PORTUGAL TELECOM SGPS SA
Form 6-K
September 03, 2008
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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 September 2008
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______

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 ______ No ___X___

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Portugal Telecom

First half 2008

Public Company- Avenida Fontes Pereira de Melo, 40 1069-300 Lisboa - Share capital: Euro 28,277,855.31
Registered in the Conservatory of the Commercial Registry of Lisbon and Collective Person under no. 503 215 058

Portugal Telecom

Consolidated report

First half 2008

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.

Consolidated report | first half 2008		1

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Portugal Telecom

Portugal

Wireline Euro 954 million (revenues)	> Retail, arge corporates voice and data, ISP and broadband services [PT Comunicações 100%] > SMEs voice and data [PT Prime 100%]
Mobile Euro 781 million (revenues)	> TMN 100%

Main international assets

			Revenues (Euro million)
Vivo 31.78%	> Brazil	> Mobile	1,434
Unitel 25% (*)	> Angola	> Mobile	352
Médi Télécom 32.18%	> Morocco	> Mobile	214
CTM 28%	> Macao	> Wireline, mobile, Internet and data	98
MTC 34% (*)	> Namibia	> Mobile	51
CVT 40% (*)	> Cape Verde	> Wireline, mobile, Internet and data	35
Timor Telecom 41.12%	> East Timor	> Wireline, mobile, Internet and data	11
CST 51% (*)	> São Tomé e Príncipe	> Wireline, mobile, Internet and data	4
UOL 29%	> Brazil	> ISP, contents and Internet	108

(*) These stakes are held by Africatel, which is controlled 78% 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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01 Financial review

Consolidated income statement

Consolidated income statement (1)			Euro million
	1H08	**1H07**	**y.o.y**
Operating revenues	**3,250.1**	**2,955.8**	**10.0%**
Wireline	953.7	992.9	(4.0%)
Domestic mobile • TMN	780.8	728.1	7.2%
Brazilian mobile • Vivo (1)	1,433.5	1,140.3	25.7%
Other and eliminations	82.1	94.4	(13.0%)
Operating costs, excluding D&A	**2,079.1**	**1,809.0**	**14.9%**
Wages and salaries	311.2	322.6	(3.5%)
Post retirement benefits	21.9	(17.3)	n.m.
Direct costs	518.3	428.1	21.1%
Commercial costs	578.6	466.3	24.1%
Other operating costs	649.1	609.3	6.5%
EBITDA (2)	**1,171.1**	**1,146.8**	**2.1%**
EBITDA pre PRBs (3)	**1,192.9**	**1,129.5**	**5.6%**
Depreciation and amortisation	609.6	540.6	12.8%
Income from operations (4)	**561.5**	**606.2**	**(7.4%)**
Other expenses (income)	**79.4**	**111.1**	**(28.5%)**
Curtailment costs, net	78.0	84.4	(7.6%)
Net losses (gains) on disposal of fixed assets	(13.3)	0.9	n.m.
Net other costs (gains)	14.6	25.7	(43.0%)
Income before financ. & inc. taxes	**482.1**	**495.1**	**(2.6%)**
Financial expenses (income)	**73.0**	**(89.1)**	**n.m.**
Net interest expenses	115.6	90.9	27.2%
Equity in losses (earnings) of affiliates	(74.5)	(52.9)	40.8%
Net other financial losses (gains)	31.9	(127.1)	n.m.
Income before income taxes	**409.1**	**584.3**	**(30.0%)**
Provision for income taxes	(114.6)	(141.1)	(18.8%)
Income from continued operations	**294.5**	**443.2**	**(33.6%)**
Income from discontinued operations	0.0	28.6	n.m.
Losses (income) attributable to minority interests	(41.6)	(42.7)	(2.7%)
Consolidated net income	**252.9**	**429.1**	**(41.1%)**

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.5946 in 1H08. (2) EBITDA = income from operations + depreciation and amortization. (3) EBITDA pre PRBs = EBITDA + post retirement benefits. (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

Consolidated operating revenues increased by 10.0% y.o.y in the first half of 2008, driven by growth at Vivo and TMN.

Vivo s operating revenues increased by 25.7% y.o.y in Euros and by 19.8% y.o.y in Reais in the first half of 2008, primarily on the back of continued customer growth and the consolidation of Telemig in the second quarter of 2008. Excluding the impact of the consolidation of Telemig, consolidated operating revenues would have grown by 7.3% y.o.y with Vivo s revenues growing by 19.0% y.o.y in Euros and by 13.4% y.o.y in Reais.

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TMN operating revenues increased by 7.2% y.o.y, underpinned by continued customer growth, particularly in postpaid customers and wireless broadband, with 223 thousand net adds, up 102.6% y.o.y.

Wireline operating revenues decreased by 4.0% y.o.y in the first half of 2008 as a result of the combined impact of line loss and pricing pressure on retail revenues. Nonetheless, in the second quarter of 2008, wireline revenues were broadly flat sequentially as a result of growth in pay-TV customers of 96 thousand in the first half and 70 thousand in the second quarter, and growth also in data and corporate. The increase of Portugal Telecom s TV offer is also contributing to reduce churn and attract new voice and data customers as 50% of IPTV net adds are new Portugal Telecom customers.

Other revenues, including intra-group eliminations, decreased by 13.0% y.o.y mostly due to lower revenues from the call centre business in Portugal, following the spin-off of PT Multimedia, and also due to a lower contribution in revenues from MTC as a result of the devaluation of the Namibian Dollar, which more than offset the 9.6% y.o.y growth in local currency.

Consolidated operating costs, excluding depreciation and amortization

Consolidated operating costs, excluding depreciation and amortization, amounted to Euro 2,079 million in the first half of 2008, an increase of 14.9% y.o.y. (Euro 270 million), reflecting the impacts of the consolidation of Telemig in the second quarter of 2008 (Euro 64 million) and of the appreciation of the Real against the Euro (Euro 52 million). Excluding these effects, the increase of operating costs is primarily explained by the higher contribution from Vivo (Euro 109 million), and by the prior years service gains related to post retirement benefits recorded in the first half of 2007 amounting to Euro 36 million, as explained in more detail below.

Consolidated operating costs			Euro million
	1H08	**1H07**	**y.o.y**
Wages and salaries	311.2	322.6	(3.5%)
Post retirement benefits	21.9	(17.3)	n.m.
Direct costs	518.3	428.1	21.1%
Commercial costs	578.6	466.3	24.1%
Support services	134.2	101.9	31.7%
Supplies and external services	331.4	334.5	(0.9%)
Indirect taxes	111.3	97.3	14.3%
Provisions	72.3	75.6	(4.3%)
Operating costs, excluding depreciation and amortization	**2,079.1**	**1,809.0**	**14.9%**

Wages and salaries _ Wages and salaries decreased by 3.5% y.o.y. to Euro 311 million in the first half of 2008, primarily as a result of the reduction in the contribution from the Wireline business (Euro 13 million) as a result of the ongoing redundancy programme and the focus on containing wage increases. Wages and salaries accounted for 9.6% of consolidated operating revenues.

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Post retirement benefits costs _ Post retirement benefit (PRB) costs amounted to Euro 22 million in the first half of 2008, as compared to a gain of Euro 17 million in the same period of last year. In the first half of 2007, this item included the recognition of a prior years service gains of Euro 36 million related to (1) the changes in the pension formulas introduced by the Dec-Law 187/2007, and (2) the changes made by Portugal Telecom to its pension obligations, which both led to a reduction in responsibilities. Excluding this effect, post retirement benefit costs would have increased from Euro 19 million in the first half of 2007 to Euro 22 million in the first half of 2008, primarily as a result of the decrease in the expected return on plan assets (Euro 5 million, due to the decrease in fund assets over last year), which more than offset the reduction in service costs (Euro 3 million) in connection with the changes made at the end of 2007 to the benefits granted under pension plans.

Direct costs _ Direct costs increased by 21.1% y.o.y to Euro 518 million in the first half of 2008 and accounted for 15.9% of consolidated operating revenues. This growth is primarily explained by Vivo, which increased by 38.3% y.o.y (Euro 75 million), reflecting the consolidation of Telemig in the second quarter of 2008 (Euro 19 million), the appreciation of the Real against the Euro (Euro 12 million), and the increase in interconnection costs related to the increase in M2M traffic in line with the increase in Vivo s average customer base.

Commercial costs _ Commercial costs, which include cost of products sold, commissions and marketing and publicity expenses, increased by 24,1% y.o.y, reflecting primarily higher commercial activity in the domestic and Brazilian mobile businesses, including the rollout of the GSM by Vivo. The growth at Vivo is also explained by the impacts of the consolidation of Telemig in the second quarter of 2008 (Euro 21 million) and the appreciation of the Real against the Euro (Euro 17 million). Commercial costs accounted for 17.8% of consolidated operating revenues.

Support services _ Support services increased by 31.7% y.o.y to Euro 134 million in the first half of 2008 and accounted for 4.1% of consolidated operating revenues. This growth is primarily explained by the increase in support services from TMN (Euro 12 million) and Vivo (Euro 28 million), related to the provisioning and customer care costs associated with increasingly more complex services at both businesses. The increase at Vivo is also explained by the impacts of the consolidation of Telemig in second quarter of 2008 (Euro 3 million) and the appreciation of the Real against the Euro (Euro 5 million).

Supplies and external services _ Supplies and external expenses remained broadly stable at Euro 331 million in the first half of 2008, as compared to Euro 334 million in the same period of last year, and accounted for 10.2% of consolidated operating revenues. The reduction in supplies and external expenses in the domestic operations, due to strong focus on cost control, was partially offset by an increase of 6,0% at Vivo, mainly related to the consolidation of Telemig in the second quarter of 2008 (Euro 6 million) and the appreciation of the Real against the Euro (Euro 5 million). Excluding these

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effects, Vivo s supplies and external services would have decreased by 4.2% y.o.y, reflecting also the focus on cost control.

Indirect taxes _ Indirect taxes, which mainly include spectrum fees (TMN and Vivo) and other taxes, increased from Euro 97 million in the first half of 2007 to Euro 111 million in the first half of 2008, mainly due to the growth in the customer base at both businesses. The increase at Vivo is also explained by the consolidation of Telemig in second quarter of 2008 (Euro 5 million) and the appreciation of the Real against the Euro (Euro 4 million).

Provisions _ Provisions decreased from Euro 76 million in the first half of 2007 to Euro 72 million in the first half of 2008. The decrease in this cost item is primarily related to the reduction of Euro 8 million at Vivo, mainly due to a decrease in the provision for doubtful accounts receivable, notwithstanding the impacts of the consolidation of Telemig in the second quarter of 2008 (Euro 4 million) and of the appreciation of the Real against the Euro (Euro 3 million). This cost item accounted for 2.2% of consolidated operating revenues.

EBITDA

EBITDA increased by 2.1% y.o.y in the first half of 2008 to Euro 1,171 million, with margin at 36.0%. Excluding post retirement benefit costs (PRBs), EBITDA increased by 5.6% y.o.y, equivalent to a margin of 36.7%. EBITDA improvement in the period was driven by growth in the mobile divisions, Vivo and TMN.

