**	**y.o.y**	**1H10**	**1H09**	**y.o.y**
EBITDA minus Capex	408.9	313.1	30.6%	813.3	692.1	17.5%
Non-cash items	27.8	18.3	52.0%	55.7	49.8	11.7%
Change in working capital	(36.1)	67.7	n.m.	(402.6)	(266.3)	51.2%
Operating cash flow	**400.7**	**399.1**	**0.4%**	**466.4**	**475.6**	**(1.9)%**
Interests	(95.6)	(97.4)	(1.8)%	(215.7)	(225.1)	(4.2)%
Net payments and contributions related to PRBs	(31.1)	(0.1)	n.m.	37.4	(8.3)	n.m.
Payments to pre-retired, suspended employees and other	(35.3)	(39.6)	(11.1)%	(70.8)	(78.2)	(9.5)%
Income taxes	(38.4)	(18.7)	106.1%	(71.2)	(27.9)	155.1%
Dividends received	0.3	0.1	102.6%	8.7	8.0	8.1%
Other cash movements	(25.6)	(16.8)	52.7%	(36.9)	(9.3)	298.4%
Free cash flow	**174.8**	**226.7**	**(22.9)%**	**117.9**	**134.9**	**(12.6)%**

Free cash flow amounted to Euro 118 million in 1H10 as compared to Euro 135 million in the same period of last year. This change is primarily explained by: (1) the reduction in operating free cash flow described above (Euro 9 million); (2) an increase in income taxes paid (Euro 43 million), primarily at Vivo, following the improvement in its earnings and appreciation of the Brazilian Real, and (3) higher payments related to legal actions (Euro 13 million), both at Vivo and domestic operations. These effects more than offset: (1) the decrease in net contributions and payments related to post retirement benefits (Euro 46 million), as the reimbursement of Euro 75 million received in 1H10 related to the excessive funding of the healthcare post retirement benefit plan more than offset higher contributions to the pension funds (Euro 30 million), and (2) lower payments of salaries to pre-retired, suspended employees and other (Euro 7 million).

Consolidated Net Debt

Consolidated net debt amounted to Euro 6,093 million as at 30 June 2010, a decrease of Euro 63 million y.o.y and an increase of Euro 565 million when compared to the end of 2009, following: (1) Euro 504 million in

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dividends paid by PT; (2) Euro 84 million unfavourable impact on Vivo s net debt related to the appreciation of the Real against the Euro, and (3) the consolidation of GPTI s net debt, which amounted to Euro 31 million as at 1 March 2010. As at 30 June 2010, Vivo s net debt represented Euro 720 million of PT s consolidated net debt.As at 30 June 2010, total consolidated gross debt amounted to Euro 8,094 million, of which 86.8% was medium and long-term. At the end of June 2010, 87.2% of total debt was denominated in Euros and 12.8% in Brazilian Reais. Vivo s debt is either Real-denominated or has been hedged into Reais. Also as at the end of 1H10, 72.6% of gross debt and 96.4% of net debt was set at fixed rates.

Change in net debt **Euro million**

	2Q10	1Q10	1H10	2H09
Net debt (initial balance)	5,659.8	5,528.0	5,528.0	6,156.2
Less: free cash flow	174.8	(57.0)	117.9	734.6
Dividends paid by PT	503.6	0.0	503.6	0.0
Changes in consolidation perimeter	0.0	30.8	30.8	0.0
Other (1)	50.1	14.2	64.3	44.6
Net debt (final balance excluding translations effect)	6,038.6	5,630.0	6,008.9	5,466.1
Translation effect on foreign currency debt	54.2	29.7	83.9	61.9
Net debt (final balance)	6,092.8	5,659.8	6,092.8	5,528.0
Change in net debt	433.0	131.8	564.8	(628.1)
Change in net debt (%)	7.7%	2.4%	10.2%	(10.2)%

(1) This caption includes mainly: Euro 60 million in 1H10 related to dividends paid by PT s fully consolidated subsidiaries to minority shareholders (Euro 39 million in 2H09).

The amount of cash available in PT s domestic operations plus the undrawn amount of PT s committed commercial paper lines and standby facilities totalled Euro 2,579 million at the end of June 2010, of which Euro 988 million was undrawn committed commercial paper and standby facilities.

In 1H10, PT s average cost of debt stood at 5.2%. Excluding Brazil, PT s average cost of debt was 4.7% in 1H10. As at 30 June 2010, PT s consolidated net debt had a maturity of 5.9 years. In 1H10, the net debt to EBITDA ratio was 2.3x compared to 2.6x in 1H09, while EBITDA cover stood at 8.6x compared to 8.3x in 1H09.

Post Retirement Benefits Obligations

Post retirement benefits obligations **Euro million**

	30 June 2010	31 December 2009
Pensions obligations	2,718.6	2,710.2
Healthcare obligations	337.2	335.3
PBO of pension and healthcare obligations	**3,055.9**	**3,045.5**

Market value of funds (1)	(2,179.4)	(2,369.5)
Unfunded pensions and healthcare obligations	**876.5**	**675.9**
Salaries to suspended and pre-retired employees	746.5	791.4
Total gross unfunded obligation	**1,623.0**	**1,467.4**
After-tax unfunded obligations	**1,192.9**	**1,078.5**
Unrecognised prior years service gains	22.4	23.4
Accrued post retirement benefits	1,645.4	1,490.8

(1) The change in the market value of funds resulted mainly from: (i) the negative performance of assets under management amounting to Euro 74.7 million (equivalent to -3.3% in 1H10), (ii) the payments of pensions and supplements of Euro 69.2 million and (iii) the reimbursement of excess funding of the healthcare plan amounting to Euro 75 million. These effects were partially offset by contributions to the pension funds amounting to Euro 34.8 million.

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As at 30 June 2010, the projected post retirement benefits obligations (PBO) related to pensions and healthcare amounted to Euro 3,056 million and the market value of assets under management amounted to Euro 2,179 million. In addition, PT had liabilities in the form of salaries payable to suspended and pre-retired employees amounting to Euro 747 million and these are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, gross unfunded total obligations amounted to Euro 1,623 million. After-tax unfunded obligations amounted to Euro 1,193 million. PT s post retirement benefits plans for pensions and healthcare are closed to new participants.

Total gross unfunded obligations increased by Euro 156 million to Euro 1,623 million as at 30 June 2010, as a result of: (1) the reimbursement of Euro 75 million, related to the excessive funding of the healthcare plan, and (2) net actuarial losses amounting Euro 143 million, related to the difference between the actual return on assets (negative Euro 75 million and equivalent to minus 3.3% in 1H10) and the estimated expected return on assets (6% on an annual basis). These effects more than offset: (1) PT s contributions to the pension funds (Euro 35 million), and (2) the reduction of liabilities related to salaries payable to suspended and pre-retired employees (Euro 45 million), due to the halting of the redundancy programme.

Change in gross unfunded obligations **Euro million**

	1H10	1H09
Gross unfunded obligations (initial balance)	1,467.4	1,809.9
Post retirement benefits costs (PRB)	36.6	45.8
Curtailment cost	9.2	3.5
Net reimbursements (contributions) to pension funds (1)	37.4	(8.3)
Payments to pre-retired, suspended employees and other	(70.8)	(78.2)
Net actuarial (gains) losses (2)	143.2	(15.6)
Gross unfunded obligations (final balance)	1,623.0	1,757.0
After-tax unfunded obligations	1,192.9	1,291.4

(1) In 1H10, this caption includes the reimbursement of excess funding of the healthcare plan amounting to Euro 75 million, which was partially offset by contributions to the pension funds of Euro 34.8 million and termination payments of Euro 3.6 million. **(2)** In 1H10, this caption relates primarily to the difference between the actual return on assets (negative Euro 74.7 million, equivalent to - 3.3% in 1H10) and the expected return on assets (6% on an annual basis).

Post retirement benefits costs **Euro million**

	1H10	1H09
Service cost	4.1	3.4
Interest cost (1)	101.0	108.2
Expected return on assets (2)	(68.5)	(65.8)
Sub-total	36.6	45.8
Amortisation of prior year service gains	(1.0)	(0.9)
Post retirement benefits costs	**35.6**	**(44.8)**

(1) The decrease in the interest cost is explained by the reduction of PBO occurred in 2009. **(2)** The increase in the expected return on assets is explained by the positive performance of plan assets occurred in 2009.

Equity

Equity excluding minority interests stood at Euro 1,391 million as at 30 June 2010. The increase of Euro 73 million in 1H10 is explained by: (1) the Euro 264 million net income generated in the period, and (2) positive currency translation adjustments amounting to Euro 437 million, mainly related to the appreciation of the Real against the Euro, which more than offset the Euro 504 million dividends paid by PT to shareholders and the actuarial losses related to post retirement benefits amounting to Euro 105 million (net of taxes).

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Change in shareholders equity (excluding minority interests) **Euro million**

	1H10
Equity before minority interests (initial balance)	**1,318.3**
Net income	264.5
Currency translation adjustments	436.6
Dividends	(503.6)
Net actuarial gains (losses), net of taxes	(105.3)
Other	(19.3)
Equity before minority interests (final balance)	**1,391.3**
Change in equity before minority interests	**73.0**
Change in equity before minority interests (%)	**5.5%**

Consolidated Statement of Financial Position

As at 30 June 2010, the net exposure (assets minus liabilities) to Brazil amounted to Euro 3,534 million (R$ 7,804 million). The assets denominated in Brazilian Reais in the balance sheet as at 30 June 2010 amounted to Euro 7,177 million (R$ 15,848 million), equivalent to 44.0% of total assets.

The increase in total assets and liabilities in 1H10 is due to the impact of the appreciation of the Real against the Euro and to certain loans obtained in the period, which led to an increase in both gross debt and cash and cash equivalents.

Consolidated statement of financial position (1) **Euro million**

	30 June 2010	31 December 2009
Cash and equivalents	2,001.6	1,518.0
Accounts receivable, net	1,942.3	1,538.4
Inventories, net	240.5	239.9
Financial investments	621.8	614.1
Intangible assets, net	4,363.0	4,074.3
Tangible assets, net	4,894.5	4,843.9
Accrued post retirement asset (2)	1.1	67.6
Other assets	936.0	783.7
Deferred tax assets and prepaid expenses	1,316.5	1,160.7
Total assets	16,317.3	14,840.5
Accounts payable	1,262.2	1,338.6
Gross debt	8,094.4	7,046.0
Accrued post retirement liability	1,646.5	1,558.3
Other liabilities	1,757.4	1,602.9
Deferred tax liabilities and deferred income	889.7	907.2
Total liabilities	13,650.2	12,453.0
Equity before minority interests	1,391.3	1,318.3
Minority interests	1,275.8	1,069.1
Total shareholders equity	2,667.1	2,387.4
Total liabilities and shareholders equity	16,317.3	14,840.5

(1) Considering a Euro/Real exchange rate of 2.2082 as at 30 June 2010 and 2.5113 as at 31 December 2009. **(2)** The reduction in accrued post retirement assets is mainly related to the reimbursement of Euro 75 million of the excess funding computed as at 31 December 2009

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02

Business performance

Domestic Operations

Revenues from domestic operations, which include wireline and TMN, decreased by 2.3% y.o.y in 1H10, notwithstanding the increase of 0.6% y.o.y in the wireline segment, as a result of lower revenues at TMN due to: (1) lower customer revenues (Euro 19 million), as a result of the economic conditions and increased popularity of on-net flat-fee prepaid tariff plans; (2) lower equipment sales (Euro 17 million), and (3) lower interconnection revenues (Euro 8 million), due to lower MTRs. Revenues in the wireline segment increased by 0.6% y.o.y (Euro 6 million), notwithstanding the change in the recognition of contract penalties (Euro 8 million), which negatively impact the comparison between the quarters. Adjusting for the change in revenue recognition referred to above, wireline revenues would have increased by 1.4% y.o.y, underpinned by retail and data and corporate revenues and despite lower wholesale revenues due to lower competitive accesses.

Domestic operations income statement (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**798.0**	**805.5**	**(0.9)%**	**1,595.2**	**1,632.9**	**(2.3)%**
Wireline	482.8	473.3	2.0%	971.0	965.3	0.6%
Domestic mobile • TMN	343.6	367.1	(6.4)%	689.5	737.1	(6.5)%
Other and eliminations	(28.4)	(34.8)	(18.3)%	(65.3)	(69.6)	(6.2)%
EBITDA (2)	**347.3**	**360.8**	**(3.7)%**	**698.8**	**737.0**	**(5.2)%**
Post retirement benefits	17.8	22.4	(20.5)%	35.6	44.8	(20.5)%
Depreciation and amortisation	162.2	153.3	5.8%	321.9	304.6	5.7%
Income from operations (3)	**167.2**	**185.1**	**(9.6)%**	**341.2**	**387.5**	**(11.9)%**
EBITDA margin	43.5%	44.8%	(1.3)pp	43.8%	45.1%	(1.3)pp
Capex (4)	131.1	162.6	(19.4)%	269.8	289.6	(6.8)%
Capex as % of revenues	16.4%	20.2%	(3.8)pp	16.9%	17.7%	(0.8)pp
EBITDA minus Capex	216.2	198.2	9.1%	429.0	447.3	(4.1)%

(1) Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. **(4)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

EBITDA declined by 5.2% y.o.y in 1H10 to Euro 699 million, equivalent to a margin of 43.8%, showing an important sequential improvement when compared to recent quarters. This performance was primarily explained by: (1) continued strong take-up in pay-TV, which resulted in higher programming and commercial costs; (2) increased customer care and support costs, due to the growth in pay-TV; (3) lower MTRs, and (4) the halting of the redundancy programme, in favour of insourcing of certain operations, with positive impact in payments to pre-retired and suspended employees.

Capex in the domestic business decreased by 6.8% y.o.y to Euro 270 milllion. Domestic capex was primarily directed to: (1) the continued investments in pay-TV and in FTTH, future-proof technologies and services paving the way for future growth in wireline, and (2) investments in 3G and 3.5G networks in the domestic mobile business.