EBITDA by business segment (1) (2)			Euro million
	1H08	**1H07**	**y.o.y**
Wireline	437.9	506.0	(13.5%)
Domestic mobile • TMN	338.8	327.4	3.5%
Brazilian mobile • Vivo (1)	347.4	274.7	26.5%
Other and eliminations	47.0	38.7	21.4%
EBITDA (2)	**1,171.1**	**1,146.8**	**2.1%**
EBITDA margin (%)	36.0	38.8	(2.8pp)
EBITDA pre PRBs (3)	**1,192.9**	**1,129.5**	**5.6%**
EBITDA margin pre PRBs(%)	36.7	38.2	(1.5pp)

(1) Considering a Euro/Real average exchange rate of 2.7218 in the first half of 2007 and 2.5946 in the first half of 2008. (2) EBITDA = income from operations + depreciation and amortization. (3) EBITDA pre PRBs = EBITDA + post retirement benefits.

Vivo s EBITDA increased by 26.5% y.o.y (20.6% y.o.y in local currency), primarily on the back of the strong increase in service revenues and the impact of the consolidation of Telemig. Excluding the effect of Telemig, Vivo s EBITDA would have grown by 21.7% y.o.y (16.0% y.o.y in local currency).

TMN s EBITDA increased by 3.5% y.o.y, driven by robust customer and revenue growth and by strict cost control. This EBITDA performance was achieved against a backdrop of intense commercial activity and higher customer care and support costs as a result of increased penetration of integrated devices and usage of more complex data services.

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Wireline EBITDA reached Euro 438 million with a margin of 45.9%. Excluding PRBs, EBITDA of the Wireline segment declined by 5.9% due to the reduction in top line and to the increase in the costs associated with the launch of new services, namely pay-TV using IPTV and satellite.

Other EBITDA increased to Euro 47 million in the first half of 2008, mainly as a result of the increased contribution of the international assets.

Net income

Depreciation and amortisation _ Depreciation and amortisation costs increased by 12.8% y.o.y. in the first half of 2008 to Euro 610 million, reflecting mainly higher contributions from: (1) Vivo, which accounts for 80% of the increase in D&A, primarily explained by the consolidation of Telemig (Euro 12 million), appreciation of the Real against the Euro (Euro 13 million) and higher depreciation rates for the TDMA and CDMA networks (Euro 23 million), following the GSM network rollout; and (2) TMN and wireline business in Portugal, as a result of increased D&A regarding the commitments towards the information society (Euro 15 million) and television investments (Euro 3 million), namely IPTV and satellite.

Curtailment costs, net _ Curtailment costs amounted to Euro 78 million in the first half of 2008, corresponding to a reduction of 267 employees, mainly in the domestic business. In the first half of 2007, Portugal Telecom made 253 employees redundant with curtailment costs of Euro 84 million.

Net gains on disposal of fixed assets _ Net gains on disposal of fixed assets amounted to Euro 13 million in the first half of 2008, as compared to a loss of Euro 1 million in the same period of last year, primarily due to the disposal of real estate assets, which resulted in a gain of Euro 11 million and a cash inflow of Euro 15 million.

Net interest expenses _ Net interest expenses increased by 27.2% y.o.y to Euro 116 million due to the increase in Portugal Telecom s average net debt. This increase was partially offset by the reduction in net interest expenses from Vivo due to the decrease in the average cost of debt in Brazil, which more than offset the increase in Vivo s average net debt in the second quarter of 2008, following the acquisition of Telemig. Consolidated average cost of debt of Portugal Telecom was 4.6% in the first half of 2008. Excluding Brazil, the average cost of debt increased from 3.4% in the first half of 2007 to 4.0% in the first half of 2008, which remains below the 5-year swap rate.

Equity in earnings of associated companies, net _ Equity in earnings of affiliates in the first half of 2008 amounted to Euro 74 million, as compared to Euro 53 million in the same period of last year. This item includes primarily Portugal Telecom s share in the earnings of: (1) Unitel: Euro 49 million in the first half

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of 2008 vs. Euro 42 million in the first half of 2007; (2) Médi Télécom: Euro 5 million in the first half of 2008 vs. Euro 3 million in the first half of 2007; (3) CTM: Euro 6 million in the first half of 2008 vs. Euro 9 million in the first half of 2007, and (4) UOL: Euro 6 million in the first half of 2008 vs. Euro 5 million in the first half of 2007. In the first half of 2008, this caption also includes a gain of Euro 9 million resulting from the sale of the 34% stake in Banco BEST.

Net other financial losses (gains) _ Net other financial losses amounted to Euro 32 million in the first half of 2008, as compared to net gains of Euro 127 million in the first half of 2007. This item includes: (1) net foreign currency losses of Euro 13 million in the first half of 2008, due to the depreciation of the US Dollar, as compared to net foreign currency gains of Euro 3 million in the first half of 2007; (2) the change in fair value of free-standing cross currency derivatives (losses of Euro 6 million in the first half of 2008 vs. losses of Euro 5 million in the first half of 2007); (3) the change in fair value of equity swap contracts on PTM shares (gains of Euro 77 million in the first half of 2007), which were cash settled in the second quarter of 2007; (4) a gain of Euro 36 million booked in the first half of 2007 related to the disposal of the investment in Banco Espírito Santo; and (5) the financial settlement of equity swap contracts in the first half of 2007 related mainly to the previous share buyback (gains of Euro 31 million). This item also includes banking services and other financing costs totalling Euro 13 million in the first half of 2008 (Euro 15 million in the same period last year).

Provision for income taxes _ Provision for income taxes amounted to Euro 115 million in the first half of 2008, as compared to Euro 141 million in the first half of 2007, corresponding to an effective tax rate of 28% in the first half of 2008, as compared to 24% in the same period of last year. The increase in the effective tax rate is primarily explained by (1) higher non-taxable capital gains on the disposal of investments in the first half of 2007 (Euro 36 million related to the disposal of the investment in Banco Espírito Santo), as compared to the first half of 2008 (Euro 9 million related to the disposal of the stake in Banco BEST), and also by (2) the reduction of deferred tax liabilities in the first half of 2007 amounting to Euro 6 million related to certain capital gains which, in accordance with Portuguese tax legislation, were no longer taxable as from 2007.

Minority interests _ Income attributable to minority interests remained broadly flat at Euro 42 million in the first half of 2008. The increase in income attributable to minority interests of Vivo (Euro 16 million in the first half of 2008 vs. Euro 5 million in the first half of 2007) and the income attributable to minority interests of Africatel in the first half of 2008 (Euro 8 million), following the sale of a 22% stake of this holding company in August 2007, were offset by the income attributable to the minority interests of PT Multimedia in the first half of 2007 (Euro 20 million), which is no longer part of Portugal Telecom following its spin-off on 7 November 2007.

Net income _ Net income amounted to Euro 253 million in the first half of 2008 as compared to Euro 429 million in the first half of 2007. The results of the first half of 2008 and 2007 include primarily the

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following exceptional items: (1) Euro 36 million of prior years service gains related to post retirement benefits recorded in the first half of 2007; (2) Euro 3 million related to the reversal of PIS/Cofins taxes at Vivo; (3) work force reduction programme costs of Euro 78 million and Euro 84 million in the first half of 2008 and 2007, respectively; (4) financial gains of Euro 9 million and Euro 144 million in the first half of 2008 and 2007, respectively; and the (5) results of discontinued operations in the first half of 2007 (Euro 29 million). Excluding these exceptional items, net of the related tax effects and minority interests, net income would have amounted to Euro 301 million in the first half of 2008, as compared to Euro 337 million in the same period last year. This 10.8% y.o.y decline is mainly related to: (1) higher interest costs in the first half of 2008 as a result of the increased net debt due to the execution of the share buyback programme; and (2) the increase in depreciation and amortisation costs in the first half of 2008. These effects more than offset the improvement in EBITDA in the first half of 2008.

Capex

Capex by business segment (1)			Euro million
	1H08	**1H07**	**y.o.y**
Wireline	125.7	104.7	20.1%
Domestic mobile • TMN [(2)]	80.1	62.6	27.9%
Brazilian mobile • Vivo [(1)]	128.2	105.2	21.9%
Other	24.3	26.0	(6.3%)
Total capex	**358.4**	**298.5**	**20.1%**
Capex as % of revenues (%)	11.0	10.1	0.9pp

(1) Considering a Euro/Real average exchange rate of 2.7218 in the first half of 2007 and 2.5946 in the first half of 2008. Capex in the first half of 2008 excludes the acquisition of 3G licenses in Brazil (Euro 227 million). (2) In the first half of 2007 capex excludes Euro 8 million related to additional commitments under the terms of the UMTS license.

Total capex increased by 20.1% y.o.y in the first half of 2008 to Euro 358 million, equivalent to 11% of revenues. Wireline capex increased by 20.1% to Euro 126 million, as a result of investments in network upgrades to provide greater bandwidth, in great part related to the launch of television, and client-related capex which reflects the higher level of net adds in the pay-TV services during the period (96 thousand). TMN s capex increased by 27.9% y.o.y to Euro 80 million, driven by the continued deployment of 3G/3.5G networks, both in terms of coverage and of capacity, aimed at providing mobile voice and data services to customers. Capex at Vivo increased by 21.9% y.o.y (16.2% in local currency) and continued to be directed towards network coverage and capacity, namely in GSM/EDGE. Excluding the consolidation of Telemig, Vivo s capex would have increased by 1.2% y.o.y in Euros (3.5% in local currency). In the first half of 2008, other capex decreased to Euro 24 million, as compared to Euro 26 million in the first half of 2007, mainly due to the depreciation of local currencies of other international businesses.

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Cash flow

Free cash flow			Euro million
	1H08	1H07	y.o.y
EBITDA pre PRBs minus Capex (1)	834.5	831.0	0.4%
Non-cash items	81.5	73.8	10.5%
Change in working capital	(199.1)	(275.1)	(27.6%)
Operating cash flow	**716.9**	**629.7**	**13.8%**
Acquisition of Telemig	(326.8)	0.0	n.m.
Disposal of stake in BEST	16.0	0.0	n.m.
Disposal of stake in BES	0.0	110.3	n.m.
Cash settlement of equity swap over PTM shares	0.0	94.5	n.m.
Disposal of other financial investments, net	(0.5)	3.7	n.m.
Interest paid	(202.4)	(189.7)	6.7%
Contributions and payments related to PRBs	(100.8)	(46.8)	115.4%
Income taxes paid	(93.7)	(109.1)	(14.2%)
Dividends received (2)	9.1	92.2	(90.1%)
Other cash movements	(11.0)	(39.7)	(72.2%)
Free cash flow	**6.7**	**545.0**	**(98.8%)**

(1) In the first half of 2008 and 2007, Capex excludes the acquisition of 3G licenses in Brazil (Euro 227 million) and additional commitment under the terms of the UMTS license (Euro 8 million), respectively. (2) In the first half of 2007 this caption included dividends received from Unitel (Euro 27 million related to 2005 earnings), PT Multimedia (Euro 54 million) and BES (Euro 3 million).

Operating free cash flow _ Operating cash flow amounted to Euro 717 million in the first half of 2008, an increase of 13.8% y.o.y. primarily as a result of lower working capital investment (-27.6%), with EBITDA minus capex excluding PRBs remaining broadly stable (Euro 835 million in the first half of 2008 vs. Euro 831 million in the first half of 2007).

Free cash flow _ In the first half of 2008, free cash flow decreased to Euro 7 million as compared to Euro 545 million in the same period of last year. This evolution in free cash flow reflects the Euro 327 million investment made in the first half of 2008 related to the acquisition of the controlling stake in Telemig and the voluntary tender offers launched over one third of the outstanding preferred shares of Telemig Celular Participação and Telemig Celular, as compared to a disposal of financial investments (including equity swaps) in the first half of 2007 that resulted in a cash inflow of Euro 209 million.

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Consolidated balance sheet

Consolidated balance sheet (1)		Euro million
	30 June 2008	**31 December 2007**
Cash and equivalents	1,121.6	1,834.9
Accounts receivable, current	1,518.5	1,436.2
Inventories, net	232.8	160.6
Other current assets	421.5	384.6
Financial investments	551.5	565.3
Intangible assets, net	3,815.0	3,383.1
Tangible assets, net	3,804.3	3,585.4
Accrued post retirement asset	106.3	134.1
Other assets	930.8	910.7
Deferred tax assets	1,259.3	1,106.2
Total assets	**13,346.8**	**13,122.2**
Accounts payable, current	1,108.3	1,108.9
Gross debt	6,921.6	6,216.8
Accrued post retirement liability (2)	1,637.5	1,463.9
Other liabilities	1,888.1	1,878.4
Deferred tax liabilities and deferred income	424.0	372.3
Total liabilities	**11,979.5**	**11,040.4**
Equity before minority interests	404.4	1,338.2
Minority interests	963.0	743.6
Total shareholders' equity	**1,367.3**	**2,081.8**
Total liabilities and shareholders' equity	**13,346.8**	**13,122.2**

(1) Considering a Euro/Real exchange rate of 2.5963 at year-end 2007 and 2.5112 at end of June 2008. (2) At 30 June 2008, this item includes Euro 25 million related to prior years service gains on unvested rights not yet recognized (Euro 26 million at 31 December 2007).

The net exposure to Brazil _ As at 30 June 2008, the net exposure (assets minus liabilities) to Brazil amounted to R$ 7,519 million (Euro 2,994 million at the Euro/Real exchange rate of 30 June 2008). The assets denominated in Brazilian Reais in the balance sheet as at 30 June 2008, amounted to Euro 6,443 million, equivalent to approximately 48.3% of total assets.

The increase in intangible assets during the first half of 2008 is primarily related to (1) the goodwill generated in the acquisition of Telemig (Euro 197 million) and (2) the acquisition of 3G licenses at Vivo (Euro 227 million). The increase in tangible assets during the first half of 2008 is mainly related to the impact of the revaluation of real estate (Euro 208 million).

Consolidated net debt

Change in net debt		Euro million
	1H08	**1H07**

Net debt (initial balance)	**4,381.8**	**3,756.6**
Less: Net debt of discontinued operations as at 31 December 2006	0.0	178.9
Less: free cash flow	6.7	545.0
Translation effect on foreign currency debt	48.3	34.9
Dividends paid by PT	533.2	516.5
Acquisition of own shares (1)	731.1	557.9
Impact of Telemig consolidation	(128.9)	0.0
Acquisition of 3G licenses by Vivo	227.2	0.0
Extraordinary contribution to fund healthcare post retirement benefits	0.0	117.0
Other (2)	13.9	21.5
Net debt (final balance)	**5,800.0**	**4,280.4**
Change in net debt	**1,418.1**	**523.9**
Change in net debt (%)	**32.4%**	**13.9%**

(1) In the first half of 2008, Portugal Telecom contracted equity swaps over 89.2 million own shares under its share buyback programme. (2) In the first half of 2008, this caption includes the dividends paid by Portugal Telecom s fully consolidated subsidiaries totaling Euro 12 million (Euro 13 million in the first half of 2007).

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Net debt _ Consolidated net debt amounted to Euro 5,800 million as at 30 June 2008, as compared to Euro 4,382 million as at 31 December 2007. The increase in net debt in the period is explained mainly by: (1) the acquisition of the 3G licenses in Brazil (Euro 227 million); (2) the share buyback reflecting the financing strategy of Portugal Telecom (Euro 731 million), and (3) the dividends paid by Portugal Telecom (Euro 533 million).

Consolidated net debt				Euro million
	30 June 2008	**31 December 2007**	**Change**	**Change (%)**
Short-term	**2,552.6**	**1,256.1**	**1,296.5**	**103.2%**
Bonds	978.4	96.3	882.1	n.m.
Bank loans	464.4	431.3	33.1	7.7%
Other loans	472.8	324.0	148.9	46.0%
Commitments under the UMTS license	53.3	55.9	(2.6)	(4.6%)
Liability related to the 3G licenses acquired by Vivo	216.5	0.0	216.5	n.m.
Liability with equity swaps on own shares	342.4	323.2	19.2	5.9%
Liability related to satellite capacity	6.3	5.9	0.4	6.8%
Financial leases	18.5	19.6	(1.0)	(5.4%)
Medium and long-term	**4,369.0**	**4,960.7**	**(591.7)**	**(11.9%)**
Exchangeable bonds	693.3	689.4	3.9	0.6%
Bonds	2,195.3	3,061.7	(866.4)	(28.3%)
Bank loans	1,252.7	940.9	311.8	33.1%
Other loans	13.3	0.0	13.3	n.m.
Commitments under the UMTS license	97.9	144.7	(46.7)	(32.3%)
Liability related to satellite capacity	33.5	36.6	(3.1)	(8.5%)
Financial leases	82.9	87.4	(4.5)	(5.1%)
Gross debt	**6,921.6**	**6,216.8**	**704.8**	**11.3%**
Cash and equivalents	1,121.6	1,834.9	(713.3)	(38.9%)
Net debt	**5,800.0**	**4,381.8**	**1,418.1**	**32.4%**

Total debt _ As at 30 June 2008, consolidated total amounted to Euro 6,922 million, of which 63.1% was medium and long-term, and 59.7% was set in fixed rates. As at 30 June 2008, 79.6% of total debt was denominated in Euros and 20.4% in Brazilian Reais. The 50% share of Vivo s net debt, proportionally consolidated by Portugal Telecom, amounted to Euro 816 million as at 30 June 2008. At the end of June 2008, approximately 95% of Vivo s net debt was either Real-denominated or hedged into Reais.

The total undrawn amount of Portugal Telecom s committed commercial paper lines and standby facilities stood at Euro 1,302 million as at 30 June 2008. The amount of available cash from the domestic operations plus the undrawn amount of Portugal Telecom s committed commercial paper lines and standby facilities totalled Euro 1,731 million at the end of June 2008.

Cost of debt and maturity _ In the first half of 2008, Portugal Telecom s average cost of debt and maturity was 4.6% and 5.0 years, respectively. Excluding Brazil, Portugal Telecom s average cost of debt was 4.0% in the first half of 2008, with a maturity of 5.1 years as at 30 June 2008. In the first half of 2008, the net debt to EBITDA ratio was 2.5x (1.9x in the first half of 2007) and EBITDA cover stood at 10.1x (12.6x in the first half of 2007).

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Post retirement benefits

PBO _ As at 31 December 2007, the projected benefit obligations (PBO) of Portugal Telecom s post retirement benefits amounted to Euro 4,203 million. The PBO was computed based on a discount rate of 5.25% for pension and healthcare obligations and 4.75% for salary obligations to pre-retired and suspended employees. Portugal Telecom s post-retirement benefit plans have been closed to new participants since 1994 for pensions and since 2000 for healthcare.

Change in gross unfunded obligation		Euro million
	1H08	1H07
Gross unfunded obligations (initial balance)	**1,304.0**	**1,654.4**
Post retirement benefits costs (PRB) (1)	22.8	(15.7)
Prior years service gains related to unvested rights	0.0	(6.0)
Curtailment cost	78.0	84.4
Contributions and payments (2)	(100.8)	(163.8)
Net actuarial (gains) losses	202.2	(321.6)
Gross unfunded obligations (final balance)	**1,506.2**	**1,231.7**

(1) In the first half of 2008, the PRB cost recorded in the income statement amounted to Euro 21.9 million, including a gain of Euro 0.9 million related to the amortization of prior year service gains of unvested rights. (2) In the first half of 2008, this caption includes termination payments (Euro 5 million), payments of salaries to pre-retired and suspended employees (Euro 83 million) and healthcare expenses (Euro 12 million).

Gross unfunded obligations _ Gross unfunded obligations increased by Euro 202 million in the first half of 2008 to Euro 1,506 million, primarily as a result of: (1) the net actuarial losses related to the difference between the expected and the actual return on the plan assets (Euro 202 million); (2) curtailment costs of Euro 78 million, and (3) PRB costs amounting to Euro 23 million. These effects were partially offset by contributions and payments related to post retirement benefits amounting to Euro 101 million.

Post retirement benefits costs and curtailment costs		Euro million
	1H08	1H07
Service cost	5.2	8.3
Interest cost	103.6	103.4
Expected return on assets	(86.0)	(91.2)
Prior years service gains (1)	0.0	(36.2)
Sub-total	22.8	(15.7)
Amortisation of prior year service gains	(0.9)	(1.6)
Post retirement benefits costs	**21.9**	**(17.3)**

(1) In the first half of 2007, this item was related to certain changes in the Social Security rules (DL 187/2007) and to the formula used by Portugal Telecom to calculate pension supplements.

Shareholders equity (excluding minority interests)

Shareholders equity _ As at 30 June 2008, shareholders equity excluding minority interests amounted to Euro 404 million, a decrease of Euro 934 million in the first half of 2008. This reduction is mainly explained by the equity swaps contracted over Portugal Telecom s own shares (Euro 731 million) and by the dividends paid to shareholders related to fiscal year 2007 (Euro 533 million), notwithstanding the Euro 253 million net income generated in the period. The positive currency translation adjustments of Euro 78 million are primarily explained by the appreciation of the Euro/Real exchange rate, which improved to 2.5112 at the end of June 2008. The impact of net actuarial losses due to the difference between the expected and the actual return on the plan assets, net of taxes, was Euro 151 million. This effect was offset by the impact of the revaluation of certain real estate assets, which, net of taxes, amounted to Euro 153 million.

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Change in shareholders equity (excluding minority interests)	Euro million
	1H08
Equity before minority interests (initial balance)	**1,338.2**
Net income	252.9
Currency translation adjustments (1)	78.3
Dividends attributed (2)	(533.2)
Acquisition of own stock (3)	(731.1)
Net actuarial gains, net of taxes	(151.1)
Revaluation of real estate, net of taxes	153.0
Other	(2.6)
Equity before minority interests (final balance)	**404.4**
Change in equity before minority interests	**(933.9)**
Change in equity before minority interests (%)	**(69.8%)**

(1) This item is primarily related to the changes in the Euro/Real exchange rate. (2) Dividends attributed and paid on 24 April 2008. (3) In the first half of 2008, Portugal Telecom contracted equity swaps over 89.2 million own shares under its share buyback programme, of which 68.6 million own shares were physically exercised on 20 March 2008.