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Wireline

In 1H10 retail net additions reached 156 thousand, up by 13.9% y.o.y, as a result of the significant growth of the pay-TV service, which accounted for 122 thousand net additions, bringing the total pay-TV customers to 702 thousand (up by 58.6% y.o.y). ADSL net additions in the quarter stood at 71 thousand, with ADSL customer base growing 19.5% y.o.y. The robust growth of ADSL was owed to solid growth in triple-play customers. Traffic generating lines declined by 13 thousand in 1H10, also reflecting the positive impact of the triple-play offers. In the period, net disconnections of voice lines were 36 thousand, including the 23 thousand net disconnections of carrier pre-selection lines. This performance marks a clear improvement in relation to the same period last year (44.2%), which saw 65 thousand net disconnections, thus confirming the improvement in key operational performance indicators seen in the first half of 2009. Pay-TV customer penetration stands at 27.0% of traffic generating lines (+10.2pp y.o.y) and 75.3% of the ADSL customer base (+18.6pp y.o.y), a solid performance considering that the pay-TV service was launched, on a nationwide basis, only in April 2008.

Wireline operating data

	2Q10	**2Q09**	**y.o.y**	**1H10**	**1H09**	**y.o.y**
Main accesses (000)	4,734	4,426	7.0%	4,734	4,426	7.0%
Retail accesses	4,345	4,001	8.6%	4,345	4,001	8.6%
PSTN/ISDN	2,710	2,777	(2.4)%	2,710	2,777	(2.4)%
Traffic-generating lines	2,599	2,625	(1.0)%	2,599	2,625	(1.0)%
Carrier pre-selection	111	153	(27.3)%	111	153	(27.3)%
ADSL retail	933	781	19.5%	933	781	19.5%
TV customers	702	443	58.6%	702	443	58.6%
Wholesale accesses	389	425	(8.5)%	389	425	(8.5)%
Unbundled local loops	273	309	(11.6)%	273	309	(11.6)%
Wholesale line rental	64	66	(3.1)%	64	66	(3.1)%
ADSL wholesale	53	51	3.1%	53	51	3.1%
Net additions (000)	60	57	4.9%	147	128	14.6%
Retail accesses	66	52	26.8%	156	137	13.9%
PSTN/ISDN	(22)	(35)	36.6%	(36)	(65)	44.2%
Traffic-generating lines	(11)	(25)	53.9%	(13)	(44)	69.2%
Carrier pre-selection	(11)	(11)	(3.6)%	(23)	(22)	(6.0)%
ADSL retail	32	29	10.7%	71	71	(0.7)%
TV customers	57	59	(3.4)%	122	131	(7.2)%
Wholesale accesses	(6)	5	(219.1)%	(9)	(8)	(3.5)%
Unbundled local loops	(6)	8	(175.1)%	(8)	3	n.m.
Wholesale line rental	(0)	(3)	86.8%	0	(10)	101.4%
ADSL wholesale	0	1	(80.7)%	(1)	(2)	32.3%
Retail RGU per access (1)	1.60	1.44	11.3%	1.60	1.44	11.3%
ARPU (Euro)	30.1	29.9	0.8%	30.2	29.9	0.9%
Total traffic (million minutes)	2,730	2,773	(1.5)%	5,454	5,619	(2.9)%
Retail traffic	1,143	1,169	(2.2)%	2,309	2,382	(3.0)%
Wholesale traffic	1,587	1,604	(1.0)%	3,145	3,237	(2.9)%
Employees	6,574	6,349	3.5%	6,574	6,349	3.5%

(1) Retail accesses per PSTN/ISDN line.

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The number of retail RGU per access, measured by the number of retail accesses per PSTN/ISDN line, continued to increase with the rollout of the pay-TV offer and stood at 1.60 in 1H10, as compared to 1.44 in 1H09.

Competitors accesses, which include wholesale accesses and carrier pre-selection, fell by 32 thousand in 1H10, reflecting a decrease in carrier pre-selection (-23 thousand) and unbundled local loop lines (-8 thousand).

During the period, Meo deployed a new software version across all its IPTV set-top-boxes, bringing an improved user experience and more features to Meo customers. Following a close and careful analysis of TV usage patterns, Meo upgraded its design and user-interface to promote an even better, easier and more intuitive user-experience. In some of its most widely-used services, such as the PVR, Meo launched new functionalities. Adding to the Remote PVR and Series-link Recording, both exclusive features, Meo now also provides a Multiroom PVR experience. This upgrade was supported by a strong marketing campaign that focused on the new Meo experience and re-emphasised Meo s positioning as the most innovative pay-TV offer in the Portuguese market.

Meo continues to offer various features that significantly differentiate its value proposition, including: (1) real video-on-demand (VoD) with DVD-like features and a catalogue of more than 2,500 movies including high definition (HD); (2) catch-up TV; (3) electronic programming guide, redesigned during 1Q10, alongside all Meo user-interface, in order to improve further the user experience; (4) TV channel recording, which can be remotely programmed through the internet or through the mobile phone, allowing also easy on-click recording of series and multiroom PVR for those customers with more than one set-top-box; (5) gaming, karaoke and several interactive applications and service areas; (6) access to personal photo folders, and (7) customised contents and features for children in a specially designed walled-garden Meo Kids .

On 8 July 2010, PT announced that Meo had surpassed the threshold of 700 thousand customers. Recently and to reinforce a new television viewing experience and enhance interactivity, Meo also launched: (1) Meo Interactivo, an application store, free of charge, which will aggregate the best TV widgets for all applications already available through Meo as well as new ones that were also just launched, such as Facebook, Oceanlook, Picasa and Flickr, and (2) Meo Séries, a new subscription video-on-demand service, which delivers the best series from Warner and HBO.

During the period Meo also launched a selection of new channels, the most relevant of those being FoxLife, on 1 January 2010, and Channel *Q*, in March 2010, the first interactive channel in Portugal, fully programmed in Portuguese, which represents another innovative experience that continues to contribute towards a new way of consuming TV content in the Portuguese market. The Channel *Q* was developed in cooperation with Sapo portal, where the channel s web site is hosted.

Meo provides access to a comprehensive content offering with more than 120 TV channels and over 2,500 VoD titles. The VoD offer, which includes blockbusters from five Hollywood studios, is a key differentiating feature of the service as more than 50% of Meo s IPTV customers have already used VoD on a paid basis, consuming an average of 2.3 movies per month. In 2Q10, the most watched movies were 2012 , followed by Twilight New Moon and The Hurt Locker , winner of six Oscars in 2009.

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During 1H10, PT also launched Meo@PC, in beta version. This service gives online access to Meo s pay-TV service through a PC, strengthening the mobility and convergence value proposition of the Meo service. Customers were invited to join a pilot trial of this service, anticipating final commercial launch planned for later this year.

In May 2010, Meo announced the live broadcast of the major tennis event in Portugal, Estoril Open, in True 3D, the first time a live event was broadcasted in True 3D in Portugal. Additionally, in June 2010, Meo announced the live broadcast of eight games of the FIFA World Cup in True 3D through the organisation of several public viewing events. For Meo customers all the games of the FIFA World Cup were available in HD and with interactive features, which allowed the viewers to choose from six additional screens broadcasting: team tactics, follow a player, follow the coach and watch the highlights of the game. These features have proven to be very successful and were used by more than 330 thousand Meo customers with more than 1.1 million visits during the World Cup. During the World Cup Meo also launched a very successful optional feature, which allowed users to filter the noise of the well known vuvuzelas, during the game they were watching.

Meo marketing campaigns continue to enjoy the highest notoriety in the Portuguese pay-TV market. The campaign to market Meo s new user interface was launched with an innovative commercial ad in True 3D, marking MEO s take-off in 3D content trials. This advertisement was also broadcasted in the three main free-to-air channels having reached an audience share of 85.5%, above that of the initial advertising of Meo in 2008 that reached an audience share of 83%. In 1H10, proved ad recall stood above 60% and spontaneous ad recall was above 40%, well ahead of any other competing brands in the sector.

In 1H10, wireline operating revenues increased by 0.6% y.o.y to Euro 971 million, underpinned by data and corporate revenues (Euro 2 million) and sales (Euro 7 million), notwithstanding the negative effect of the change in the recognition of contract penalties (Euro 8 million). Adjusting for this change, wireline revenues would have increased by 1.4% y.o.y. Retail revenues decreased by Euro 3 million to Euro 484 million in 1H10, while adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 0.9% y.o.y, on the back of the continued strong performance of Meo triple-play offer (voice, data and pay-TV). Despite the continued pressure on the traditional voice business, due to adverse economic conditions, which are affecting mainly the SME/SOHO and corporate segments, revenues of pay-TV and ADSL retail have been increasing in line with the stated strategy of increasing market share in the residential market by offering attractive and differentiated triple-play and double-play services.

The performance of retail revenues, adjusted for the change in the recognition of contract penalties referred to above (+0.9% y.o.y), was underpinned by growth in retail RGUs of 156 thousand, namely pay-TV customers (+122 thousand net additions in the period), high quality broadband customers (+73 thousand postpaid net adds) and resilience of traffic generating lines, which decreased by 13 thousand in the period. The growth in number of RGUs per customer underpinned the increase in retail ARPU of 0.9% y.o.y in 1H10, which reached Euro 30.2. The performance of retail revenues, continued to benefit from the successful implementation of the TV strategy, notwithstanding strong competition from other fixed and cable operators as well as from mobile operators, both in voice and broadband, and against a backdrop of challenging economic conditions.

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Wireline income statement (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**482.8**	**473.3**	**2.0%**	**971.0**	**965.3**	**0.6%**
Retail	240.5	242.7	(0.9)%	484.1	487.3	(0.6)%
Wholesale	121.7	120.2	1.3%	241.4	245.8	(1.8)%
Data & corporate	75.1	70.5	6.5%	152.3	150.4	1.3%
Other wireline revenues	45.5	39.9	14.1%	93.1	81.9	13.8%
Operating costs, excluding D&A	295.1	272.7	8.2%	594.7	556.6	6.8%
Wages and salaries	55.5	56.2	(1.2)%	113.9	115.3	(1.3)%
Direct costs	113.9	97.7	16.6%	220.5	202.6	8.8%
Commercial costs	32.4	24.6	31.7%	60.4	50.1	20.6%
Other operating costs	93.2	94.2	(1.1)%	199.9	188.7	6.0%
EBITDA (2)	**187.7**	**200.6**	**(6.4)%**	**376.3**	**408.7**	**(7.9)%**
Post retirement benefits	17.8	22.4	(20.5)%	35.6	44.8	(20.5)%
Depreciation and amortisation	110.1	98.0	12.3%	216.0	195.4	10.5%
Income from operations (3)	**59.9**	**80.2**	**(25.4)%**	**124.7**	**168.5**	**(26.0)%**
EBITDA margin	38.9%	42.4%	(3.5)pp	38.8%	42.3%	(3.6)pp
Capex	99.7	125.9	(20.9)%	212.1	227.3	(6.7)%
Capex as % of revenues	20.6%	26.6%	(6.0)pp	21.8%	23.5%	(1.7)pp
EBITDA minus Capex	88.1	74.6	18.0%	164.2	181.4	(9.5)%

(1) Includes intragroup transactions. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Wholesale revenues decreased by 1.8% y.o.y in 1HQ10 to Euro 241 million, primarily as a result of the decrease in: (1) traffic revenues (-4.0% y.o.y), which were negatively impacted by lower MTRs, and (2) leased lines revenues (-0.9% y.o.y).

Revenues from data and corporate services increased by 1.3% y.o.y in 1H10 as a result of the increase in revenues from network management, outsourcing and IT (+15.0% y.o.y), as a result of the execution of certain large contracts and notwithstanding the decline in revenues from VPN and leased lines (-4.8% y.o.y) against a backdrop of challenging economic conditions affecting the SME/SOHO and corporate segments.

Other revenues increased by 13.8% y.o.y in 1H10, notwithstanding the 14.1% y.o.y decline in directories, and mainly as a result of the increase in sales of equipment (Euro 7 million). Other wireline revenues also benefited from the positive performance of Sapo, PT s web portal that saw revenues increase 14.8% y.o.y. This favourable performance is the result of Sapo s extensive work on its multiscreen presence, with product launches in mobile platforms such as Android, Windows Phone, Nokia WRT and iPad, and also in connected TVs, and focus on targeted services such as the online coverage of the FIFA World Cup and launch of new channels, like Sapo Music, Sapo Praias and Sapos Saúde, a personal health record, developed in partnership with healthcare providers.

In 1H10, EBITDA declined by 7.9% y.o.y, showing an important sequential improvement when compared to recent quarters (-9.4% y.o.y in 1Q10 and -6.4% y.o.y in 2Q10), notwithstanding the continued efforts in the deployment of the pay-TV and triple-play offers and the halting of the redundancy programme. This favourable performance is the result of the continued focus on improving the profitability of its operations and the initial benefits of the rollout of the FTTH network, which is more robust when compared to legacy networks. In the period, operating expenses grew by 6.8% y.o.y, primarily driven by the increase in direct costs to Euro 220 million (+8.8% y.o.y). This increase in direct costs reflects the increase in programming

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costs, which resulted from the continued growth in pay-TV customers, strengthened content offering and higher uptake of premium and VOD services. In 1H10, wages and salaries decreased by 1.3% y.o.y to Euro 114 million as a result of strong focus on cost reduction and notwithstanding: (1) headcount migration from the domestic mobile due to the reorganisation of the domestic fixed and mobile business along customer segments, and (2) the decision to halt the redundancy programme and focus on insourcing of certain activities that were previously being outsourced, thus further reducing cash costs associated to the wireline segment. Commercial costs, which increased by 20.6% y.o.y to Euro 60 million, reflected the increase in commissions and in marketing and publicity, which resulted from the continued efforts in the marketing of pay-TV and triple-play offers and higher sales to corporate customers. EBITDA margin stood at 38.8% in 1H10, also showing a sequential improvement.

Capex decreased from Euro 227 million in 1H09 to Euro 212 million in 1H10 (-6.7% y.o.y) as the investments in legacy network infrastructure declined in the period, notwithstanding: (1) the continued efforts in the rollout of future proof infrastructures, namely FTTH, and (2) the increase in customer related capex associated to the growth in pay-TV services. Other investments, namely infrastructure backbone SI/TI, also decreased as the result of PT s focus on efficiency and cash flow, benefiting from significant investments during 2008 and 2009 and fixed-mobile integration.