As at 30 June 2008, Portugal Telecom had 41.2 million treasury shares in its balance sheet (of which 20.6 million relate to a previous share buyback programme and the remaining to the current share buyback in execution), with a carrying value of Euro 342 million. As announced on 25 July 2008, Portugal Telecom has acquired up to that date during July an additional 25.5 million shares, and as a result has already completed its Euro 2.1 billion share buyback programme. Portugal Telecom has acquired under this programme 232 million shares, which represent 20.6% of share capital at the time of the announcement. The total number of outstanding shares, adjusting for the 66.7 million treasury shares acquired through equity swaps (including 20.6 million shares acquired under a previous buyback), is 876 million.

Distributable reserves _ Distributable reserves decreased by Euro 1,062 million to Euro 794 million at the end of June 2008, with the net income generated in the first half of 2008 under Portuguese GAAP (Euro 204 million) being more than offset by the acquisition of treasury shares in the first half of 2008 (Euro 712 million, of which Euro 576 million were related to equity swaps over 68.6 million shares contracted in the first half of 2008 and Euro 136 million were related to equity swaps over 20.6 million shares contracted in 2007) and dividends paid (Euro 533 million).

Change in distributable reserves	Euro million
	1H08
Distributable reserves (initial balance)	**1,856.5**
Dividends attributed	(533.2)
Net income under Portuguese GAAP	204.0
Acquisition of treasury stock (1)	(711.9)
Other	(21.0)
Distributable reserves (final balance)	**794.4**
Change in distributable reserves in the period	**(1,062.1)**
Change in distributable reserves in the period (%)	**(57.2%)**

(1) In the first half of 2008, Portugal Telecom acquired 83.2 million own shares for a total amount of Euro 712 million, through the physical exercise, on 20 March 2008, of equity swaps contracted in 4Q07 and first quarter of 2008 under the share buyback programme currently being executed. These shares were cancelled on 24 March 2008.

As approved at the Shareholders Meeting of 27 April 2007 and for the purposes of the execution of the share buyback programme, on 24 March 2008 Portugal Telecom reduced its share capital in the amount of Euro 2,496,144.69 through the cancellation of 83,204,823 treasury shares, corresponding to 8.11% of the share capital. As a result, Portugal Telecom s share capital is now Euro 28,277,855.31 represented by 942,595,177 shares.

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02 Business performance

Domestic market

Revenues from domestic operations, which include wireline and TMN, decreased by 0.3% to Euro 1.665 million in the first half of 2008 on the back of strong performance of the mobile segment and sustained recovery in the wireline segment. Revenue growth at TMN continued at a strong pace (+7.2% y.o.y in the first half) and driven by growth in wireless broadband. As a result, data revenues increased by 41.0% and already account for 18.8% of mobile service revenues (up 4.7pp y.o.y). Revenues from the wireline segment declined by 4.0% y.o.y in the first half of 2008, improving its performance sequentially in the second quarter due to the take up of the pay-TV service. This improvement is also shown in the performance of retail revenue generating units (RGUs, retail accesses), which increased by 27 thousand in the second quarter of 2008 compared to a decrease of 31 thousand in the first quarter of 2008.

Domestic operations income statement (1)			Euro million
	1H08	**1H07**	**y.o.y**
Operating revenues	**1,665.4**	**1,671.0**	**(0.3%)**
Wireline	953.7	992.9	(4.0%)
Domestic mobile • TMN	780.8	728.1	7.2%
Other and eliminations	(69.1)	(50.1)	38.0%
Operating costs, excluding D&A	**891.9**	**841.0**	**6.1%**
Wages and salaries	173.2	191.6	(9.6%)
Post retirement benefits (PRBs)	21.9	(17.4)	n.m.
Direct costs	243.0	227.6	6.7%
Commercial costs	182.0	166.4	9.4%
Other operating costs	271.8	272.7	(0.3%)
EBITDA (2)	**773.4**	**830.0**	**(6.8%)**
EBITDA pre PRBs (3)	**795.3**	**812.6**	**(2.1%)**
Depreciation and amortisation	293.5	279.5	5.0%
Income from operations (4)	**479.9**	**550.5**	**(12.8%)**
EBITDA margin	46.4%	49.7%	(3.2pp)
EBITDA margin pre PRBs	47.8%	48.6%	(0.9pp)
Capex (5)	209.8	171.3	22.5%
Capex as % of revenues	12.6%	10.3%	2.3pp
EBITDA minus Capex	563.6	658.6	(14.4%)
EBITDA pre PRBs minus Capex	585.4	641.3	(8.7%)

(1) Domestic operations includes the wireline segment, TMN, PT Inovação, PT SI, PT Pro and PT Contact. (2) EBITDA = income from operations + depreciation and amortisation. (3) EBITDA pre PRBs = income from operations + depreciation and amortisation + post retirement benefits. **(4)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. (5) In the fisrt half of 2007 capex excludes Euro 8 million related to additional commitments under the terms of the UMTS license.

EBITDA from domestic operations reached Euro 773 million, with a margin of 46.4%. EBITDA pre PRBs stood at Euro 795 million, declining only by 2.1% y.o.y. This improved performance was achieved on the back of a strict control of addressable costs and against a backdrop of: (1) increasing commercial activity at the wireline segment, namely in the television service (96 thousand net adds in the first half of 2008), and at TMN (net adds up 102.6% y.o.y), and (2) higher customer care and support costs due to strong take up of wireless broadband, as well as pay-TV services. Cost control is reflected in the 9.6% decline in wages and salaries and in other operating costs, which decreased by 0.3%. The reduction in wages and

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salaries reflects the net reduction in employees of domestic operations, which in the first half of 2008 reached 172 employees, including 182 employees in the wireline business.

Wireline

Wireline operating revenues decreased by 4.0% y.o.y in the first half of 2008 to Euro 954 million. Notwithstanding continued pressure on the traditional voice business, revenues of pay-TV and data and corporate services have been increasing. The revenue performance continues to show a steady improvement on the back of growing retail revenue generating units, which increased 27 thousand in the second quarter, reverting the negative trend seen in the last eleven quarters. The decline in wireline revenues is the lowest that has been posted in the past consecutive six semesters.

Wireline income statement (1)			Euro million
	1H08	**1H07**	**y.o.y**
Operating revenues	**953.7**	**992.9**	**(4.0%)**
Retail	481.5	525.9	(8.4%)
Voice	389.3	433.1	(10.1%)
Data & Other	92.2	92.8	(0.7%)
Wholesale	237.0	235.2	0.8%
Data & corporate	137.7	133.7	3.0%
Other wireline revenues	97.5	98.1	(0.7%)
Operating costs, excluding D&A	**515.8**	**486.9**	**5.9%**
Wages and salaries	113.7	126.8	(10.4%)
Post retirement benefits (PRBs)	21.8	(17.4)	n.m.
Direct costs	181.1	172.4	5.1%
Commercial costs	54.0	42.1	28.2%
Other operating costs	145.2	163.0	(11.0%)
EBITDA (2)	**437.9**	**506.0**	**(13.5%)**
EBITDA pre PRBs (3)	**459.8**	**488.6**	**(5.9%)**
Depreciation and amortisation	168.8	162.7	3.8%
Income from operations (4)	**269.1**	**343.4**	**(21.6%)**
EBITDA margin	45.9%	51.0%	(5.0pp)
EBITDA margin pre PRBs	48.2%	49.2%	(1.0pp)
Capex	125.7	104.7	20.1%
Capex as % of revenues	13.2%	10.5%	2.6pp
EBITDA minus Capex	312.2	401.3	(22.2%)
EBITDA pre PRBs minus Capex	334.0	383.9	(13.0%)

(1) Includes intragroup transactions. (2) EBITDA = income from operations + depreciation and amortisation. **(3)** EBITDA pre PRBs = income from operations + depreciation and amortisation + post retirement benefits. (4) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Retail revenues fell by 8.4% y.o.y in the first half of 2008 on the back of continued competition from other fixed and cable operators as well as from mobile operators, both in voice and broadband. Voice revenues decreased by 10.1% y.o.y in the first half of 2008, as a result of line loss and increased pricing pressure, particularly in ULL and cable areas. Data and other retail revenues decreased by 0.7% y.o.y, on the back of the decline in broadband ADSL and narrowband ISP revenues, which more than offset the contribution of the pay-TV services.

Wholesale revenues increased by 0.8% y.o.y in the first half of 2008, as a result of the increase in leased lines revenues (+9.5%) that more than offset the decrease in traffic revenues (-3.9% y.o.y).

Data & corporate revenues increased by 3.0% y.o.y in the first half of 2008 as a result of the successful migration of traditional voice and data services to more advanced and integrated solutions, which include (1) the provision of increasingly higher bandwidth for end-users based on Ethernet and IP technologies, and (2) convergent and customised solutions combining telecoms and IT. Also important to underline is the increased importance of integrated solutions and the growth of PT in certain segments of the market, namely education and healthcare. PT signed more than 2 thousand contracts during the period, which represent an annual increase of more than 15% in total contract volumes. In addition, PT gained several new international projects in data centres and IT systems, which reinforced PT s position in this segment. Growth in the period in this segment of PT s business was also underpinned by the increase in revenues from network management, outsourcing and IT solutions (+9.4% y.o.y).

Other revenues remained broadly flat in the first half of 2008 (-0.7%), as a result of the increase in portal revenues (+35.4%), which offset the decrease in equipment sales (-3.8%).

EBITDA pre PRBs declined by 5.9% y.o.y, while operating expenses, excluding post retirement benefits, declined by 2.0%. This improved performance is the result of strict cost control, which continued to be a key priority in the wireline segment and translated into a continued reduction in wages and salaries (-10.4% y.o.y) and other operating costs (-11.0% y.o.y). This performance was achieved notwithstanding the launch of new services, namely pay-TV, which increased programming costs (included under direct costs) and commercial costs. The increase in commercial costs is mainly the result of the marketing campaigns associated with the rollout of IPTV services and commercial launch of the satellite service in April. In the first half of 2008, the number of employees declined by 11.6% y.o.y to 6,172. The net reduction in headcount in the first half of 2008 reached 182 employees, thus improving the efficiency ratio to 673 lines per employee.

Capex amounted to Euro 126 million in the first half of 2008, equivalent to 13.2% of operating revenues, growing 20.1% y.o.y. Capex was directed mainly towards: (1) network upgrades to provide greater bandwidth to customers; (2) network capacity to provide pay-TV services, and (3) client-related capex as a result of investments in TV terminal equipment (set-top boxes) for residential clients and also investments in equipment for corporate clients. Worth highlighting is that in the first half of 2008 the increase in the capex associated with the television business was partially compensated by lower legacy capex. EBITDA pre PRBs minus Capex amounted to Euro 334 million in the first half of 2008.