Domestic Mobile

In 1H10, TMN s EBITDA minus capex remain flat at Euro 273 million, as a result of the strong focus on profitability and cash-flow generation and against a backdrop of a challenging economic environment and increased competitiviness in certain market segments, namely the youth segment. EBITDA decreased 1.9% y.o.y to Euro 325 million with EBITDA margin growing by 2.2pp y.o.y to 47.2%. Revenues stood at Euro 689 million (-6.5% y.o.y), as a result of the aforementioned challenging economic environment, penalised by customer revenues (-3.3% y.o.y) and equipment sales (-26.6% y.o.y).

In 1H10, TMN s total customers increased by 4.3% y.o.y to 7,269 thousand, with net additions of 16 thousand. Customer growth at TMN continued to be underpinned by high quality post-paid customers (+10 thousand net adds in the period), namely wireless broadband net additions. At the end of 1H10, post-paid customers accounted for 30.9% of total customer base.

Domestic mobile operating data (1)

	2Q10	**2Q09**	**y.o.y**	**1H10**	**1H09**	**y.o.y**
Customers (000)	7,269	6,969	4.3%	7,269	6,969	4.3%
Net additions (000)	5	21	(76.5)%	16	36	(55.1)%
Total traffic (million minutes)	2,625	2,417	8.6%	5,133	4,660	10.2%
MOU (minutes)	121	116	3.6%	118	112	5.0%
ARPU (Euro)	14.6	16.0	(8.8)%	14.7	16.0	(8.6)%
Customer	12.7	13.9	(8.9)%	12.7	13.8	(7.8)%
Interconnection	1.7	1.8	(9.4)%	1.7	2.0	(13.8)%
Data as % of service revenues (%)	25.0	22.6	2.5pp	24.2	22.7	1.5pp
SARC (Euro)	29.1	36.5	(20.2)%	27.8	37.6	(26.0)%
Employees	1,016	1,100	(7.6)%	1,016	1,100	(7.6)%

(1) Includes MVNO subscribers.

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In 1H10, TMN continued to invest significantly in the differentiation of its portfolio of handsets, introducing new touch-screen phones and smartphones, and in the improvement of the services offered, making available to its customers data and value added services and sophisticated applications and widgets. TMN launched the Sony Ericsson W205 Betty Boop, associated to the most well known fashion event in Portugal, Moda Lisboa. In April 2010, TMN launched a1, the first smartphone based on the Android operating system, which is backed by Google, using TMN s brand. This wide touch screen smartphone offers: (1) premium connectivity through 3.5G broadband access with downloads of up to 7.2Mbps and uploads of up to 5.6Mbps, Wi-Fi and Bluetooth; (2) Push Mail; (3), GPS with a life-time access to NDrive GPS software and maps of Portugal; (4) camera of 3.2 Mpx with video, autofocus and zoom; (5) MP3 player, and (6) 16GB memory card slot. The launch of this new own-label follows the successful launch, of tmn bluebelt I and bluebelt II and tmn silverbelt, smartphones with TMN s brand using the Windows Mobile platform and of the HTC Magic based in the Android platform. The new a1 has a retail price of Euro 199.9 in PT s Bluestores and of Euro 179.9 in the online shop of TMN.

During the 1H10, TMN launched the Samsung Galaxy-S, the most advanced smartphone based on the Android operating system, exclusive for TMN, which offers: (1) a wide AMOLED screen; (2) GPS with a life-time access to NDrive GPS software and maps of Portugal; (3) camera of 5 Mpx; (4) 8GB memory card slot, and (5) some of the most popular applications, such as an e-books store. Additionally, TMN also launched the Samsung Wave, the first smartphone based on the Bada operating system, developed by Samsung, which allows high quality images and videos and access to apps through the Samsung Apps store. TMN smartphones continue to be positioned to allow a unique experience in mobile broadband, interactive services and content, thus enhancing TMN s leadership position in this segment, namely as the operator with the most diversified and comprehensive offer.

Also as part of TMN s strategy of maintaining a leading and innovative edge in its services proposition, TMN and the web portal Sapo, launched a wide set of new widgets and applications. The current portfolio includes more than 1,500 applications and games, allowing easy access through the mobile phone to, for instance, real time generalist, economy and sports news, traffic information and employment opportunities. During 1H10, TMN and Sapo launched a nationwide contest, the Developers TMN , to promote the development of new widgets, which are then made available to TMN s customers.

In 1H10, TMN also continued to invest in the differentiation, promotion and marketing of its services. In February, associated to the Valentine Day, TMN lauched an innovative marketing campaign allowing customers to send messages with personalised multimedia messages with videos and musics, and to download or share ringtones, waiting rings and wallpapers. During Easter, TMN launched a promotional campaign aimed at increasing roaming usage, according to which TMN customers can do roaming calls with normal national tariffs with an additional call set-up fee of Euro 0.50. In the quarter, TMN launched new tariff plans and continued to strengthen the promotional efforts in the youth segment. Also in 1H10, TMN launched, in partnership with the leading football clubs in Portugal, customised tariff plans, access to new applications and content associated with those clubs and customised handsets. TMN also continued to strengthen its mobile broadband offerings, increasing the speed and download capacity to its customers. Also in 1H10, TMN launched a Car Control service, a security service that, in articulation with local authorities, allows customers to locate, block and recover their car in the event of being stolen.

Additionally, TMN launched a new version of its mobile portal, which was introduced in 2007, with a more attractive design and more intuitive navigation menus in order to give its customers a more rich and easy to

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use experience of Internet access. This redesign included a more user friendly and dynamic layout, reorganisation of content in 3 main areas (news, entertainment and utilities) and direct access to some of the most popular applications, such as Meo Mobile, email, and Internet. This way TMN, consolidated its Internet offering as the most innovative offer, thus bringing the concept of mobility even further. Also as part of TMN s strategy of maintaining a leading and innovative edge, TMN broadcasted all games of the FIFA World Cup, the most relevant sport event of the year. All games were broadcasted live, through Meo Mobile, in an optimised way for TV on mobile phones in order to provide a new and unique experience. Prior to the FIFA World Cup, TMN had already broadcasted live the final of the European Champions League. With a more appealing and more intuitive navigation menu, Meo Mobile has available 40 high quality channels, organised according to seven categories: Sports, National TV, Information, Children, Entertainment, Music and Adults, at a Euro 0.93 per 24hours or Euro 2.06 per week price.

In order to enhance the competitive positioning of its service offering in the youth segment, in April 2010, TMN redesigned the on-net flat-fee prepaid tariff plans targeted at the youth segment, Moche , including an option without a monthly fee, although subject to a minimum recharge of Euro 12.5 every 30 days. Additionally, TMN launched, in July 2010, new pricing plans branded tmn unlimited aimed at increasing the penetration of high-value tariff plans. These pricing plans are designed to leverage on the increased popularity of smartphones in Portugal and include voice services and broadband Internet access (500MB of mobile Internet plus unlimited WiFi usage in PT s hotspots), while at the same time guarantying minimum consumption levels of Euro 30 (unlimited on-net traffic, SMS and MMS included, subject to fair usage policy) and Euro 100 (unlimited on-net and off-net traffic, SMS and MMS included, subject to fair usage policy).

As a result of TMN s investment in improving the customer experience in the utilisation of its voice and data services and in increasing the quality of its customer care processes, in 1H10, the number of calls to the customer care call centre declined by 41% y.o.y and the number of complaints of TMN customers declined by 25% y.o.y. The mobile broadband service registered an even more noteworthy performance with a decline of customer complaints of 55% y.o.y in 1H10. Also worthwhile to note that in 2009, the number of total complaints of TMN customers had already declined by 17% y.o.y and the number of complaints of mobile broadband customers declined by 36%.

Non-SMS and value added data services continued to contribute to top line growth, increasing by 9.1% in 1H10 and accounting for 60.6% of total data revenues (+3.8pp y.o.y). Non-SMS data services continued to benefit from the steady performance of wireless broadband and increasing data usage, particularly of smartphones and other data-enabled phones. In the 1H10, total data revenues accounted for 24.2% of service revenues, up by 1.5pp y.o.y.

TMN s ARPU decreased by 8.6% y.o.y in 1H10 to Euro 14.7, mainly as a result of: (1) adverse economic conditions; (2) increased popularity of tribal tariff plans targeted at the youth segment, and (3) increased penetration of services in lower segments of the market. Additionally, interconnection ARPU declined by 13.8% y.o.y, with termination rates declining by Euro 0.5 cents to Euro 6.0 cents as of 24 May 2010 as a result of the new glide path defined by ICP-ANACOM on 21 May 2010. According to this decision, the maximum wholesale prices to be applied by the mobile operators with significant market position in the termination of voice calls in individual mobile networks (market 16) are as follows: (1) Euro 6.0 cents as of 24 May 2010; (2) Euro 5.5 cents as of 24 August 2010; (3) Euro 5.0 cents as of 24 November 2010; (4) Euro 4.5 cents as of 24 February 2011; (5) Euro 4.0 cents as of 24 May 2011, and (6) Euro 3.5 cents as of 24 August 2011.

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In 1H10, total traffic increased by 10.2% y.o.y to 5,133 million minutes, showing a steady growth profile and mainly driven by outgoing traffic, which increased by 13.7% y.o.y, while incoming traffic declined by 1.6% y.o.y. Growth in customer base (+4.3%, EoP) coupled with an increased penetration of on-net flat-fee prepaid tariff plans underpinned traffic growth in the period, with MOU increasing by 5.0% y.o.y in the period, notwithstanding the continued growth in data cards.

In 1H10, TMN s operating revenues amounted to Euro 689 million, a decrease of 6.5% y.o.y (Euro 48 million), mainly due to: (1) the 26.6% y.o.y decline in equipment sales (Euro 17 million); (2) the Euro 19 million decline in customer revenues, and (3) the Euro 8 million decline in interconnection revenues, partially driven by the negative impact of Euro 3 million as a result of lower MTRs.

Despite stable customer base, the performance of customer revenues reflected an adverse economic environment, thus declining by 3.3% y.o.y to Euro 555 million (Euro 19 million). Interconnection revenues declined by 9.6% y.o.y in 1H10 to Euro 74 million (Euro 8 million), as a result of: (1) the decline in incoming traffic; (2) lower MTRs, which declined from Euro 6.5 cents to Euro 6.0 cents per minute in 24 May 2010 as compared to the decline from Euro 7.0 cents to Euro 6.5 cents per minute in 1H09, and (3) lower interconnection revenues related to SMS. Equipment sales declined by 26.6% y.o.y (Euro 17 million) primarily due to lower handset prices and lower volumes.

Domestic mobile income statement (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**343.6**	**367.1**	**(6.4)%**	**689.5**	**737.1**	**(6.5)%**
Services rendered	318.0	332.8	(4.4)%	638.8	666.2	(4.1)%
Customer	275.9	288.9	(4.5)%	555.1	573.9	(3.3)%
Interconnection	36.4	38.4	(5.1)%	73.8	81.6	(9.6)%
Roamers	5.7	5.5	3.9%	9.9	10.7	(7.1)%
Sales	23.2	32.9	(29.6)%	46.1	62.9	(26.6)%
Other operating revenues	2.4	1.4	72.3%	4.6	8.1	(42.7)%
Operating costs, excluding D&A	**182.5**	**205.4**	**(11.1)%**	**364.3**	**405.7**	**(10.2)%**
Wages and salaries	11.8	13.0	(9.2)%	23.7	25.9	(8.4)%
Direct costs	62.8	65.1	(3.6)%	124.6	128.3	(2.9)%
Commercial costs	47.8	64.9	(26.4)%	94.0	127.3	(26.1)%
Other operating costs	60.2	62.4	(3.6)%	122.0	124.2	(1.8)%
EBITDA (2)	**161.1**	**161.7**	**(0.4)%**	**325.2**	**331.4**	**(1.9)%**
Depreciation and amortisation	49.5	52.1	(5.1)%	100.9	103.0	(2.1)%
Income from operations (3)	**111.6**	**109.6**	**1.9%**	**224.3**	**228.4**	**(1.8)%**
EBITDA margin	46.9%	44.1%	2.8pp	47.2%	45.0%	2.2pp
Capex (4)	29.1	33.4	(13.1)%	52.6	58.0	(9.4)%
Capex as % of revenues	8.5%	9.1%	(0.7)pp	7.6%	7.9%	(0.2)pp
EBITDA minus Capex	132.0	128.3	2.9%	272.6	273.5	(0.3)%

(1) Includes intragroup transactions. **(2)** EBITDA = income from operations + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. **(4)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1H09).

As a result of strict cost control to improve profitability against a backdrop of an adverse economic environment, in 1H10, EBITDA decreased by 1.9% y.o.y to Euro 325 million. EBITDA margin stood at 47.2% in 1H10, increasing by 2.2pp when compared to 45.0% in 1H09. Operating expenses, excluding D&A, decreased by 10.2% y.o.y in 1H10 to Euro 364 million, on the back of cost discipline: (1) wages and salaries

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decreased by 8.4% y.o.y, reflecting continued improvements as a result of the reorganisation of PT s domestic businesses along customer segments and fixed-mobile integration; (2) commercial costs declined by 26.1% y.o.y to Euro 94 million, as a result of the continued focus on increasing the number of exclusive handsets and reducing the breadth of TMN s handset portfolio, which translates into lower unitary SARC (-26.0% y.o.y), and (3) lower other operating costs (-1.8% y.o.y). Other operating expenses benefited from lower maintenance and repairs, which result from an integrated management of fixed and mobile networks, and from lower FSE s, which reflect the strict cost discipline. Notwithstanding higher capacity costs, which are associated to the provision of data services, direct costs declined by 2.9% y.o.y to Euro 125 million as a result of lower outgoing international traffic and lower average cost per minute.