The second quarter of 2008 showed, for the first time in the last eleven consecutive quarters, a positive evolution in retail revenue generating units (retail accesses). In effect, retail net adds in the second quarter reached 27 thousand, as a result of the significant take up of the pay-TV service (70 thousand net adds in the second quarter and 96 thousand in the first half of 2008), coupled with a flattish loss of traffic generating lines despite the increased competitive environment with aggressive offers from the

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cable operators. This performance in traffic generating lines benefited from the pay-TV offer as around 50% of the IPTV net adds are new customers to PT. The decline in voice lines (8.0% y.o.y to 2,894 thousand), was also the result of 44 thousand net disconnections of carrier pre-selection lines. Flat-fee ADSL accesses increased by 30 thousand in the first half of 2008 notwithstanding the strong growth in wireless broadband subscribers by TMN. PT continues to focus on improving the quality of its ADSL subscriber base and benefits from the growth in pay-TV services. ADSL retail accesses increased by 16 thousand to 667 thousand, with the growth in flat-fee accesses being partially offset by a net decrease in the pay-as-you-go product. Competitors lines (wholesale accesses + carrier pre-selection) decreased by 59 thousand in the first half of 2008.

In the first half of 2008, PT continued to market its pay-TV service, Meo, both through IPTV and satellite, which was commercially launched during April. The advertising campaigns and the marketing initiatives continued to focus on the distinctive features of the service, namely: (1) high definition, underpinned by the broadcasting of the European football championship games in a partnership with free-to-air channel TVI and the broadcast of the Summer Olympic Games in partnership with Eurosport; (2) digital recording, as PT provides full PVR-like EPG-based digital recording of up to 140 hours; (3) video on demand with access to an extensive library of over 1,000 movies and documentaries, and (4) the ability to subscribe to new channels in real time using the selfcare features of the set-top box. PT also continued to reinforce the quality of the content available in its various packages, and also included Disney Channel as part of the basic package. In addition, PT has recently launched a marketing initiative around this distinctive characteristic of its television service, which aims to take advantage of the summer holidays. The marketing campaigns around Meo continue to be a marked success and brand notoriety continues at high levels. In effect, proved ad recall was at 64% by the end of June, and has remained clearly above the 50% threshold in the past thirteen weeks, following the launch of the marketing campaign in the beginning of April.

During the period, PT was notified of the Draft Final Decisions of the Committee of Evaluation of the proposals submitted within the public tender procedure relating to the Digital Terrestrial Television (DTT) namely Mux A (transport of free-to-air signal) and Muxes B to F (pay-TV service). PT presented proposals for Mux A and Muxes B to F and has earned the best classification by an independent jury. These preliminary decisions of the Public Tender Committee, which will be subject to prior hearing of the interested parties, thus award PT the victory in both tenders. The participation of PT in both DTT tenders and the preliminary decisions of the Public Tender Committee confirm PT s commitment towards the successful rollout of DTT in Portugal as well as towards the implementation of its multi-platform pay-TV strategy, based on IPTV, DTH, DTT and mobile, which aims to be a growth lever of the domestic operations of PT in the future.

Net adds in the pay-TV service reached 96 thousand in the period, increasing the subscriber base to 116 thousand at the end of June 2008, almost six times more when compared with December 2007 (21

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thousand). The pay-TV subscribers already represent 4.3% of traffic-generating lines and 17.4% of total ADSL subscriber base, a marked performance taking into consideration that the IPTV service was launched in the fourth quarter of 2007 and the satellite service in April 2008.

Wireline operating data			
	1H08	**1H07**	**y.o.y**
Main accesses (000)	4,156	4,342	(4.3%)
Retail accesses	3,678	3,861	(4.7%)
PSTN/ISDN	2,894	3,146	(8.0%)
Traffic-generating lines	2,700	2,833	(4.7%)
Carrier pre-selection	194	313	(38.0%)
ADSL retail (1)	667	715	(6.7%)
TV customers	116	0	n.m.
Wholesale accesses	478	481	(0.7%)
Unbundled local loops	315	244	29.0%
Wholesale line rental	106	173	(38.6%)
ADSL wholesale	57	64	(11.3%)
Net additions (000)	(20)	(62)	(67.0%)
Retail accesses	(5)	(141)	(96.7%)
PSTN/ISDN	(116)	(171)	(32.0%)
Traffic-generating lines	(72)	(76)	(4.6%)
Carrier pre-selection	(44)	(95)	(53.9%)
ADSL retail	16	30	(47.6%)
TV customers	96	0	n.m.
Wholesale accesses	(16)	79	n.m.
Unbundled local loops	24	48	(51.0%)
Wholesale line rental	(34)	31	n.m.
ADSL wholesale	(6)	(1)	n.m.
Retail RGU per access (2)	1.27	1.23	3.5%
ARPU (Euro)	30.1	30.2	(0.3%)
Voice	23.6	24.3	(3.0%)
Data & other	6.4	5.8	10.6%
Total traffic (million minutes)	5,944	6,364	(6.6%)
Retail traffic	2,505	2,659	(5.8%)
Wholesale traffic	3,439	3,705	(7.2%)
Employees	6,172	6,979	(11.6%)

(1) the first half of 2008 reflects a database cleanup of 103 thousand customers (related to inactive prepaid broadband customers), undertaken at the end of the fourth quarter of 2007. (2) Retail accesses per PSTN/ISDN line

It is worth highlighting that the number of revenue generating units per access, measured by the number of retail accesses per PSTN/ISDN line, continues to increase with the rollout of the pay-TV offer (1.27 and 1.23 revenue generating units per line, as at the end of the first half of 2008 and 2007 respectively). In order to tackle line loss, the sale of pay-TV and broadband services has been critical to the strategy of the wireline business. The new triple-play strategy is proving to be a successful means of growing new customers as circa 50% of the new IPTV customers are new PT customers as they previously did not subscribe to any service from PT.

Blended ARPU has remained flat y.o.y in the first half of 2008 at Euro 30.1 with the growth in data and other ARPU, which increased by 10.6% y.o.y driven by the increased penetration of new services such as pay-TV, offsetting the decline in the subscription and voice ARPU (-3.0%).

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Domestic mobile - TMN

Operating revenues increased by 7.2% y.o.y in the first half of 2008 to Euro 781 million, supported by the growth of service revenues of 5.8% y.o.y. Data revenues continued to exhibit strong growth and were up 41.0% y.o.y, whilst equipment sales also increased 25.5% y.o.y. Customer revenues increased by 7.0% y.o.y to Euro 571 million on the back of strong customer growth, particularly in postpaid and wireless broadband, despite adverse evolution of roaming-out services due to price cuts.

Domestic mobile income statement (1)			**Euro million**
	1H08	**1H07**	**y.o.y**
Operating revenues	**780.8**	**728.1**	**7.2%**
Services rendered	705.2	666.5	5.8%
Customer	570.9	533.4	7.0%
Interconnection	124.1	118.6	4.6%
Roamers	10.2	14.6	(29.9%)
Sales	71.7	57.1	25.5%
Other operating revenues	3.9	4.5	(13.5%)
Operating costs, excluding D&A	**442.0**	**400.7**	**10.3%**
Wages and salaries	27.0	25.4	6.2%
Direct costs	141.1	137.3	2.8%
Commercial costs	146.8	141.3	3.9%
Other operating costs	127.2	96.7	31.5%
EBITDA (2)	**338.8**	**327.4**	**3.5%**
Depreciation and amortisation	116.4	106.1	9.7%
Income from operations (3)	**222.4**	**221.4**	**0.5%**
EBITDA margin	43.4%	45.0%	(1.6pp)
Capex (4)	80.1	62.6	27.9%
Capex as % of revenues	10.3%	8.6%	1.7pp
EBITDA minus Capex	258.6	264.8	(2.3%)

(1) Includes intragroup transactions. (2) EBITDA = income from operations + depreciation and amortisation. (3) **I**ncome from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. **(4)** In the fisrt half of 2007 capex excludes Euro 8 million related to additional commitments under the terms of the UMTS license.

Interconnection revenues increased by 4.6% y.o.y in the first half of 2008 to Euro 124 million. A final decision concerning the mobile termination rates (MTR) was announced by the regulator on 4 July 2008, which stipulated a decrease in tariffs down to Euro 6.5 cents, as of 1 April 2009 from the current value of Euro 11 cents. As a result, the first cut occurred in July 2008 to Euro 8 cents per minute. PT believes that the terms of this deliberation by the regulator are illegal and disproportionate given the size of the adjustment in the period, the reintroduction of asymmetry in fixed-mobile termination and introduction, for the first time in Portugal, of asymmetry in mobile-mobile termination in favour of the third operator. As a result, PT announced that it will use all means at its disposal to litigate against this decision.

EBITDA increased by 3.5% y.o.y to Euro 339 million in the first half of 2008, on the back of strong revenue growth and cost control. This performance was achieved notwithstanding: (1) significantly higher commercial activity focused on prepaid to postpaid migration and wireless broadband sales, which resulted in net adds of customers of 223 in the first half, up 102.6% y.o.y; (2) the adverse impact of roaming pricing cuts; (3) higher support costs, related with the provisioning and customer care costs associated with increasingly more complex services such as wireless broadband, and (4) increase in

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provisions due to a higher proportion of postpaid customers. EBITDA margin stood at 43.4% in the first half of 2008.

Capex increased from Euro 63 million in the first half of 2007 to Euro 80 million in the first half of 2008 and was directed primarily towards expanding network capacity and coverage, as a result of increased voice and data usage, and to provide improved mobile voice and data services to customers. Over 50% of capex is being directed towards 3G and 3.5G networks upgrading the radio access technology which will reduce power consumption thus reducing costs whilst also bringing environmental benefits. EBITDA minus Capex in the first half of 2008 amounted to Euro 259 million.

Total customers increased by 11.5% y.o.y to 6,485 thousand with net additions in the first half of 2008 reaching 223 thousand (+102.6% y.o.y), as a result of the successful rollout of both voice and data services, including the strong take-up of wireless broadband. TMN continued to focus on postpaid, particularly on the corporate segment, and on prepaid to postpaid migration. As a result, all net additions in the period were postpaid, which accounted for 26.9% of total customers at the end of the first half of 2008, up from 21.0% in the same period of last year.

Domestic mobile operating data (1)	**1H08**	**1H07**	**y.o.y**
Customers ('000)	6,485	5,814	11.5%
Net additions ('000)	223	110	102.6%
MOU (minutes)	114	118	(3.1%)
ARPU (Euro)	18.5	19.4	(4.9%)
Customer	14.9	15.5	(3.8%)
Interconnection	3.2	3.5	(5.9%)
ARPM (Euro cents)	16.2	16.5	(1.8%)
Data as% of service revenues (%)	18.8	14.1	4.7pp
SARC (Euro)	38.1	51.7	(26.4%)
Employees	1,140	1,126	1.2%

(1) Includes MVNO subscribers.

TMN launched several marketing initiatives during the period aimed at continuing to enhance its brand awareness, especially in the youth segment. During the Easter period, TMN launched two main campaigns: (1) Triplicar Páscoa 2008 , which triples a Euro 15 recharge during this period, and (2) Páscoa Roaming , which offers a 50% discount over the normal pricing after the third minute of a roaming call and as part of its sponsorship of the Portuguese football national team, TMN launched, during the Euro 2008 championship, an advertising campaign giving voice to players from the Portuguese national team and marketing value added alert services for goals, fixtures and standings as well as special roaming promotions for Austria and Switzerland aimed at stimulating usage. TMN also launched a price plan for the youth segment, Moche , which enables subscribers, for a monthly fee of Euro 14.90 to make free calls and send free SMS/MMS to other subscribers in the same plan and benefit from special prices within TMN s network.

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Wireless broadband remained a key priority during the period, with TMN launching new marketing initiatives aimed at various segments from personal to corporate, namely a Test Drive campaign, which allows customers to test the broadband products for free during one month. Most of the wireless broadband plans involve a loyalty programme, with download speeds up to 7.2 Mbps and capacity of up to 6GB. TMN was recently awarded by the readers of PC Guia , a specialised magazine, the best wireless broadband provider in Portugal. TMN already covers all district capitals with 3.5G.

PT also continued to develop and market OfficeBox, a fixed-mobile convergent service for SME s and SOHO s, which includes a PC, fixed and mobile voice, and fixed and mobile broadband. These integrated offers for a single user have fees ranging from Euro 27 to Euro 59. TMN also marketed a new offer of Meo Mobile, its mobile television service, allowing the subscription of the service for a minimum period of one week for a fee for Euro 1.97.

ARPU decreased by 4.9% y.o.y in the first half of 2008 to Euro 18.5, mainly as a result of the strong subscriber growth, increased penetration in lower segments of the market, growing number of users with multiple SIM cards and lower roaming prices. Nevertheless, the growth in the average customer base more than offset the dilution in ARPU, allowing service revenues to grow by 5.8% y.o.y in the first half of 2008. ARPU also reflected the EU-imposed changes to wholesale roaming prices, which came into effect as of 1 September 2007, although the price effects were mitigated, to a certain extent, by increased volumes. Blended MOU decreased by 3.1% y.o.y in the first half of 2008 to 114 minutes, primarily explained by growth in the customer base (+11.5% y.o.y, EoP), namely broadband.

Data services continued to contribute strongly to top line growth, with data revenues having increased by 41.0% y.o.y in the first half of 2008 and already accounting for 18.8% of service revenues, up from 14.1% last year. The increase in data service revenues is primarily based on non-SMS services, which more than doubled on an annual basis and already accounted for around 48% of total data revenues in the first half of 2008. This growth in non-SMS data was driven by a strong performance of wireless broadband.

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International market

Brazilian mobile - Vivo

Vivo concluded the acquisition of Telemig Celular, on 3 April 2008, which allowed for its consolidation from the beginning of April. As such, Vivo s results presented for the first half of 2008 include Telemig.

Vivo s operating revenues, as stated in Brazilian Reais and in accordance with IFRS, increased by 19.8% y.o.y in the first half of 2008 to R$ 7,439 million, as a result of the growth in service revenues (+17.4% y.o.y) underpinned by strong growth in customers and in data service revenues. Excluding Telemig, Vivo s operating revenues would have increased 13.4% y.o.y and service revenues would have grown by 11.3% y.o.y.

Brazilian mobile income statement [1]			R$million
	1H08	**1H07**	**y.o.y**
Operating revenues	**7,438.9**	**6,207.4**	**19.8%**
Services rendered	6,602.1	5,623.1	17.4%
Sales	674.5	479.1	40.8%
Other operating revenues	162.4	105.3	54.3%
Operating costs, excluding D&A	5,636.2	4,712.0	19.6%
Wages and salaries	361.2	346.0	4.4%
Direct costs	1,400.2	1,061.8	31.9%
Commercial costs	1,967.8	1,547.3	27.2%
Other operating costs	1,907.0	1,757.0	8.5%
EBITDA [2]	**1,802.7**	**1,495.4**	**20.6%**
Depreciation and amortisation	1,544.6	1,323.2	16.7%
Income from operations [3]	**258.1**	**172.2**	**49.9%**
EBITDA margin	24.2%	24.1%	0.1pp
Capex [4]	665.4	572.7	16.2%
Capex as% of revenues	8.9%	9.2%	(0.3pp)
EBITDA minus Capex	1,137.4	922.7	23.3%

(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. **(4)** Capex in the first half of 2008 excludes the acquisition of 3G licenses in Brazil (R$ 1,179 million).

EBITDA increased by 20.6% y.o.y to R$ 1,803 million in the first half of 2008. Excluding Telemig, EBITDA would have increased by 16.0% y.o.y. The increase of 31.9% in direct costs (22.7% excluding Telemig) is primarily explained by the interconnection traffic growth as a consequence of the growth in the subscriber base as well as usage campaigns launched in the period. Unitary SARC, which includes marketing, handset subsidies and commissions, fell by 15.3% y.o.y in the first half of 2008 notwithstanding the higher commercial activity, which resulted in net adds of customers of 3.0 million in the first half, up 149.7% compared to the same period last year. This performance of SARC is explained by a higher proportion of GSM handsets and SIM cards, which have a lower cost, notwithstanding the increase in marketing and publicity related with the campaigns carried out in the period. As a result of the measures implemented over the past year, the provision for doubtful receivables in the first half of 2008 fell to 2.4% of operating revenues. EBITDA margin increased in the first half of 2008 by 0.1pp to 24.2%, notwithstanding the strong customer growth and its impact on both acquisition costs and FISTEL fees, which under IFRS are booked upfront.

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Capex, which excludes the booking of the investment (R$ 1,179 million) related with the acquisition of 3G licenses (band J), increased to R$ 665 million in the first half of 2008 and was mainly directed to: (1) network coverage; (2) capacity and quality, namely in the GSM/EDGE technology; (3) new customer service and front office systems, and (4) adaptation to the Number Portability project. The GSM/EDGE network overlay covers 2,354 municipalities, already exceeding the number of municipalities served by the CDMA network. Capex at Vivo increased by 16.2% in the first half of 2008. Excluding the consolidation of Telemig, capex at Vivo would have decreased by 3.5%.

Brazilian mobile operating data [1]	1H08	1H07	y.o.y
Customers ('000)	40,435	30,241	33.7%
Market share (%)	30.4	28.4	2.0pp
Net additions ('000)	2,965	1,187	149.7%
MOU (minutes)	86	76	13.4%
ARPU (R$)	29.1	29.9	(2.7%)
Customer	16.7	16.5	0.9%
Interconnection	12.3	13.2	(7.0%)
Data as% of service revenues (%)	10.3	8.0	2.2pp
SARC (R$)	92.7	109.5	(15.3%)
Employees	8,232	5,494	49.8%

(1) Operating data calculated using Brazilian GAAP.

Vivo s customer base increased by 33.7% y.o.y in the first half of 2008 to 40,435 thousand of which 4,262 thousand included from Telemig s customer base. This allowed Vivo to consolidate its leadership of the Brazilian mobile market achieving, at the end of June 2008, a market share of 30.4%. Excluding Telemig, Vivo s customer base would have increased by 19.6%. Net additions reached 2,965 thousand in the first half of 2008, while gross additions increased by 57.4% y.o.y. GSM accounted for approximately 87% of total gross additions in the first half of 2008, bringing the total number of GSM customers to 22,577 thousand at the end of the first half of 2008, equivalent to 55.8% of total customers. Vivo s commercial activity in the first half of 2008 was centred on Mother s Day and Valentine s Day and focused on campaigns aimed at increasing usage. The strengthening of Vivo s competitive position allowed for an improvement in the share of net additions, which increased to approximately 24.3%.

Vivo s blended MOU has increased 13.4% y.o.y in the first half of 2008 to 86 minutes, as a result of the strong growth in outgoing MOU (+30.8% y.o.y). The success of Mother s Day and Valentine s Day campaigns, which offered bonus on-net and off-net fixed traffic and/or reduced tariffs for on-net and off-net fixed traffic, has underpinned the performance of outgoing MOU.

Vivo s blended ARPU reached R$ 29.1 in the first half of 2008, a decrease of 2.7% y.o.y despite strong customer growth. This reduction was driven by the decrease in interconnection ARPU (-7.0% y.o.y), as a result of fixed-mobile traffic migration to mobile-mobile traffic. Customer ARPU has increased 0.9% y.o.y to R$16.7. Data ARPU increased to R$3.0 (+25%) as data revenues increased by 58.0% y.o.y in the first half of 2008, and now account for 10.3% (+2.2pp y.o.y) of service revenues. The growth drivers of

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data services were: (1) the strong increase in service revenue from Play, Java, SMS, as well as the increase in the customer base of Zap, Flash/Desk Modem, Blackberry and Smart Mail customers; (2) the increase in the use of person-to-person SMS, as a consequence of the increase of recharges with services and activations of post-paid plans with data advantages; (3) promotions for the usage of SMS Contents (interactivity actions on the TV and other media), and (4) new partnerships with content providers.

Other international investments

Highlights of main assets in Africa and Asia (1H08) (1) (2) — thousand (customers), million (financials)

	Stake	Customers	Rev. local	y.o.y	EBITDA local	y.o.y	Margin	Rev. Euro	EBITDA Euro
Médi Télécom (3)	32.18%	7,079	2,452	3.6%	1,011	3.1%	41.2%	214.5	88.4
Unitel (3) (5)	25.00%	3,762	538	43.4%	322	40.1%	59.7%	351.7	210.1
MTC (4) (5)	34.00%	934	599	9.6%	295	4.2%	49.4%	51.0	25.2
CVT (4) (5)	40.00%	269	3,890	9.8%	2,252	(0.4%)	57.9%	35.3	20.4
CTM (3)	28.00%	561	1,202	14.3%	518	15.5%	43.1%	97.8	42.1
CST (4) (5)	51.00%	42	89,874	24.9%	30,719	27.4%	34.2%	4.0	1.4
Timor Telecom (4)	41.12%	106	17	18.2%	9	19.1%	50.5%	11.4	5.8

(1) All information prepared in accordance with local GAAP. **(2)** Figures account for 100% of the company. PT has management contracts in Médi Télécom, CST, CVT and Timor Telecom. **(3)** Equity consolidation method. **(4)** Full consolidation method. **(5)** These stakes are held by Africatel, which is 78% controlled by PT.

Morocco - Médi Télécom

Médi Télécom revenues increased by 3.6% y.o.y in the first half of 2008 to MAD 2,452 million, while EBITDA increased by 3.1% y.o.y to MAD 1,011 million, equivalent to a margin of 41.2%. The mobile customer base increased by 22.0% y.o.y to 7,073 thousand, with net additions in the first half of 2008 totalling 408 thousand. MOU decreased by 3.3% y.o.y in the first half of 2008 to 45 minutes. ARPU totalled MAD 58 in the first half of 2008, a decrease of 17.8% over the same period of last year, mainly due to the significant growth of the customer base, the decrease of interconnection tariffs and the increased competition in the market.

Angola - Unitel

Unitel s revenues and EBITDA increased by 43.4% and 40.1% y.o.y respectively in the first half of 2008, underpinned by strong customer growth, both in Luanda and in other main districts of the country. EBITDA margin reached 59.7% in the first half of 2008.

Net additions totalled 455 thousand in the first half of 2008, with the total customer base reaching 3,762 thousand at the end of June 2008, an increase of 50.3% over the same period of last year. In the first half of 2008, Unitel s MOU decreased by 14.2% y.o.y to 101 minutes and ARPU amounted to USD 24 in the first half of 2008, a decrease of 8.8% over the same period of last year, as a result of the strong growth in the customer base.