Capex decreased by 9.4% y.o.y in 1H10 to Euro 53 million, representing 7.6% of revenues (-0.2pp y.o.y). The decrease in TMN s capex is primarily explained by the focus on cash-flow generation, with TI/SI related capex decreasing by 30.5% y.o.y as a result of the fixed-mobile integration. Capex continued to be directed primarily towards expanding network capacity and coverage, namely in the urban areas and in the main motorways and roads. Infra-structure related capex was broadly flat as a result of the continued focus on the provision of mobile voice and data services of excellence to customers and on accommodating increased voice and data usage. Approximately 70% of network capex is being directed towards 3G and 3.5G networks. Against a backdrop of the high quality of the network and services offered to customers, TMN s network quality continues to stand out in the context of the Portuguese market for its coverage and reliability. EBITDA minus capex at TMN stood at Euro 273 million in 1H10.

International Businesses

Brazilian Mobile

In 1H10, Vivo s customer base increased by 19.6% y.o.y to 55,977 thousand. GSM, 3G and 3.5G technologies accounted for 49,890 thousand customers as at the end of June 2010, equivalent to 89.1% of total customers (+12.0pp y.o.y). In 1H10 net additions reached 4,233 thousand, equivalent to a growth of 125.8% y.o.y. The solid increase in net additions allowed Vivo to reach a 37.9% market share of net adds in the period, well ahead of any competitor, thus reinforcing its leadership, for the fourth consecutive quarter. Vivo s market share as at 30 June 2010 reached 30.2%, up by 0.9pp y.o.y. Additionally, Vivo also reinforced its leadership in the postpaid segment, with postpaid customers growing by 25.5% y.o.y and already representing 20.3% of Vivo customer base. Vivo s share of net adds in the postpaid segment reached 65.8% in 1H10, whilst its market share stood at 34.7% (+3.5pp y.o.y). The performance of Vivo in 1H10 is explained by: (1) the focus on promoting the usage of mobile broadband with the relaunch of Vivo Internet Brasil plans, which have resulted in strong results also in terms of data revenue growth (+61.9% y.o.y); (2) the high acceptance level associated with the postpaid plans Vivo Você, launched in November 2009; (3) the attractiviness of Vivo s offers in the prepaid segment, focused on stimulating on-net traffic, namely Vivo Recarregue e Ganhe , which led to an improvement on the recharge mix; (4) the success of Vivo s campaigns, namely those related to Mother s Day and FIFA World Cup; (5) the quality of the distribution network, as Vivo has more than 11,000 handsets points of sales, 334 own stores and more than 547,000 recharge points distributed throughout the country; (6) the depth and breadth of Vivo s portfolio of handsets and smartphones, and (7) the strong performance of the corporate segment based on the signing of significant new contracts. As a result of its quality and balanced offer, Vivo continues to have positive

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customer gains from number portability since it was implemented in Brazil, particularly in the postpaid and corporate segments.

Brazilian mobile operating data (1)

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Customers (000)	55,977	46,819	19.6%	55,977	46,819	19.6%
Market share (%)	30.2	29.3	0.9pp	30.2	29.3	0.9pp
Net additions (000)	2,028	1,178	72.2%	4,233	1,874	125.8%
Total traffic (million minutes)	18,743	11,022	70.1%	37,160	21,448	73.3%
MOU (minutes)	114	80	42.4%	115	78	47.0%
ARPU (R$)	25.0	27.0	(7.2)%	24.9	27.1	(8.1)%
Customer	16.1	16.5	(2.3)%	15.8	16.4	(3.5)%
Interconnection	8.7	10.3	(15.1)%	8.9	10.5	(15.1)%
Data as % of service revenues (%)	19.4	12.5	6.9pp	18.5	12.4	6.1pp
SARC (R$)	71.9	87.6	(17.9)%	69.0	97.0	(28.9)%
Employees	13,266	8,250	60.8%	13,266	8,250	(60.8)%

(1) Operating data calculated using IFRS. 2Q09 and 1H109 was restated for comparison purposes.

In 1H10, Vivo continued to allocate significant efforts and resources to the coverage, capacity and quality of its network. Since February 2008, Vivo is consistently, according to Anatel, the operator with the best quality of service in the market.

In June 2010, Vivo announced the most ambitious 3G and 3.5G expansion plan in Brazil. According to this plan Vivo aims at covering 1,461 municipalities by the end of 2010 and more than 2,800 municipalities by the end of 2011, reaching approximately 85% of the Brazilian population. At the end of June 2010, Vivo already covered 608 municipalities, having covered an additional 14 municipalities during the quarter and reaching 62% of the Brazilian population. The coverage, capacity and quality of Vivo s 3G and 3.5G network and the marketing efforts around mobile broadband continued to underpin growth of data customers. As a result, customers with 3G data plans, using smartphones or wireless broadband data cards, grew by 142% y.o.y, with Vivo s market share estimated of this segment standing at 42% at the end of June 2010. According to the regulator, Vivo is the operator with the highest market share of broadband plans having increased its lead over the competitors in the last months.

Total minutes carried by Vivo increased by 73.3% y.o.y in 1H10, as a result of the success of recent marketing campaigns focused on stimulating usage. Against a backdrop of strong usage growth, incoming traffic increased by only 3.8% y.o.y. Vivo s blended MOU has increased by 47.0% y.o.y in 1H10 reaching 115 minutes, underpinned by outgoing MOU (+80.7% y.o.y).

Vivo s blended ARPU decreased by 8.1% y.o.y to R$ 24.9 in1H10, as a result of customer growth and higher penetration of mobile services in lower income segments. Customer ARPU decreased by 3.5% y.o.y to R$ 15.8 due to multiple SIM card penetration, while interconnection ARPU declined by 15.1% y.o.y as a result of fixed to mobile migration. ARPU was positively impacted by data ARPU growth, which was driven by connectivity and data applications. Sequentially, in 2Q10, ARPU increased by 0.8% q.o.q, while customer ARPU increased by 4.4% q.o.q due to the restructuring of some campaigns.

Vivo s operating revenues, as stated in Brazilian Reais and in accordance with IFRS, increased by 6.6% y.o.y in 1H10 to R$ 8,986 million, as a result of growth in service revenues (+8.1% y.o.y) underpinned by strong

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growth in data services, by higher frequency of recharges and also by an improvement in the mix of recharges. Data revenues increased by 61.9% y.o.y in 1H10 and already account for 18.5% (+6.1pp y.o.y) of service revenues. The growth drivers of data services were: (1) wireless broadband connectivity, due to strong customer growth; (2) the increase in the usage of person-to-person SMS/MMS, as a result of higher penetration and usage of messaging services in the prepaid segments, and (3) new data pricing plans designed to increase customer loyalty. Equipment sales declined by 9.0% y.o.y in 1H10 to R$ 575 million, as a result of an increased focus on SIM Card only offers.

EBITDA increased by 7.3% y.o.y to R$ 2,621 million in 1H10 on the back of service revenue growth and cost control and notwithstanding the significant increase in net adds in the period (+125.8% y.o.y), which allowed for a strong performance in terms of market share of net adds. Commercial costs decreased by 2.7% y.o.y while unitary SARC, which includes marketing, handset subsidies and commissions, decreased by 28.9% y.o.y, in 1H10. This performance of commercial costs is explained by the decline in the cost of products sold due to higher take-up of SIM card only offers and despite the increase of unitary commissions as a result of the significant growth in sales of modems and smartphones enabled with data plans. Wages and salaries increased by 19.5% y.o.y as a result of the insourcing of certain activities related with marketing and sales, namely stores, that were previously being outsourced. Against a backdrop of intensive competition, marked by Mother s Day and World Cup campaigns, and high customer growth and despite pressure on ARPU, Vivo s EBITDA margin in 1H10 improved by 0.2pp y.o.y to 29.2% on the back of cost control efforts.

Brazilian mobile income statement (1) **R$ million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**4,584.2**	**4,181.7**	**9.6%**	**8,986.4**	**8,427.5**	**6.6%**
Services rendered	4,211.3	3,809.1	10.6%	8,214.9	7,597.6	8.1%
Sales	271.4	292.5	(7.2)%	575.4	632.2	(9.0)%
Other operating revenues	101.4	80.1	26.7%	196.1	197.7	(0.8)%
Operating costs, excluding D&A	**3,240.6**	**2,967.0**	**9.2%**	**6,365.7**	**5,984.0**	**6.4%**
Wages and salaries	269.6	217.9	23.7%	515.9	431.6	19.5%
Direct costs	959.6	828.3	15.9%	1,910.3	1,626.2	17.5%
Commercial costs	986.2	963.3	2.4%	1,948.6	2,003.5	(2.7)%
Other operating costs	1,025.3	957.5	7.1%	1,990.9	1,922.8	3.5%
EBITDA (2)	**1,343.6**	**1,214.8**	**10.6%**	**2,620.7**	**2,443.5**	**7.3%**
Depreciation and amortisation	994.8	1,010.2	(1.5)%	2,018.3	2,008.2	0.5%
Income from operations (3)	**348.7**	**204.6**	**70.5%**	**602.4**	**435.2**	**38.4%**
EBITDA margin	29.3%	29.0%	0.3pp	29.2%	29.0%	0.2pp
Capex	489.1	595.4	(17.9)%	817.9	1,117.6	(26.8)%
Capex as % of revenues	10.7%	14.2%	(3.6)pp	9.1%	13.3%	(4.2)pp
EBITDA minus Capex	854.5	619.4	38.0%	1,802.7	1,325.8	36.0%

(1) Information prepared in accordance with IFRS. **(2)** EBITDA = income from operations + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Capex decreased by 26.8% y.o.y to R$ 818 million in 1H10 and was primarily directed towards: (1) increasing network capacity to support the accelerated growth of voice traffic in the 2G network; (2) expanding coverage of 3G and 3.5G networks; (3) improving network capacity and quality to continue to be the most reliable and best quality network in Brazil in the 2G and 3G networks, and (4) investments in customer care and IT systems with the purpose of supporting customer base growth. At the end of June 2010, the 3G network covered 608 municipalities, reaching 62% of total Brazilian population.

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Other International Assets

In 1H10, international assets excluding Vivo, on a pro-forma basis, increased their proportional revenues by 14.5% to Euro 284 million, while EBITDA decreased by 2.7% to Euro 107 million, improving the trend seen in 1Q10, notwithstanding the devaluation of the Angolan Kwanza.

Table 20 _ Proportional income statement of other international assets (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**155.7**	**128.4**	**21.3%**	**284.5**	**248.5**	**14.5%**
EBITDA (2)	**56.0**	**55.4**	**1.1%**	**106.8**	**109.7**	**(2.7)%**
Depreciation and amortisation	14.3	10.2	39.9%	26.9	20.1	33.7%
Income from operations (3)	**41.7**	**45.2**	**(7.7)%**	**79.8**	**89.5**	**(10.8)%**
EBITDA margin	36.0%	43.2%	(7.2)pp	37.5%	44.1%	(6.6)pp

(1) Proforma consolidation of international assets using the percentage of ownership held by PT. Excludes investments in Vivo. **(2)** EBITDA = income from operations + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Highlights of main assets in Africa and Asia (2009) (1) **thousand (customers), million (financials)**

	Stake	Revenues local	y.o.y	EBITDA local	y.o.y	Margin	Revenues Eur	EBITDA Eur
Unitel, Angola (2) (4)	25.00%	717	(3.7)%	432	(11.4)%	60.3%	540	326
MTC, Namibia (3) (4)	34.00%	695	(2.4)%	373	(0.5)%	53.6%	70	37
CVT, Cape Verde (3) (4)	40.00%	3,974	(6.5)%	1,996	(16.7)%	50.2%	36	18
CTM, Macao (2)	28.00%	1,325	12.4%	586	5.4%	44.2%	125	55
CST, S.Tomé & Principe (3) (4)	51.00%	146,508	19.2%	40,487	11.8%	27.6%	6	2
Timor Telecom, East Timor (3)	41.12%	26	15.7%	14	9.1%	55.3%	20	(11)

(1) Figures account for 100% of the company. PT has management contracts in CVT, CST and Timor Telecom. **(2)** Equity consolidation method. **(3)** Full consolidation method. **(4)** These stakes are held by Africatel, which is 75% controlled by PT.

In 1H10, Unitel s revenues and EBITDA, in Angolan Kwanza, increased by 16.5% and by 7.7% respectively and decreased by 3.7% and by 11.4% y.o.y, to USD 717 million and USD 432 million respectively, as a result of the 20% devaluation of Angolan Kwanza against the USD. Customer base reached 6.2 million as at 30 June 2010, an increase of 22.6% over the same period of last year, with net additions of 0.5 million in 1H10. In 1H10, ARPU decreased by 4.8% in local currency against a backdrop of strong customer growth. ARPU totalled USD 19.4 in the period.

In 1H10, MTC s revenues and EBITDA decreased by 2.4% and 0.5% to NAD 695 million and NAD 373 million, respectively. Revenue performance was achieved against a backdrop of significant decline in MTRs and strong traffic stimulation campaigns. Excluding the impact of lower MTRs (-50% average price y.o.y), revenues and EBITDA would have grown 1.9% and 3.7%, respectively. In 1H10 EBITDA margin increased by 1.0pp to 53.6%. Total customer base reached 1,437 thousand as at 30 June 2010, an increase of 18.2% y.o.y, with net additions reaching 74 thousand in the semester. Postpaid customers increased by 9.4% y.o.y, equivalent to 7.0% of total customer base. In 1H10, MTC focused its commercial and marketing activity in initiatives to promote usage and mobile broadband. Data revenues accounted for 18.4% of service revenues. ARPU totalled NAD 79.1, a decrease of 20.0% y.o.y, as a result of customer growth and decline in MTRs.

In 1H10, CVT s revenues and EBITDA decreased by 6.5% y.o.y and by 16.7% y.o.y to CVE 3,974 million and CVE 1,996 million, respectively. EBITDA margin stood at 50.2% in 1H10. Revenue performance was negatively impacted by lower roaming revenues and lower mobile outgoing revenues, as well as adverse

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regulatory impacts in the wireline business. Excluding roaming and regulatory impacts, EBITDA would have decreased by 7.6%. Mobile customers increased by 16.9% to 305 thousand. Mobile MOU reached 81 minutes and ARPU totalled CVE 1,078, declining 20.9% y.o.y. In 1H10, CVT launched an institutional campaign celebrating the achievement of surpassing 300 thousand mobile customers.