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Namibia - MTC

MTC s revenues and EBITDA increased by 9.6% and 4.2% y.o.y respectively in the first half of 2008. EBITDA performance has been impacted by higher commercial costs, as a result of increasing competiton, and higher network costs, as a result of investments in network coverage and capacity. Net additions totalled 134 thousand in the first half of 2008, with total customers reaching 934 thousand at the end of June 2008, an increase of 32.5% over the same period of last year. Postpaid customers increased by 30.9% y.o.y, representing 8.5% of total customer base. ARPU totalled NAD 115 in the first half of 2008, a decrease of 16.1% y.o.y, primarily as a result of the growth in the customer base in the period.

Cape Verde - CVT

CVT s revenues increased by 9.8%, mainly due to the strong growth in mobile customers, which increased by 65.2% y.o.y to 197 thousand customers. EBITDA decreased by 0.4% y.o.y in the first half of 2008 as a result of higher commercial costs, related with growth and retention of the customer base following the entry of a mobile competitor. Mobile MOU reached 70 minutes, a decrease of 10.5% y.o.y in the first half of 2008. Mobile ARPU in the first half of 2008 was CVE 2,202 a decrease of 21.3% y.o.y. EBITDA margin stood at 57.9%.

Macao - CTM

CTM s revenues and EBITDA increased by 14.3% and 15.5% y.o.y to MOP 1,202 million and MOP 518 million, respectively, in the first half of 2008. In the mobile division, customers increased by 19.8% y.o.y to 379 thousand at the end of June 2008. CTM s mobile ARPU decreased by 1.0% y.o.y to MOP 211 in the first half of 2008.

São Tomé e Príncipe - CST

CST s revenues increased by 24.9% y.o.y to STD 89,874 million in the first half of 2008, while EBITDA grew 27.4% y.o.y to STD 30,719 million. In the mobile division, CST added 4 thousand customers in the first half of 2008, bringing the total number of customers to 34 thousand at the end of June 2008, an increase of 47.6% y.o.y. Mobile MOU decreased by 9.8% y.o.y in the first half of 2008 to 54 minutes, as a result of the growth in the customer base. Mobile ARPU was STD 260 thousand in the first half of 2008, a decrease of 9.3% over last year.

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East Timor - Timor Telecom

Timor Telecom s revenues and EBITDA increased by 18.2% and 19.1% y.o.y, respectively, mainly as a result of the strong increase in the number of mobile customers. Timor Telecom s net additions reached 25 thousand, bringing the total mobile customer base to 103 thousand at the end of June 2008, an increase of 67.2% y.o.y. Mobile MOU decreased by 14.3% y.o.y to 88 minutes. Mobile ARPU was USD 26 in the first half of 2008, a decrease of 25.4% over the same period of last year.

Brazil - UOL

UOL s revenues increased by 13.3% y.o.y to R$ 279 million in the first half of 2008, as a result of the growth in the customer base and in advertising revenues. EBITDA decreased by 14.3% y.o.y to R$ 70 million in the first half of 2008, corresponding to an EBITDA margin of 25%. Excluding the impacts of non current results in both periods, the EBITDA would have increased by 9% y.o.y underpinned by the growth in brand advertising and subscription revenues. UOL s subscriber base totalled 1,740 thousand at the end the first half of 2008, including 1,070 thousand of broadband customers, which represented an increase of 17% over the first half of 2007. In June 2008, page views and unique visitors increased by 4% and 17% y.o.y respectively.

Africatel, which is 78% controlled by PT, increased its proportional revenues and EBITDA, in the first half of 2008, by 16.0% and 11.1% to Euro 129 million and Euro 70 million, respectively, notwithstanding the adverse exchange rate movements that affected the local currencies in all markets where PT is exposed.

Proportional income statement of Africatel (1)			Euro million
	1H08	**1H07**	**y.o.y**
Operating revenues	**128.5**	**110.8**	**16.0%**
EBITDA (2)	**70.3**	**63.3**	**11.1%**
Depreciation and amortisation	11.0	11.2	(1.4%)
Income from operations (3)	**59.3**	**52.1**	**13.8%**
EBITDA margin	54.7%	57.1%	(2.4pp)

(1) Proforma consolidation of the companies included in Africatel using the percentage of ownership held by Africatel. **(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.

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03 Employees

Number of employees and productivity ratios	30 Jun 2008	30 Jun 2007	∆ y.o.y	y.o.y	31 Dec 2007
Domestic operations	**10,172**	**10,637**	**(465)**	**(4.4%)**	**10,338**
Wireline	6,172	6,979	(807)	(11.6%)	6,354
Domestic mobile • TMN	1,140	1,126	14	1.2%	1,144
Other	2,860	2,532	328	13.0%	2,840
International businesses	**19,497**	**20,139**	**(642)**	**(3.2%)**	**18,300**
Brazilian mobile • Vivo (1)	4,116	2,747	1,369	49.8%	2,800
Other	15,381	17,392	(2,011)	(11.6%)	15,500
Total Group employees	**29,669**	**30,776**	**(1,107)**	**(3.6%)**	**28,638**
Fixed lines per employee	**673**	**622**	**51**	**8.2%**	**657**
Mobile cards per employee					
TMN	5,688	5,163	525	10.2%	5,473
Vivo	4,912	5,504	(592)	(10.8%)	5,979

(1) The number of employees in the Brazilian mobile business corresponds to 50% of the employees of Vivo, which includes the consolidation of Telemig since April 2008.

At the end of the first half of 2008, the number of staff employed by PT was 29,669 employees, of which 34.3% were allocated to the domestic operations. In the wireline business, the ratio of fixed lines per employee improved by 8.2% y.o.y in the first half of 2008 to 673 lines, reflecting the ongoing workforce rationalisation programme, while in TMN the ratio of mobile cards per employee rose by 10.2% to 5,688 cards. At the end of June 2008, the total number of employees of Vivo increased by 49.8% y.o.y to 8,232 employees, reflecting the consolidation of Telemig since April 2008, with the ratio of mobile cards per employee decreasing by 10.8% to 4,912 cards.

As part of the cost rationalisation programme, PT continued with its workforce reduction programme, with headcount decreasing by 267 employees in the first half of 2008, of which 253 were in the domestic operations.

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04 Main events

Events of the first half

Shareholder remuneration

20.MAR.08 | Following the approval at the Annual General Meeting (AGM) held on 27 April 2007, PT acquired 83,204,823 own shares by a total amount of Euro 712 million, through the the exercise of the physical settlement of equity swap contracts.

28.MAR.08 | PT s shareholders approved at the AGM the following proposals related to the shareholder remuneration package:

> The payment of a cash dividend of Euro 0.575 per share for the fiscal year 2007. The dividend was paid on 24 April 2008.

> The acquisition of PT s own shares, in connection with the share buyback programme announced.

Share capital

24.MAR.07 | Following the approval at the AGM held on 27 April 2007 and for the purposes of the execution of the share buyback programme, PT registered the reduction of its share capital in the amount of Euro 2,496,144.69 through the cancellation of 83,204,823 treasury shares. As a result, PT s share capital is now equivalent to Euro 28,277,855.31, comprised by 942,595,177 shares with a par value of 3 cents each.

28.MAR.08 | PT s shareholders approved at the AGM a share capital reduction reduction of up to Euro 3,077,400 through the cancellation of up to 102,580,000 shares, representing up to 10% of the share capital to be acquired under the terms of the share buyback programme, included in the shareholders remuneration package announced in February 2007 within the public tender offer that the Company was subject, and the corresponding amendment of the articles of association.

Sale of 34% holding in Banco Best

25.MAR.08 | PT announced that it reached an agreement with Espírito Santo Financial Group, S.A. for the sale of the 34% stake that PT Comunicações, S.A. held in BEST - Banco Electrónico de Serviço Total, S.A.. The sale amount was Euro 16 million, resulting in a capital gain for PT of Euro 9 million.

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Acquisition of Telemig

O4.ABR.08 | PT announced that Vivo concluded the acquisition of the shareholder control of Telemig Participações and Tele Norte Celular. Additionally, Vivo sold, for the same price of the acquisition, Tele Norte Celular to Telemar Norte Leste, in accordance with the disclosure made by Vivo on 20 December 2007. The acquisition of the controlling stake in Telemig Participações, which corresponds to 22.72% of total capital (53.90% of ordinary shares and 4.27% of preferred shares) was done for a total consideration of R$1.16 billion. Additionally, Vivo acquired certain subscription rights for R$ 70.5 million.

O8.ABR.08 | PT announced that Vivo launched a voluntary public tender offer (VTO) for the acquisition of up to 1/3 of the preferred shares of Telemig Celular and Telemig Participações outstanding in the market. In the case of Telemig Participações, the VTO will be extended to holders of preferred shares underlying ADSs. Each ADS of Telemig Participações represents two preferred shares. The price, which corresponds to a premium of approximately 25% over the weighted average trading price of the preferred shares of each of Telemig Celular and Telemig Participações at the BOVESPA for the last 30 days before 1 August 2007, inclusive, was: (1) R$654.72 per preferred share of Telemig Celular, and (2) R$63.90 per preferred share of Telemig Participações. For reference, the amount per ADS of Telemig Participações corresponds to US$74.68, based on the PTAX 800 exchange rate of R$1.711/US$1.00 on 4 April 2008. Assuming full acceptance, the maximum amount involved in the VTO will reach R$0.53 billion.

15.JUL.08 | Vivo launched the mandatory tender offers for the acquisition of all remaining shares in the market of Telemig Participações and Telemig Celular.

Television strategy

02.ABR.08 | PT announced the launch of its nationwide TV offer through satellite (DTH direct to home), which will complement the existing IPTV offer. PT s television strategy is based on a multiplatform concept that aims to provide the same content, independent of the customer interface. Meo will be PT s TV brand across the various platforms, namely at home, in the mobile handset or in a computer.

22.ABR.08 | PT announced that it reached an agreement with the three free-to-air (FTA) operators RTP, SIC and TVI in connection with PT s bid in the upcoming Digital Terrestrial Television (DTT) contest for the definition of the terms and conditions under which the transmission of the FTA signal for the four channels will be delivered during the simulcast period as well the digital transmission up to the end of the licence period. As part of the DTT public tenders, PT delivered two proposals for: the public tender related to Mux A transport of the free-to-air (FTA) signal (four existing FTA channels plus a fifth FTA channel to be attributed in 2009); and the public tender on Muxes B to F allocation of rights to use five frequencies (two nationwide and three regional) and the licensing of a pay-TV operator.

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18.JUN.08 | PT announced that Meo, its pay-TV service, surpassed 100 thousand customers, representing 15% of PT s ADSL customers and 3.7% of its traffic generating lines.

30.JUN.08 | PT announced that it was notified of the Draft Final Decision of the Committee of Evaluation of the proposals submitted within the public tender procedure on the Digital Terrestrial Television (DTT) concerning the Muxes B to F (pay-TV service), earning the best classification by an independent jury. This preliminary decision of the Public Tender Committee, which will be subject to prior hearing of the interested parties, thus awarded PT the victory in the DTT public tender related with the pay-TV service. The licenses to be attributed will be valid for a 15-year period, as from the date of the respective attribution. The procedure for the evaluation of PT s proposal related to the Mux A (transport of the free-to-air signal) is in progress and PT is the only bidder for this public tender.