CTM s revenues and EBITDA increased by 12.4% y.o.y and by 5.4% y.o.y to MOP 1,325 million and MOP 586 million, respectively. EBITDA margin stood at 44.2%. Revenue growth was achieved against a backdrop of a positive evolution of the economy of Macao, which led to an increase in the number of visitors in the semester. Data revenues represented 13.2% of mobile service revenues. In the mobile division, customers increased by 3.6% y.o.y reaching 521 thousand as at 30 June 2010. In 1H10, CTM s mobile ARPU increased by 5.5% to MOP 112, as a result of growth of data and roaming revenues in the period.

In 1H10, CST s revenues increased by 19.2% y.o.y to STD 146,508 and EBITDA increased by 11.8% y.o.y to STD 40,487 million. EBITDA margin stood at 27.6%. In the mobile division, CST reached 91 thousand customers as at 30 June 2010, an increase of 47.4% y.o.y. Mobile MOU decreased by 15.2% y.o.y to 40 minutes, as a result of growth in customer base, while mobile ARPU totalled STD 174 thousand in 1H10, a decrease of 16.3% y.o.y.

In 1H10, Timor Telecom s revenues and EBITDA increased by 15.7% y.o.y and by 9.1% y.o.y, to USD 26 million and USD 14 million, respectively, mainly as a result of the strong increase in the number of mobile customers. EBITDA margin stood at 55.3%. Data revenues accounted for 15.7% of mobile service revenues. Timor Telecom s mobile net additions reached 62 thousand, bringing the total mobile customer base to 413 thousand as at 30 June 2010, an increase of 145.5% y.o.y. Customer growth was achived against a backdrop of expanding coverage and dinamisation of commercial offer. Mobile MOU decreased by 45.2% y.o.y to 43 minutes, while mobile ARPU stood at USD 10, declining by 55.4% y.o.y, as a result of the strong customer growth in the period. In 1H10, Timor Telecom launched 3G services and relaunched its commercial brand.

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03
Employees

Number of employees and productivity ratios

	30 Jun 2010	30 Jun 2009	y.o.y	y.o.y	31 Dec 2009
Domestic operations	**11,325**	**10,587**	**738**	**7.0%**	**10,978**
Wireline	6,574	6,349	225	3.5%	6,450
Domestic mobile • TMN	1,016	1,100	(84)	(7.6)%	1,004
Other	3,735	3,138	597	19.0%	3,524
International businesses	**29,753**	**22,971**	**6,782**	**29.5%**	**26,043**
Brazilian mobile • Vivo	6,633	4,125	2,508	60.8%	5,299
Other	23,120	18,846	4,274	22.7%	20,744
Total Group employees	**41,078**	**33,558**	**7,520**	**22.4%**	**37,021**
Fixed lines per employee	**721**	**697**	**24**	**3.4%**	**711**
Mobile cards per employee					
TMN	7,155	6,345	809	12.8%	7,223
Vivo	4,220	5,675	(1,455)	(25.6)%	4,882

At the end of the first half of 2010, PT`s employees were 41,078, of which 27.6% were allocated to the domestic operations. In the wireline business, the number of employees increased by 3.5%, as a result of the management of the domestic businesses along customer segments and of the integrated management of the wireline and mobile businesses, with the ratio of fixed lines per employee improving by 3.4% y.o.y to 721 lines. In TMN, the number of employees decreased by 7.6% y.o.y to 1,016, while the ratio of mobile cards per employee increased by 12.8% to 7,155 cards. At the end of June 2010, the total number of employees of Vivo increased by 60.8% y.o.y to 13,266 employees (100%), as a result of the insourcing of certain activities related with marketing and sales, namely stores that were previously outsourced. The ratio of mobile cards per employee decreased by 25.6% to 4,220 cards.

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04
Main events

Events of the first half in 2010

Shareholder remuneration

16.Apr.10 | PT s shareholders approved at the Annual General Meeting held on 16 April 2010 the application of the 2009 net income of Euro 529,778,473, which resulted in the approval of the payment of dividends in the amount of Euro 515,494,687.50 to the shareholders, corresponding to Euro 0.575 per share, and of the transfer of the remainder amount to the retained earnings account. Excluding dividends in respect of shares held in treasury by PT, shareholders were paid dividends in the global amount of Euro 503,626,688.

Corporate bodies

17.Feb.10 | PT announced that Rui Pedro Soares had resigned from his office as executive member of the Company s Board of Directors.

22.Feb.10 | PT announced that Fernando Soares Carneiro had resigned from his office as executive member of the Company s Board of Directors.

25.Mar.10 | PT announced that António Manuel Palma Ramalho had resigned from his office as non-executive member of the Company s Board of Directors following the proposal of his name to the Annual General Meeting of BCP to become an executive board member of BCP.

Management transactions

28.Jan.10 | PT announced that Paulo José Lopes Varela, non-executive director of PT since 27 March 2009, informed having acquired, on 14 December 2009, on the regulated market operated by Euronext Lisbon, 4,110 PT shares, at a price of Euro 8.51 per share. As a result of this acquisition, Paulo José Lopes Varela came to hold a total of 7,134 PT shares.

24.Jun.10 | PT announced that it had been notified by Telefónica, pursuant to the terms of article 248-B of the Portuguese Securities Code and of article 14 of CMVM Regulation no. 5/2008, of the disposal of PT shares and the execution of equity swaps with cash settlement on PT shares. As a result of these transactions, Telefónica, came to hold directly a total of 18,122,661 PT shares, representing 2.02% of the share capital and voting rights in PT. PT further announced that it had been informed by Telefónica that this latter was a person closely related to the management of PT as two of its directors were also directors of PT, and therefore it had the obligation to notify PT of such transactions pursuant to paragraph 4, b) of article 248-B of the Portuguese Securities Code.

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Digital Terrestrial Television

22.Jan.10 | PT confirmed that PT Comunicações had required to the telecoms regulator, ICP-ANACOM, and to the ERC the revocation of the licenses granted for the use of Multiplexers B to F since in its opinion the necessary conditions for the development of such project were no longer met.

Acquisition of GPTI

8.Feb.10 | PT announced the acquisition of 100% of GPTI. The acquisition was carried out through the issuance of shares of Dedic, a 100% owned PT subsidiary that operates in the contact centre business in Brazil. Following the acquisition, GPTI s shareholders became holders of 12.5% stake in Dedic. Depending on the operational and financial performance of GPTI in 2010 and 2011, this stake may range from 5% to 20%.

Notification of a decision of the AdC

2.Mar.10 | PT announced that the Lisbon Commerce Court had ruled entirely in favour of the appeal lodged by PT Comunicações against the Portuguese Competition Authority s decision of 1 August 2007, which had condemned PT Comunicações in the payment of a fine amounting to Euro 38 million for allegedly refusing, without an objective justification, to grant access to certain sections of its duct system by TV Tel and Cabovisão. Therefore, PT Comunicações was cleared from the accusation of an infringement of competition rules, notably of abusing a dominant position, despite such decision could still be appealed.

Offer over Brasilcel

10.May.10 | PT announced that it had received an unsolicited, binding and unconditional offer from Telefónica to acquire PT s 50% shareholding in Brasilcel, the holding company of Vivo Participações, for Euro 5.7 billion. PT further announced that its Board of Directors had unanimously rejected Telefónica s offer.

1.Jun.10 | PT announced that it had received from Telefónica a revised proposal to acquire PT s 50% shareholding in Brasilcel for Euro 6.5 billion, with two alternatives, one for the immediate sale of its entire stake and another to be executed at PT s sole discretion during a three year period. The Board of Directors considered that the offer did not reflect the strategic value of Vivo for Telefónica and resolved to request a Shareholders Meeting so that PT s shareholders could come to a decision on the offer. In addition, the Board of Directors appointed the Chairman, the Chief Executive Officer and the Chief Financial Officer to discuss the offer with Telefónica, until the aforementioned Shareholders Meeting took place.

4.Jun.10 | PT announced the summon by the Chairman of the Board of the General Meeting of a General Shareholders Meeting to be held on 30 June 2010 to resolve on the proposal received from Telefónica on 1 June 2010 for the acquisition of the shareholding held by Group Portugal Telecom in Brasilcel.

10.Jun.10 | PT published an information statement regarding the offer received from Telefónica.

29.Jun.10 | PT announced that it had received from Telefónica a revised price for the proposal to acquire PT s 50% shareholding in Brasilcel. This new consideration amounted to Euro 7.15 billion and was effective until 2 July 2010. All the other terms and conditions of the offer received on 1 June 2010 remained unchanged.

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30.Jun.10 | The Chairman of the Board of the General Meeting of Portugal Telecom announced that Telefónica offer of Euro 7.15 billion for Portugal Telecom s 50% stake in Brasilcel had been rejected by the General Meeting.

Subsequent events

Offer over Brasilcel

17.Jul.10 | PT announced the expiration of Telefónica s offer. Despite the Board of Directors s resolution to formally request to Telefónica a final extension of the validity of the offer until 28 July 2010 and the negotiations undertaken for such purpose, on 17 July 2010 Telefónica informed Portugal Telecom that it had decided not to accept such request from the Board of Directors of Portugal Telecom for a final extension of the validity of the offer. The offer thus expired at 11:59 p.m. of 16 July 2010.

28.Jul.10 | PT announced that it had reached an agreement with Telefónica for the sale of PT s 50% interest in Brasilcel. The Board of Directors of Portugal Telecom approved the sale of its 50% stake in Brasilcel to Telefónica for a total consideration of Euro 7.5 billion, of which: (i) Euro 4.5 billion will be paid on closing (no later than 60 days following this announcement); (ii) Euro 1 billion will be paid on 30 December 2010, and (iii) Euro 2 billion will be paid by no later than 31 October 2011.

Partnership with Oi Group

28.Jul.10 | PT announced a strategic partnership with Oi Group companies. The agreement reached between the parties includes the establishment of a strategic partnership between Portugal Telecom and Oi Group companies and will encompass a direct and indirect economic ownership by PT of 22.38% in Oi Group with a maximum estimated investment of R$ 8.4 billion (equivalent to Euro 3.7 billion, based on the exchange rate at the time). The partnership may also result in the acquisition by Telemar of a stake of up to 10% in Portugal Telecom. Portugal Telecom will have a relevant role in the management of Telemar Participações and its subsidiaries, including the right to appoint two directors at the board of Telemar Participações (one being an alternate member) and two directors at the board of Tele Norte Leste Participações. Additionally, as a strategic partner, PT will proportionate consolidate its stake in Telemar Participações, which fully consolidates Oi Group.

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05
Main risks and uncertainties

Business risk management is acquiring increasing relevance, not only due to the current globalisation context, but also considering the dynamics that characterise the industry and business environment of PT. Therefore, risk management plays not only a critical role in mitigating risk factors that can have a negative impact both at company s and stakeholders levels, but also contributes to the identification of new business opportunities.

Based on such commitment, PT is extending the scope of the work, investing in a structured Risk Management Framework to enable the identification of strategic and operational risks, implement and adequate controls that reduce the level of risk to an acceptable level. Therefore, Portugal Telecom has set a corporate unit which mission is to carry out an ongoing assessment, using international standards and practices like the COSO framework to monitor and improve the risk management process.

Risk Management is sponsored by the Executive Committee and directly supported by the management teams of the various business units, both at national and international levels, in order to ensure a timely identification and prioritisation of critical risks, and the development of risk management strategies in order to implement appropriate controls and ensure that the risk is maintained at an acceptable level. It should also be mentioned that the whole process is monitored by the Audit Committee, an independent supervisory body composed by non-executive board members.

As an economic group that carries out its business in several business areas, PT is exposed to various risks, being the following the main risk factors:

Regulation: PT is subject to the risk of regulatory changes or actions from national, international or European Union regulatory authorities that may create growing competitive pressure and affect its capacity to conduct its business in an effective manner. For additional information on this matter please refer to notes to the consolidated financial statements as at 30 June 2010.

Competition: Potential decline of PT`s revenues resulting from increased competition from other operators or new players in the market, namely through (i) development of new products and services, (ii) aggressive marketing and sales policies, (iii) improvements in product and service quality, (iv) increase in productivity and cost reduction, and (v) reconfiguration of the value chain from the customer s point of view.

Technological evolution: Considering the history of quick technological changes, PT is subject to the risk of failing to leverage technological innovations and developments in its business model in order to gain or maintain competitive advantages. PT has created a company wide program, and developed specific methodologies and processes to identify future trends, anticipate business opportunities in a systematic way in all market segments of the company, involving internal experts in the innovation of new products and services, development of business concepts and operational efficiency.

Economic environment: The international financial crisis may lead to a prolonged recession in the Portuguese and world economies, which might have an impact at in the demand for products and services and, as a

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result, on PT s operational and financial performance. As such, management continuously monitors impacts on the operational and financial performance of the Company.

Financial markets: Recent events have increased uncertainty and volatility in financial markets. Risk premium in the markets have increased significantly. As such, current conditions of the financial markets may have an adverse effect on PT s ability to access the capital it needs to support its growth, its strategies, and to generate future financial returns. The management of the financial market risk is ensured by the Corporate Finance Department. PT establishes agreements regarding a set of derivative financial instruments in order to minimise the risk exposure to changes in interest rates. The acquisition of financial instruments is made after a careful analysis of risks and benefits inherent to this type of transactions and consulting with various entities operating in this market. These transactions are subject to prior approval by the Executive Committee and involve a permanent follow-up of the financial markets evolution and of the positions held by the Company.

Exchange rate exposure: PT holds strategic investments in foreign countries whose currency is not the Euro, namely Brazil and several African countries. Exchange rate fluctuations of those currencies against Euro can impact PT financial position and results. PT does not have a hedging policy regarding the value of these investments, however the Executive Committee analyses the execution of cash flow hedging of the dividends and other capital income.

Strategic partnerships: The growth strategy at international level is based on a combination of alliances, joint ventures and partnerships that enhance the Company s competitive capacity. The Executive Committee of PT and its subsidiary companies play a central role in the management of this risk, by leveraging existing opportunities.

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06
Qualified holdings

Pursuant to the terms of subparagraph c) of no. 1 of article 9 of Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* or CMVM) Regulation no. 5/2008, PT provides the following information regarding qualified holdings held by shareholders in PT s share capital as communicated to PT by reference to 30 June 2010 or earlier as mentioned below:

• On 30 June 2010, Banco Espírito Santo Group (BES Group) held directly and/or indirectly 8.32% of the share capital and voting rights in PT. BES holding in PT, calculated in accordance with article 20 of the Portuguese Securities Code (CVM), is set out in the following table:

Entities	**No. of Shares**
BES Pension Fund	5,106,041
Companies in a control or group relationship with BES	69,458,802
Members of the management and supervisory bodies of BES	58,507
Total	74,623,350

BES further informed that Joaquim Aníbal Brito Freixial de Goes and Amílcar Carlos Ferreira de Morais Pires, who are directors of both BES and PT, held 2,437 and 2,146 PT shares (which are included in the table above), respectively.

• On 9 April 2010, Brandes Investments Partners, L.P. (Brandes) held, on behalf of its clients, a qualified holding corresponding to a total of 70,772,442 PT shares representing 7.89% of the share capital and voting rights in PT.

On 30 August 2010, PT disclosed that Brandes clients held 32,494,734 PT ordinary shares and 12,283,682 PT American Depositary Receipts (representing 12,283,682 PT ordinary shares), which, in total, represent approximately 4.99% of the voting rights corresponding to the share capital of PT. Such holding is attributed to Brandes as this entity is authorised to exercise the voting rights corresponding to the PT shares it has acquired on behalf of its investment management clients.

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- On 30 June 2010, Caixa Geral de Depósitos Group (Group CGD) held directly and indirectly 7.33% of the share capital and voting rights in PT. Group CGD holding in PT, calculated in accordance with article 20 of the CVM, is set out in the following table:

Entities	**No. of Shares**
Caixa Geral de Depósitos	55,083,637
Parcaixa, SGPS, S.A.	39,000
Companhia de Seguros Fidelidade - Mundial, S.A.	9,592,966
Império Bonança - Companhia de Seguros, S.A.	18,065
CGD Pension Fund	1,006,647
Total	65,740,315

- On 8 June 2010, PT announced that RS Holding, SGPS, S.A. (RS Holding) held a total of 60,698,090 PT shares, corresponding to 6.77% of the share capital and voting rights in PT, as set out in the following table:

Entities	**No. of Shares**
Insight Strategic Investments, SGPS, S.A	37,804,969
Ongoing Strategy Investments, SGPS, S.A.	22,600,000
Investoffice Investimentos e Consultoria Financeira, S.A.	281,931
Nuno Vasconcellos	11,190
Total	60,698,090

RS Holding further informed that the abovementioned qualified holding continued to be attributed to Isabel Maria Alves Rocha dos Santos, as holder of 99.9% of RS Holding s share capital and corresponding voting rights.

- On 23 June 2010, PT announced that UBS AG held a total of 52,396,466 ordinary shares representing 5.84% of PT s share capital and corresponding voting rights, which is attributed to UBS AG through the following entities:

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Entities	No. of Shares
UBS AG	23,543,633
UBS AG on behalf of several of its clients	26,340,149
CCR Asset Management	675,895
UBS Financial Services Inc	458,687
UBS Fund Management (Switzerland) AG	245,280
UBS Fund Services (Luxembourg) SA	807,553
UBS Global Asset Management (Americas) Inc	1,160
UBS Global Asset Management (Canada) Co	719
UBS Global Asset Management (Deutschland) GmbH	33,517
UBS Global Asset Management (UK) Ltd	150,189
UBS Global Asset Management Life Ltd	139,684
Total	52,396,466

On 17 August 2010, PT disclosed that UBS AG held 17,961,777 PT ordinary shares, representing 2.00% of the share capital and corresponding voting rights in PT.

- On 23 June 2010, PT announced that TPG-Axon Capital Management, LP held a total of 38,000,000 ordinary shares representing 4.24% of the share capital and voting rights in PT.

PT further disclosed that Mr. Dinakar Singh, an individual resident in New York, New York, United States of America, was in a control relationship with TPG-Axon Capital Management, LP and the funds it managed.

On 9 August 2010, PT announced that TPG-Axon Capital Management, LP came to hold, indirectly, 45,000,000 ordinary shares representing 5.02% of the share capital and voting rights in PT.

- On 30 June 2010, Grupo Visabeira SGPS, S.A. (Visabeira Group , company 83.52% owned by Mr. Fernando Campos Nunes) held a total of 11,523,213 PT shares, corresponding to 1.02% of the share capital and voting rights in PT. In addition, Visabeira Investimentos Financeiros, SGPS, S.A. (company 100% owned by Visabeira Estudos e Investimentos, S.A., which was 100% owned by Visabeira Serviços, SGPS, S.A., which in turn was 100% owned by the Visabeira Group) held a total of 11,144,260 shares, corresponding to 0.99% of the share capital and voting rights in PT. In global terms, the qualified holding of Visabeira Group, and the respective majority shareholder, in PT totalled 22,667,473 shares, corresponding to 2.53% of PT s share capital and voting rights.

- On 21 June 2010, PT announced that Barclays Plc held directly and indirectly 22,272,374 PT ordinary shares, representing 2.48% of the share capital and voting rights in PT. Barclays Plc holding in PT, calculated in accordance with article 20 of the CVM, is set out in the following table:

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Entities	No. of Shares
Barclays Bank Plc	494,164
Barclays Bank S.A.	104,855
Barclays Capital Inc	108,820
Barclays Capital Luxembourg SaRL	250,000
Barclays Capital Securities Ltd	21,002,025
Barclays Wealth Managers Portugal SGFIM S.A.	312,510
Total	22,272,374

On 27 August 2010, PT disclosed that Barclays Plc held directly and indirectly 22,111,522 ordinary shares representing 2.47% of PT s share capital and corresponding voting rights.

• On 27 May 2010, PT announced that Deutsche Bank AG (DB AG) held directly and indirectly 21,160,087 PT ordinary shares, representing 2.36% of the share capital and voting rights in PT. DB AG holding in PT, calculated in accordance with article 20 of the CVM, is set out in the following table:

Entities	No. of Shares
DB AG	6,143,717
Deutsche Asset Management Investmentgesellschaft mBH	52,573
Deutsche Asset Management (Japan) Limited	5,370
Deutsche Asset Management (Korea) Company Limited	9,240
Deutsche Investment Management Americas Inc	53,939
DWS Investment GmbH	13,780,302
DWS Investment SA, Luxembourg	1,010,189
DWS Investments (Spain) S.G.I.I.C S.A	7,000
Frankfurt-Trust Investment-Gesellshaft mBH	82,757
Sal Oppenheim (France) S.A.	15,000
Total	21,160,087

On 19 July 2010, PT further disclosed that DB AG held a total of 19,948,715 ordinary shares representing 2.23% of PT s share capital and corresponding voting rights.

• On 10 December 2009, PT announced that BlackRock Inc. held indirectly a total of 21,025,118 ordinary shares representing 2.35% of PT s share capital and corresponding voting rights. According to the information received from BlackRock, Inc., the above mentioned shares and voting rights were held through BlackRock Investment Management (UK) Limited.

• On 3 February 2010, PT announced that Controlinveste International Finance, S.A. held a total of 20,419,325 PT shares, corresponding to 2.28% of the share capital and voting rights in PT.

PT further informed that Controlinveste International Finance, S.A. was fully owned by Controlinveste International, S.à.r.l., which was owned by Controlinveste Comunicações, SGPS, S.A. and

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Olivedesportos Publicidade, Televisão e Media, S.A., and that Controlinveste Comunicações, SGPS, S.A. was fully owned by Olivedesportos Publicidade, Televisão e Media, S.A., which, in turn, was fully owned by Sportinveste, SGPS, S.A. This latter company was fully owned by Controlinveste, SGPS, S.A., which, in turn, was fully owned by Mr. Joaquim Francisco Alves Ferreira de Oliveira. Pursuant to no.1 of article 20 of the CVM, the voting rights corresponding to the above mentioned 20,419,325 PT shares representing 2.28% of PT s share capital continued to be attributed to Mr. Joaquim Francisco Alves Ferreira de Oliveira.

- On 2 June 2010, PT announced that Norges Bank held a total of 19,128,066 PT shares representing 2.13% of the share capital and voting rights in PT.

PT disclosed, on 7 July 2010, that Norges Bank held 46,502,945 ordinary shares representing 5.19% of PT s share capital and corresponding voting rights.

- On 24 June 2010, PT announced that Telefónica, S.A. held directly a total of 18,122,661 PT shares representing 2.02% of the share capital and voting rights in PT.

This qualified holding was notified by Telefónica to PT on 23 June 2010. Subsequently, on 28 June 2010, CMVM announced to the market a draft decision of its Management Board according to which the voting rights pertaining to the shares subject to equity swap contracts should continue to be attributed to Telefónica. To date, the CMVM did not disclose any final decision nor did Telefónica communicate to PT any change or correction as regards that qualified holding.

Additionally, on 30 August 2010, PT disclosed that a Capital Research and Management Company, which on 30 June 2010 did not hold any qualified holding in PT, came to hold 45,456,844 ordinary shares representing 5.07% of PT s share capital and corresponding voting rights. The shares corresponding to such qualified holding are owned by mutual funds under the discretionary management of Capital Research and Management Company.

List of the holdings pursuant to the terms of article 447 of the Portuguese Companies Code

Pursuant to the terms of article 447 of the Portuguese Companies Code, PT provides the following information regarding the holdings of the members of the Board of Directors and of the Statutory Auditor of PT as of 30 June 2010:

Board of Directors (including the members of the Audit Committee)

Henrique Granadeiro owns 150 PT shares.

Zeinal Bava owns 63,161 PT shares. His spouse owns 75 PT shares.

Luís Pacheco de Melo owns 45 PT shares.

Carlos Alves Duarte owns 40 PT shares.

Manuel Rosa da Silva owns 90 PT shares.

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Shakhaf Wine does not own any PT shares or any shares in other companies in a control or group relationship with PT.

José María Álvarez-Pallete Lopéz owns 100 PT shares. José María Álvarez-Pallete Lopéz is a board member of Telefónica, which owns a qualified position of 18,122,661 PT ordinary shares, corresponding to 2.02% of PT s share capital and voting rights.

Francisco Manuel Marques Bandeira owns 483 PT shares. Francisco Manuel Marques Bandeira is a board member of Caixa Geral de Depósitos, which owns a qualified position of 65,740,315 PT ordinary shares, corresponding to 7.33% of PT s share capital and voting rights.

José Guilherme Xavier de Basto does not own any PT shares or any shares in other companies in a control or group relationship with PT.

Santiago Fernández Valbuena owns 100 PT shares. Santiago Fernández Valbuena is a board member of Telefónica, which owns a qualified position of 18,122,661 PT ordinary shares, corresponding to 2.02% of PT s share capital and voting rights.

João Manuel de Mello Franco owns 12,986 PT shares. His spouse owns 322 PT shares.

Joaquim Aníbal Brito Freixial de Goes owns 2,437 PT shares. Joaquim Aníbal Brito Freixial de Goes is a board member of BES, which owns a qualified position of 74,623,350 PT ordinary shares, corresponding to 8.32% of PT s share capital and voting rights.

Mário João de Matos Gomes does not own any PT shares or any shares in other companies in a control or group relationship with PT.

Gerald Stephen McGowan does not own any PT shares or any shares in other companies in a control or group relationship with PT.

Rafael Luís Mora Funes does not own any PT shares or any shares in other companies in a control or group relationship with PT. His spouse owns 501 PT shares. Rafael Luís Mora Funes is a board member of RS Holding, SGPS, S.A., which owns a qualified position of 60,698,090 PT ordinary shares, corresponding to 6.77% of PT s share capital and voting rights.

Maria Helena Nazaré does not own any PT shares or any shares in other companies in a control or group relationship with PT.

Amílcar Carlos Ferreira de Morais Pires owns 2,146 PT shares. Amílcar Carlos Ferreira de Morais Pires is a board member of BES, which owns a qualified position of 74,623,350 PT ordinary shares, corresponding to 8.32% of PT s share capital and voting rights.

Francisco Teixeira Pereira Soares does not own any PT shares or any shares in other companies in a control or group relationship with PT.

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Jorge Humberto Correia Tomé does not own any PT shares or any shares in other companies in a control or group relationship with PT. Jorge Humberto Correia Tomé Varela is a board member of Caixa Geral de Depósitos, which owns a qualified position of 65,740,315 PT ordinary shares, corresponding to 7.33% of PT s share capital and voting rights.

Paulo José Lopes Varela owns 7,134 PT shares. Paulo José Lopes Varela is a board member of Visabeira Group, which owns a qualified position of 22,667,473 PT ordinary shares, corresponding to 2.53% of PT s share capital and voting rights.

Milton Almicar Silva Vargas does not own any PT shares or any shares in other companies in a control or group relationship with PT.

Nuno de Almeida e Vasconcellos owns 11,190 PT shares. Nuno de Almeida e Vasconcellos is the Chairman of the Board of Directors of RS Holding, SGPS, S.A., which owns a qualified position of 60,698,090 PT ordinary shares, corresponding to 6.77% of PT s share capital and voting rights.

Statutory Auditor

Pedro Matos Silva, Statutory Auditor, does not own any PT shares or any shares in other companies in a control or group relationship with PT.

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07
Outlook

Outlook for the second half

In line with its strategy, PT will continue to be a company oriented for growth, aiming at fully exploring the potential of its asset portfolio and to continue to selectively pursue opportunities in selected markets. In the domestic market, PT aims to take full advantage of existing and future opportunities in the telecommunications, multimedia and IT businesses through the continued development of new services and convergent offers for all market segments. Internationally, PT intends to further develop its recent partnership with Oi, taking advantage of the growth potential of the Brazilian market in voice and data services and leverage on its strong experience in fixed-mobile convergence, and to exploit opportunities in high-growth markets where PT has clear competitive advantages.

In order to anticipate these challenges, PT s strategy in the domestic market will be based upon the development of fixed-mobile and telecoms-multimedia-IT convergent services for all segments of the market aimed at improving customer loyalty and decreasing retention costs, while using the various brands in an integrated manner. PT s strategy will also be based on the deployment of services aimed at providing a pay-TV and triple-play offering with distinctive and customised content and features tailored to meet the customer needs and to provide today the experience of the TV of the future. In the personal and residential segments, PT will continue to leverage on the multi-screen strategy designed to provide telecoms and multimedia access to new and more sophisticated services and applications. In the business segments, PT will continue to invest in the development of new services designed to fully exploit the new horizons opened by the investment in next generation access networks, namely using the FTTH (fibre-to-the-home) technology, and by the new services and applications brought by new concepts based on cloud computing. PT will continue to invest to further develop new and more effective core and access platforms, while at the same time will continue to contribute to the development of the information society in Portugal and to promoting the info-inclusion of all Portuguese citizens not only in the urban areas, but also in the more remote and rural regions of Portugal. PT will continue streamlining its businesses by rationalising its cost structure through productivity increases and business process reengineering.

Internationally, PT aims to continue exploring the growth potential of its Brazilian assets, in partnership with Oi, leveraging on Brazil s favourable demographics, growth prospects in telecoms, both in voice and data, in multimedia, in IT and on the opportunity for the fixed-mobile integration. PT will continue to invest in the development of new technologies and services. PT also aims to continue increasing its exposure to high-growth markets in Africa by selectively considering value-creating opportunities and taking full advantage of its existing asset portfolio and partnerships.

PT will continue to operate in a highly competitive and regulated environment that will pose continued risks and threats to its existing businesses, placing the profitability of its assets under pressure.

In line with its stated remuneration policy, PT will continue to provide attractive shareholder remuneration combined with above-average growth prospects, provided by its international portfolio.

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Statement by the persons responsible

For the purposes of article 246 of the Portuguese Securities Code, the members of the Board of Directors of Portugal Telecom, SGPS S.A. identified hereunder declare, in the capacity and within their functions as described therein, that, to the best of their knowledge and grounded on the information to which they had access within such Board of Directors and/or Executive Committee, as applicable, while in office:

- The information included in the financial statements concerning the first half of 2010 was prepared in compliance with the requirements of the IAS 34 Interim Financial Reporting standard, in accordance with the applicable law and gives a true and fair view of the assets, liabilities, financial position and profit or loss of Portugal Telecom, SGPS S.A. and of the undertakings included in the consolidation as a whole;

- The interim management report includes a fair review, as an indication, of the important events occurred during the first half of 2010 and their impact on the interim financial statements, together with an accurate description of the principal risks and uncertainties for the second half of the financial year.

Lisbon, 4 August 2010

Henrique Granadeiro, Chairman of the Board of Directors

Zeinal Bava, Chief Executive Officer

Luís Pacheco de Melo, Executive Director, Chief Financial Officer

Carlos Alves Duarte, Executive Director

Manuel Rosa da Siva, Executive Director

Shakhaf Wine, Executive Director

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José Maria Alvarez-Pallete Lopéz, Non-Executive Director

Francisco Manuel Marques Bandeira, Non-Executive Director

José Guilherme Xavier de Basto, Non-Executive Director

Santiago Fernández Valbuena, Non-Executive Director

João Manuel de Mello Franco, Non-Executive Director

Joaquim Anibal Brito Freixial de Goes, Non-Executive Director

Mário João de Matos Gomes, Non-Executive Director

Gerald Stephen McGowan, Non-Executive Director

Rafael Luís Mora Funes, Non-Executive Director

Maria Helena Nazaré, Non-Executive Director

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Amílcar Carlos Ferreira de Morais Pires, Non-Executive Director

Francisco Teixeira Pereira Soares, Non-Executive Director

Jorge Humberto Correia Tomé, Non-Executive Director

Paulo José Lopes Varela, Non-Executive Director

Milton Almicar Silva Vargas, Non-Executive Director

Nuno Rocha dos Santos de Almeida e Vasconcellos, Non-Executive Director

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Consolidated financial statements

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED INCOME STATEMENT

FOR THE SIX AND THREE MONTH PERIODS ENDED 30 JUNE 2010 AND 2009

Euro

				Unaudited	
	Notes	**1H10**	**1H09 (restated)**	**2Q10**	**2Q09 (restated)**
REVENUES					
Services rendered		3,426,316,910	2,991,566,495	1,780,588,347	1,513,411,915
Sales		188,052,122	186,934,087	95,615,797	91,956,858
Other revenues		67,845,835	56,506,226	32,581,566	24,327,469
	5	**3,682,214,867**	**3,235,006,808**	**1,908,785,710**	**1,629,696,242**
COSTS, LOSSES AND (INCOME)					
Wages and salaries		410,746,835	338,805,834	212,100,278	177,217,715
Direct costs		675,725,857	534,679,935	351,567,489	273,337,792
Commercial costs		581,442,197	524,265,041	304,432,690	261,722,682
Supplies and external services		505,727,653	475,282,534	268,020,912	245,513,568
Indirect taxes		155,884,990	113,752,808	81,195,353	58,122,247
Provisions and adjustments		55,682,565	49,829,289	27,831,874	18,315,406
Depreciation and amortisation	11	773,001,281	667,067,574	395,223,895	341,527,413
Net post retirement benefits costs	6	35,645,133	44,810,000	17,822,566	22,405,000
Curtailment costs, net	6	9,239,213	3,486,016	4,061,051	1,640,967
Losses (gains) on disposal of fixed assets, net		818,933	61,232	792,839	(434,659)
Other costs, net		12,479,708	14,038,522	6,963,183	13,644,654
		3,216,394,365	**2,766,078,785**	**1,670,012,130**	**1,413,012,785**
Income before financial results and taxes	5	**465,820,502**	**468,928,023**	**238,773,580**	**216,683,457**
FINANCIAL LOSSES AND (GAINS)					
Net interest expense	5 and 7	150,480,186	144,720,158	77,638,758	72,363,228
Equity in earnings of associated companies, net	5	(83,920,268)	(102,201,530)	(45,155,672)	(53,512,022)
Net other financial losses (gains)	5 and 8	(25,081,634)	11,842,778	(26,158,745)	17,080,081
		41,478,284	**54,361,406**	**6,324,341**	**35,931,287**
Income before taxes		**424,342,218**	**414,566,617**	**232,449,239**	**180,752,170**
Income taxes	5 and 9	79,660,465	118,382,426	16,914,004	62,622,573
NET INCOME		**344,681,753**	**296,184,191**	**215,535,235**	**118,129,597**
Attributable to minority interests		80,187,549	39,607,837	51,356,779	28,177,241
Attributable to equity holders of the parent	10	**264,494,204**	**256,576,354**	**164,178,456**	**89,952,356**
Earnings per share					
Basic	10	0.30	0.29	0.19	0.10
Diluted	10	0.30	0.29	0.18	0.10

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX AND THREE MONTH PERIODS ENDED 30 JUNE 2010 AND 2009

Euro

				Unaudited	
	Notes	**1H10**	**1H09 (restated)**	**2Q10**	**2Q09 (restated)**
Income and expenses recognised directly in shareholders equity					
Foreign currency translation adjustments (i)		590,335,686	588,909,606	385,453,213	360,456,627
Post retirement benefits					
Net actuarial gains (losses)	6	(143,201,263)	15,575,484	(140,750,376)	88,587,920
Tax effect	9	37,948,335	(4,127,503)	37,298,850	(23,475,799)
Financial instruments					
Hedge accounting					
Change in fair value		(4,912,173)	(359,172)	(1,908,472)	63,956
Transferred to profit and loss		1,908,342	294,108	950,033	147,054
Tax effect		871,111	17,242	329,082	(55,918)
Other expenses recognised directly in shareholders equity, net		(3,596,017)	(4,816,655)	(4,112,335)	(4,117,164)
		479,354,021	**595,493,110**	**277,259,995**	**421,606,676**
Reserves recognised directly in shareholders equity					
Reassessement of the deferred tax liability related to the revaluation of assets (ii)			17,395,129		17,395,129
Total earnings and reserves recognised directly in shareholders equity		**479,354,021**	**612,888,239**	**277,259,995**	**439,001,805**
Income recognised in the income statement		**344,681,753**	**296,184,191**	**215,535,235**	**118,129,597**
Total income recognised		**824,035,774**	**909,072,430**	**492,795,230**	**557,131,402**
Attributable to minority interests		232,305,527	196,597,120	149,434,399	130,041,756
Attributable to equity holders of the parent		**591,730,247**	**712,475,310**	**343,360,831**	**427,089,646**

(i) Gains recorded in the six and three month periods ended 30 June 2010 and 2009 are primarily related to the appreciation of the Real against the Euro. The accumulated foreign currency translation adjustments as at 30 June 2010 amounted to Euro 1.37 billion, of which around 90% are related to Portugal Telecom s investment in Vivo.

(ii) Following the decision in the second quarter of 2009 to transfer certain real estate assets to the pension funds, and in accordance with IAS 12 Income Taxes, the deferred tax liability related to the revaluation of these assets was adjusted in order to reflect the manner in which Portugal Telecom expected to recover the carrying amounts of these assets.

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2010, 31 DECEMBER 2009 AND 1 JANUARY 2009

Euro

	Notes	30 Jun 2010	31 Dec 2009 (restated)	1 Jan 2009 (restated)
ASSETS				
Current Assets				
Cash and cash equivalents		1,981,096,849	1,449,516,549	1,010,655,198
Short-term investments		20,489,656	26,867,252	52,933,160
Accounts receivable		1,928,569,332	1,568,572,068	1,446,486,899
Inventories		240,478,052	239,877,325	297,382,098
Taxes receivable		308,182,132	254,765,524	317,865,624
Prepaid expenses		222,980,541	137,262,528	131,470,086
Other current assets		31,421,527	22,191,369	60,188,716
Total current assets		**4,733,218,089**	**3,699,052,615**	**3,316,981,781**
Non-Current Assets				
Taxes receivable		211,516,015	196,429,460	140,771,497
Financial investments		621,752,772	614,095,973	634,290,577
Intangible assets	11	4,363,006,006	4,074,303,198	3,486,237,730
Tangible assets	11	4,894,544,647	4,843,868,200	4,621,486,868
Post retirement benefits	6	1,112,116	67,588,596	1,557,026
Deferred taxes	9	1,087,799,184	1,019,511,128	1,032,723,979
Other non-current assets		404,345,694	325,643,568	487,195,313
Total non-current assets		**11,584,076,434**	**11,141,440,123**	**10,404,262,990**
Total assets		**16,317,294,523**	**14,840,492,738**	**13,721,244,771**
LIABILITIES				
Current Liabilities				
Short-term debt	12	1,068,513,729	494,531,900	2,254,666,256
Accounts payable		1,259,503,640	1,335,127,377	1,372,302,781
Accrued expenses		605,209,031	636,891,386	647,156,746
Deferred income		421,761,581	417,777,933	362,622,368
Taxes payable		387,454,380	293,891,365	337,641,837
Provisions		82,140,091	77,815,865	72,214,080
Other current liabilities		144,164,529	142,370,844	107,020,445
Total current liabilities		**3,968,746,981**	**3,398,406,670**	**5,153,624,513**
Non-Current Liabilities				
Medium and long-term debt	12	7,025,850,746	6,551,516,128	4,441,190,114
Taxes payable		77,693,866	59,217,420	38,730,319
Provisions		120,077,639	102,629,790	96,806,426
Post retirement benefits	6	1,646,507,625	1,558,341,521	1,836,850,906
Deferred taxes	9	467,699,043	483,112,334	462,192,770
Other non-current liabilities		343,603,797	299,822,417	495,612,901
Total non-current liabilities		**9,681,432,716**	**9,054,639,610**	**7,371,383,436**
Total liabilities		**13,650,179,697**	**12,453,046,280**	**12,525,007,949**

SHAREHOLDERS EQUITY			
Share capital	26,895,375	26,895,375	26,895,375
Treasury shares	(178,071,827)	(178,071,827)	(178,071,827)
Legal reserve	6,773,139	6,773,139	6,773,139
Reserve for treasury shares	6,970,320	6,970,320	6,970,320
Revaluation reserve	700,531,761	722,108,135	790,686,788
Other reserves and accumulated earnings	828,172,495	733,636,104	(421,227,368)
Equity excluding minority interests	**1,391,271,263**	**1,318,311,246**	**232,026,427**
Minority interests	1,275,843,563	1,069,135,212	964,210,395
Total equity	**2,667,114,826**	**2,387,446,458**	**1,196,236,822**
Total liabilities and shareholders equity	**16,317,294,523**	**14,840,492,738**	**13,721,244,771**

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2009 AND 2010

Euro

	Share capital	**Treasury shares**	**Legal reserve**	**Reserve for treasury shares**	**Revaluation reserve**	**Other reserves and accumulated earnings**	**Equity excluding minority interests**	**Minority interests**	**Total equity**
Balance as at 1 January 2009, restated	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**790,686,788**	**(421,227,368)**	**232,026,427**	**964,210,395**	**1,196,236,822**
Dividends (Note 10)						(503,626,688)	(503,626,688)	(75,096,810)	(578,723,498)
Share capital increase in Group company								12,045,978	12,045,978
Reassessement of the deferred tax liability related to the revaluation of assets					17,395,129		17,395,129		17,395,129
Realization of revaluation reserves					(21,646,643)	21,646,643			
Income recognized directly in equity						438,503,827	438,503,827	156,989,283	595,493,110
Income recognized in the income statement						256,576,354	256,576,354	39,607,837	296,184,191
Balance as at 30 June 2009, restated	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**786,435,274**	**(208,127,232)**	**440,875,049**	**1,097,756,683**	**1,538,631,732**

Euro

	Share capital	**Treasury shares**	**Legal reserve**	**Reserve for treasury shares**	**Revaluation reserve**	**Other reserves and accumulated earnings**	**Equity excluding minority interests**	**Minority interests**	**Total equity**
	26,895,375	**(178,071,827)**	**6,773,139**	**6,970,320**	**722,108,135**	**733,636,104**	**1,318,311,246**	**1,069,135,212**	**2,387,446,458**

Balance as at 31 December 2009, restated									
Dividends (Note 10)						(503,626,688)	(503,626,688)	(34,263,542)	(537,890,230)
Acquisitions, disposals and share capital increases (Note 2)								8,666,366	8,666,366
Tax effect on equity component of exchangeable bonds (Note 9)						(15,143,542)	(15,143,542)		(15,143,542)
Realization of revaluation reserves					(21,576,374)	21,576,374			
Income recognized directly in equity						327,236,043	327,236,043	152,117,978	479,354,021
Income recognized in the income statement						264,494,204	264,494,204	80,187,549	344,681,753
Balance as at 30 June 2010	**26,895,375**	**(178,071,827)**	**6,773,139**	**6,970,320**	**700,531,761**	**828,172,495**	**1,391,271,263**	**1,275,843,563**	**2,667,114,826**

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM SGPS, SA

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2010 AND 2009

Euro

	Notes	**1H10**	**1H09**
OPERATING ACTIVITIES			
Collections from clients		4,141,795,786	3,644,915,952
Payments to suppliers		(2,369,502,287)	(2,025,317,155)
Payments to employees		(424,064,255)	(371,908,309)
Payments relating to income taxes	13.a	(71,170,712)	(27,895,928)
Payments relating to post retirement benefits	6	(33,443,025)	(86,522,548)
Payments relating to indirect taxes and other	13.b	(342,362,054)	(204,665,941)
Cash flow from operating activities (1)		**901,253,453**	**928,606,071**
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications		9,355,591	23,173,091
Financial investments		1,440,176	291,713
Tangible and intangible assets		7,197,482	5,725,561
Interest and related income		23,957,741	39,262,199
Dividends	13.c	52,784,423	68,499,559
Other investing activities		280,857	9,281,048
		95,016,270	**146,233,171**
Payments resulting from:			
Short-term financial applications		(2,977,995)	(212,959)
Financial investments		(114,962)	(678,005)
Tangible and intangible assets		(575,515,018)	(644,320,753)
Other investing activities		(754,550)	(4,543,784)
		(579,362,525)	**(649,755,501)**
Cash flow from investing activities (2)		**(484,346,255)**	**(503,522,330)**
FINANCING ACTIVITIES			
Cash receipts resulting from:			
Loans obtained	13.d	11,582,632,427	17,557,897,803
Increases in share capital and paid-in surplus	13.e		13,821,576
Subsidies		1,522,176	472,431
Other financing activities	13.f	1,881,257	30,130,416
		11,586,035,860	**17,602,322,226**
Payments resulting from:			
Loans repaid	13.d	(10,702,001,777)	(16,864,675,436)
Lease rentals (principal)		(9,230,300)	(5,377,303)
Interest and related expenses		(239,647,436)	(264,412,774)
Dividends	13.g	(567,385,648)	(549,069,333)
Other financing activities	13.f	(497,918)	(37,965,144)

	(11,518,763,079)	**(17,721,499,990)**
Cash flow from financing activities (3)	**67,272,781**	**(119,177,764)**
Cash and cash equivalents at the beginning of the period	1,449,516,549	1,010,655,198
Change in cash and cash equivalents (4)=(1)+(2)+(3)	484,179,979	305,905,977
Effect of exchange differences	47,400,321	73,944,270
Cash and cash equivalents at the end of the period	**1,981,096,849**	**1,390,505,445**

The accompanying notes form an integral part of these financial statements.

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Portugal Telecom, SGPS, SA

Notes to the Consolidated Financial Statements

As at 30 June 2010

(Amounts stated in Euros, except where otherwise mentioned)

1. Introduction

Portugal Telecom, SGPS, SA (Portugal Telecom) and its subsidiaries (Group , Portugal Telecom Group , or the Company) are engaged in rendering a comprehensive range of telecommunications and multimedia services in Portugal and other countries or regions, including Brazil and Africa. These services have not significantly changed during the six months period ended 30 June 2010, as compared to those reported in our last annual report.

The accompanying consolidated financial statements were approved by the Board of Directors and authorized for issue on 4 August 2010.

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Accounting Standard Nº. 34 IAS 34 Interim Financial Reporting . These financial statements do not include all the information required by the International Financial Reporting Standards (IFRS) and accordingly should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009. In addition, further explanations for the main changes of revenues and costs are disclosed in our interim management report, which should be read in conjunction with these interim consolidated financial statements.

The consolidation principles followed in the preparation of these interim financial statements are the same as were applied in the preparation of the last annual consolidated financial statements.

Changes in the consolidation perimeter

On 7 February 2010, Portugal Telecom, through Mobitel, S.A. (Dedic), a company that operates in the call centre business in Brazil, agreed to acquire a 100% equity stake in GPTI, S.A. (GPTI), a company which renders services related to information systems and technologies wich are a complement to the services provided by Dedic. The purchase price of this acquisition included (1) the issuance of shares of Dedic corresponding to a 12.5% stake, and (2) an option granted to the former shareholder of GPTI to increase or decrease that stake up to 7.5%, depending on the operational and financial performance of GPTI during 2010 and 2011. As a result of this acquisition, which was completed through the issuance of shares of Dedic on 1 March 2010 (the effective date of the acquisition of control), the former shareholder of GPTI holds a 12.5% stake in Dedic.

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The detail of the net assets of GPTI that were consolidated as at 1 March 2010 and the goodwill recorded on a preliminary basis in connection with the transaction mentioned above is as follows:

Euro million

	Book value	**Fair value adjustments (i)**	**Fair value**
NET ASSETS ACQUIRED			
Accounts receivable	13.2		13.2
Taxes receivable	1.9		1.9
Intangible assets		2.5	2.5
Tangible assets	0.9		0.9
Other assets	0.0		0.0
Short-term debt	(17.5)		(17.5)
Accounts payable	(2.5)		(2.5)
Taxes payable	(10.7)		(10.7)
Current provisions	(4.1)		(4.1)
Medium and long-term debt	(13.3)		(13.3)
Non-current provisions	(1.8)	(0.9)	(2.7)
Other liabilities	(3.0)		(3.0)
Total net assets acquired	**(36.9)**	**1.6**	**(35.3)**
Purchase price (ii)			13.6
Goodwill resulting from the difference between the purchase price and net assets acquired			**48.9**
Gain related to the dilution effect on the share capital increase (iii)			(2.8)
Total goodwill (Note 11)			**46.1**

(i) The fair value adjustments of assets and liabilities were made on a preliminary basis and could be subject to changes within a 12 month period from the date of acquisition. The fair value adjustments related to intangible assets consist of the estimate fair value of recurrring contracts entered into between GPTI and certain customers. The fair value adjustments related to non-current provisions correspond to the fair value of certain tax contingencies whose settlement was considered to be possible at the date of acquisition.

(ii) As mentioned above, the purchase price includes (a) 28.3 million Brazilian Reais (Euro 11.4 million) corresponding to the fair value of the share capital increase at Dedic at the acquisition date, and (b) 5.4 million Brazilian Reais (Euro 2.2 million) corresponding to the fair value as at 1 March 2010 of the option granted to the former shareholder of GPTI.

(iii) As a result of the above mentioned share capital increase at Dedic, Portugal Telecom obtained a gain of 6.8 million Brazilian Reais (Euro 2.8 million), which resulted from the difference between its proportion in the share capital increase and the dilution effect on its stake in Dedic. This gain was recorded as a reduction to goodwill.

As a result of the acquisition of GPTI, minority interests of Dedic amounted to Euro 8.7 million as at 1 March 2010, corresponding to the fair value of the 12.5% stake in Dedic (Euro 11.4 million) net of the gain of Euro 2.8 million mentioned above.

The contribution of GPTI for Portugal Telecom s results in the six and three month periods ended 30 June 2010 was a net profit before minority interests of Euro 0.8 million and Euro 0.7 million, respectively, including operating revenues of Euro 21 million and Euro 16 million, respectively. The pro-forma of Portugal Telecom s consolidated operating revenues and net income before minority interests for the six months period ended 30 June 2010 as if GPTI had been consolidated as from 1 January 2010 are as follows:

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Euro million

	Reported figures	GPTI s results for January and February of 2010	Pro-forma information
Operating revenues	3,682	8	3,690
Net income (before minoritty interests)	345	(5)	340

Except for the change mentioned above, there is no relevant additional change in the consolidation Group during the six months period ended 30 June 2010.

3. Accounting policies, judgments and estimates

Except for the change in accounting policy mentioned below, the accounting policies, judgments and estimates applied in this interim consolidated financial statements are consistent with those applied in Portugal Telecom s last annual financial statements.

The IFRIC 12 *Service Concession Arrangements* became effective as from 1 January 2010, following its approval by the European Commission as at 25 March 2009, and is applicable to Portugal Telecom in relation with the concession arrangement of an international operation which renders fixed line telecommunication services. Under this concession arrangement and in accordance with IFRIC 12, Portugal Telecom recognized an intangible asset related to the right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. This intangible asset, which will be depreciated until the end of the concession arrangement, was determined as at 1 January 2009 as (1) the carrying value of the tangible assets related to the concession arrangement, plus (2) the present value of the estimated concession rents payable up to the end of the concession arrangement. In addition, the 2009 Consolidated Income Statement was adjusted in the following manner: (i) revenues were increased to reflect, in accordance with IAS 11 *Construction Contracts* and IAS 18 *Revenue*, the services that the operators perform under this concession arrangement; (ii) supplies and external services were increased to reflect the investments incurred with the development of the fixed line network and decreased by the cost associated with the annual concession rent; and (iii) depreciation and amortization costs were decreased by the difference between the intangible asset amortization, until the term of the concession arrangement, and the amortization of the former tangible assets related to the concession arrangement, based on their useful lifes. As permitted by the transition rules of IFRIC 12, this change in accounting policy was not accounted for retrospectively as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but instead was applied prospectively as from 1 January 2009 based on the carrying amounts of tangible assets related to the concession arrangement, as mentioned above. The following changes were made to the previously reported Consolidated Statements of Financial Position as at 31 December 2008 and 2009 and Consolidated Income Statements for the six and three month periods ended 30 June 2009:

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Statement of financial position as at 1 January 2009 **Euro**

	Prior to IFRIC 12 adoption	Impacts of IFRIC 12 adoption	Restated statement
Assets			
Intangible assets	3,463,038,116	23,199,614	3,486,237,730
Tangible assets	4,637,837,013	(16,350,145)	4,621,486,868
Other assets	5,613,520,173		5,613,520,173
Total assets	**13,714,395,302**	**6,849,469**	**13,721,244,771**
Liabilities			
Other non-current liabilities	488,763,432	6,849,469	495,612,901
Other liabilities	12,029,395,048		12,029,395,048
Total liabilities	**12,518,158,480**	**6,849,469**	**12,525,007,949**
Equity excluding minority interests	**232,026,427**		**232,026,427**
Minority interests	964,210,395		964,210,395
Total shareholders equity	**1,196,236,822**		**1,196,236,822**
Total liabilities and shareholders equity	**13,714,395,302**	**6,849,469**	**13,721,244,771**

Statement of financial position as at 31 December 2009 **Euro**

	Prior to IFRIC 12 adoption	Impacts of IFRIC 12 adoption	Restated statement
Assets			
Intangible assets	4,046,670,219	27,632,979	4,074,303,198
Tangible assets	4,862,214,772	(18,346,572)	4,843,868,200
Other assets	5,922,321,340		5,922,321,340
Total assets	**14,831,206,331**	**9,286,407**	**14,840,492,738**
Liabilities			
Deferred taxes	482,219,973	892,361	483,112,334
Other non-current liabilities	294,105,452	5,716,965	299,822,417
Other liabilities	11,670,111,529		11,670,111,529
Total liabilities	**12,446,436,954**	**6,609,326**	**12,453,046,280**
Equity excluding minority interests	**1,317,508,122**	**803,124**	**1,318,311,246**
Minority interests	1,067,261,255	1,873,957	1,069,135,212
Total shareholders equity	**2,384,769,377**	**2,677,081**	**2,387,446,458**
Total liabilities and shareholders equity	**14,831,206,331**	**9,286,407**	**14,840,492,738**

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Income statement for the six months period ended 30 June 2009 **Euro**

	Prior to IFRIC 12 adoption	Impacts of IFRIC 12 adoption	Restated statement
Total revenues	**3,231,498,170**	**3,508,638**	**3,235,006,808**
Costs, losses and (income)			
Supplies and external services	472,704,107	2,578,427	475,282,534
Depreciation and amortisation	668,290,769	(1,223,195)	667,067,574
Other operating expenses, net	1,623,728,677		1,623,728,677
Income before financial results and taxes	**466,774,617**	**2,153,406**	**468,928,023**
Financial results	(54,361,406)		(54,361,406)
Income taxes	(117,844,075)	(538,351)	(118,382,426)
Net income	**294,569,136**	**1,615,055**	**296,184,191**
Attributable to minority interests	38,477,299	1,130,538	39,607,837
Attributable to equity holders of the parent	**256,091,837**	**484,517**	**256,576,354**
Earnings per share			
Basic	0.29	0.00	0.29
Diluted	0.29	0.00	0.29

Income statement for the three months period ended 30 June 2009 **Euro**

	Prior to IFRIC 12 adoption	Impacts of IFRIC 12 adoption	Restated statement
Total revenues	**1,627,008,143**	**2,688,099**	**1,629,696,242**
Costs, losses and (income)			
Supplies and external services	243,382,187	2,131,381	245,513,568
Depreciation and amortisation	342,119,567	(592,154)	341,527,413
Other operating expenses, net	825,971,804		825,971,804
Income before financial results and taxes	**215,534,585**	**1,148,872**	**216,683,457**
Financial results	(35,931,287)		(35,931,287)
Income taxes	(62,335,356)	(287,217)	(62,622,573)
Net income	**117,267,942**	**861,655**	**118,129,597**
Attributable to minority interests	27,574,084	603,157	28,177,241
Attributable to equity holders of the parent	**89,693,858**	**258,498**	**89,952,356**
Earnings per share			
Basic	0.10	0.00	0.10
Diluted	0.10		