Corporate bodies

18.JAN.08 | PT announced that Armando António Martins Vara resigned from his office as non-executive member of the company s Board of Directors.

31.JAN.08 | PT announced that António Viana-Baptista and Fernando Abril-Martorell resigned from their office as non-executive members of the company s Board of Directors.

12.FEB.08 | PT announced the appointment of Francisco Manuel Marques Bandeira, José María Álvarez-Pallete López and Santiago Fernández Valbuena as non-executive members of the Company s Board of Directors, to complete the 2006-2008 term of Office, thus replacing Armando António Martins Vara, António Viana-Baptista and Fernando Abril-Martorell respectively.

28.MAR.08 | PT announced the appointment of Zeinal Bava as Chief Executive Officer (CEO), following the resignation submitted by Henrique Granadeiro, the former CEO, who continues in office as Chairman of the Board of Directors. As a result, PT resumed a governance model based on a separate Chairman and CEO.

20.JUN.08 | PT announced that João Pedro Baptista resigned from his office as executive member of the company s Board of Directors.

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Subsequent events

Mobile termination tariffs

07.JUL.08 | PT announced that its subsidiary TMN was notified by ICP-ANACOM, the Portuguese telecoms regulator, of the decision related with the specification of the obligation of price control concerning the wholesale markets of voice call termination in individual mobile networks (market 16). This decision establishes a meaningful reduction of the maximum prices to be applied by the mobile operators with significant market power in the termination of voice calls, as follows:

Mobile termination tariffs		Euro
	TMN / Vodafone	Optimus
15 July 2008	0.080	0.096
1 October 2008	0.075	0.090
1 January 2009	0.070	0.084
1 April 2009	0.065	0.078
1 July 2009	0.065	0.072
1 October 2009	0.065	0.065

PT believes that the terms of this deliberation are illegal and disproportionate. The current decision of a steep reduction in the values of termination not only ignores the associated revenue loss related with the international traffic, but also jeopardises the meaningful investments that have been made by the mobile sector in the last decade, damaging, as a consequence, the balance of payments, the competitiveness of the Portuguese mobile operators and the future innovation in Portugal. In what concerns the asymmetry in favor of the operator Optimus, PT believes that the legal requirements are not met. As such, it translates into another positive discrimination of that operator, which adds to the circa Euro 125 million savings that Optimus has been benefiting since 1998, when compared with the costs of spectrum registered by TMN. Taking into consideration the illegalities evidenced in the current decision of the regulator, PT will use all legal means at its disposal to contest its legality and effectiveness.

Shareholder remuneration

25.JUL.08 | PT announced the conclusion of its Euro 2.1 billion share buyback programme, which was being executed since March 2007. With the conclusion of such share buyback programme, PT accomplishes 92% of the remuneration package proposed to its shareholders for the 2006-09 period. It is only pending the payment of a dividend in the amount of Euro 0.575 per share, which shall take place in 2009 following its approval by the next annual General Shareholders Meeting and subject to PT s financial situation and market conditions, as previously announced. Considering the 186,261,323 shares already cancelled on 20 December 2007 and 24 March 2008, since the beginning of the share buyback, PT has acquired in the market a total of 232,344,000 own shares, which corresponds to 20.58% of the share capital at the time of the share buyback programme proposal to the shareholders in 2007. The

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current number of own shares subject to equity swaps contracted by PT totals 66,722,677 shares, including the equity swaps over 46,082,677 shares contracted under the program referred to above and an equity swap over 20,640,000 shares contracted under a previous share buyback programme. PT will acquire all shares subject to equity swaps contracted under the current buyback programme. Such shares shall subsequently be cancelled and the share capital reduced accordingly. The total number of outstanding shares, adjusting for equity swaps on own shares recognised in the balance sheet, is 875,872,500.

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05 Main risks and uncertainties

The main risks and uncertainties that were identified by PT s risk control system for the remaining six months of 2008 are as follows:

> **Regulation:** Regulatory changes and actions taken by the regulatory authorities, national or international, may have an impact on PT, by creating an adverse environment for its competitive position or a decrease in its capacity to carry out the business effectively.

> **Competition:** A reduction in the wireline service revenues may occur as a result of the progressive effect of the wireline-mobile migartion. Additionally, PT may face a reduction in revenues due to an increase in competition by other operators, notably as a result of: (1) development of new products and services; (2) aggressive marketing and sales policies; (3) in quality improvements of products or services; (4) increase of productivity and reduction of costs, and (5) reconfiguration of the value chain in the customer perspective.

> **Technological evolution:** In a business activity where technological changes have taken place very fast, PT may not be efficient in including in its business model technological developments and breakthroughs that would allow it to obtain or maintain a competitive hedge. Therefore, it may be subject to competitive pressures from other operators that include those developments in their business models more effectively.

> **Exchange rate:** PT is subject to variations in exchange rates due to: (1) transactions or negotiations in the financial markets; (2) investments in securities issued by foreign entities, or (3) investments in securities denominated in a foreign currency.

> **Hiring and/or retaining employees:** PT may be unable to hire human resources with the abilities required in order to develop its businesses. There is also the risk that human capital leaves the company and joins competitors.

> **Taxation:** Evolution of tax legislation and interpretations of the fiscal regulations in different manners are a risk to the PT s businesses.

> **Information may be unavailable:** The information required to develop PT s businesses may not be available when necessary, notably due to communications failure, basic processing capacity failure or operational problems.

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> **Interruption of businesses:** PT may be unable to assure continuity of procedures and operations that are fundamental to its businesses, in case certain equipments (terminals, commutation, other), information technology, skilled employees or other resources are unavailable.

> **Defective products or services:** Clients may receive defective products or poor quality services, or below their expectations, which may significantly affect the company s reputation, its market share or future sales.

> **Failure to address clients needs:** Business procedures implemented by PT may not satisfy or may consistently exceed clients expectations.

> **Change in clients needs:** Changes in clients needs are a risk to PT. Such changes may occur in respect of quality levels, fast implementation of services or clients will to pay for the services, and may be created by changes in the economic environment.

> **Illegal conduct:** PT s officers and employees may have illegal conducts, alone or together with other officers or employees, thus exposing the Company, its directors and officers to fines and other penalties such as temporary halt of activities, payment of compensations to third parties for loss of profit, customers or reputation.

> **Non-authorised use of assets:** Company s assets may be used for non-authorised purposes or be destroyed or stolen by employees or by third parties.

> **Cash flow:** PT may have losses due to its inability to finance its financial or operational obligations. In extreme situations, weak liquidity management may cause lack or loss of production.

> **Revenue assurance and billing:** PT may not have in place the procedures which ensure that invoicing is accurate, complete and on time, comprising all products and services provided by the Company.

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06 Outlook for the second half

Portugal Telecom will continue to explore the growth potential of its asset portfolio, both domestically and internationally. In the domestic market, PT aims to explore full telecommunications and multimedia opportunities through fixed-mobile convergent offers and through multimedia integrated propositions. Internationally, PT intends to continue developing its mobile asset in Brazil, taking advantage of the potential growth of the Brazilian market, and to exploit opportunities in growth markets where PT has clear competitive advantages.

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 order to anticipate these challenges, PT s strategy in the domestic market will be based upon the development of fixed-mobile 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 new services aimed at providing a pay-TV offering with distinctive and customised content tailored to meet the customer needs. A multi-platform strategy will be designed to provide nationwide coverage of these services. PT 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 Vivo, its Brazilian mobile asset, leveraging on Brazil s attractive economic growth prospects, favourable demographics and the opportunity for the fixed-mobile migration. PT will also take advantage of the nationwide coverage of Brazil recently achieved, an opportunity that was never available to date, in order to regain market share in key market segments, namely corporate and high-end. The upcoming launch of 3G services and the existing know-how of Vivo in the data segment should contribute to further exploit the mobile broadband and data opportunity. 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 portfolio and partnerships.

In line with its remuneration commitment, PT should continue to provide an attractive shareholder remuneration profile combined with above-average growth prospects, provided by its international portfolio.

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07 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 financial statements concerning the first six months of this financial year were prepared in compliance with the requirements of the IAS 34 Interim Financial Reporting standard, in accordance with the applicable law and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Portugal Telecom, SGPS, S.A. and the undertakings included in the consolidation as a whole;

> The interim management report includes a fair review, as an indication, of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, together with an accurate description of the principal risks and uncertainties for the remaining six months of the financial year.

Lisbon, 6 August 2008

Henrique Granadeiro, Chairman of the Board of Directors

Zeinal Bava, Chief Executive Officer

Luís Pacheco de Melo, Executive Director, Chief Financial Officer

António Caria, Executive Director

Rui Pedro Soares, Executive Director

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Santiago Fernández Valbuena, Non-Executive Director

José María Álvarez-Pallete López, Non-Executive Director

Joaquim Goes, Non-Executive Director

Amílcar de Morais Pires, Non-Executive Director

Francisco Marques Bandeira, Non-Executive Director

Jorge Tomé, Non-Executive Director

Nuno de Almeida e Vasconcellos, Non-Executive Director

Rafael Mora Funes, Non-Executive Director

João de Mello Franco, Non-Executive Director

Thomaz Paes de Vasconcellos, Non-Executive Director

José Xavier de Basto, Non-Executive Director

Franquelim Alves, Non-Executive Director

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Gerald McGowan, Non-Executive Director

Francisco Pereira Soares, Non-Executive Director

Fernando Soares Carneiro, Non-Executive Director

Luís de Azevedo Coutinho, Non-Executive Director

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2008 AND 2007

(Amounts stated in Euro)

	Notes	2008	2007
CONTINUING OPERATIONS			
REVENUES			
Services rendered		2,973,080,992	2,747,742,700
Sales		223,352,811	167,468,510
Other revenues		53,677,490	40,584,052
	5	**3,250,111,293**	**2,955,795,262**
COSTS, EXPENSES, LOSSES AND (INCOME)			
Wages and salaries		311,171,659	322,613,187
Post retirement benefits	6	21,857,043	(17,298,216)
Direct costs		518,288,270	428,105,234
Commercial costs		578,617,768	466,182,308
Support services		134,181,217	101,953,752
Supplies and external services		331,365,265	334,459,709
Indirect taxes		111,255,825	97,341,072
Provisions and adjustments		72,323,458	75,611,650
Depreciation and amortisation	13	609,596,949	540,605,368
Curtailment costs, net	6	78,021,583	84,432,992
Losses (gains) on disposals of fixed assets, net		(13,293,644)	935,498
Other costs, net		14,645,605	25,707,386
		2,768,030,998	**2,460,649,940**
Income before financial results and taxes	5	**482,080,295**	**495,145,322**
Net interest expenses	7	115,553,944	90,850,738
Equity in earnings of associated companies, net		(74,452,687)	(52,869,542)
Net other financial losses (gains)	8	31,917,361	(127,122,323)
		73,018,618	**(89,141,127)**
Income before taxes		**409,061,677**	**584,286,449**
Income taxes	9	114,573,533	141,098,400
Net income from continuing operations		**294,488,144**	**443,188,049**
DISCONTINUED OPERATIONS			
Net income from discontinued operations	10	-	28,639,541
NET INCOME		**294,488,144**	**471,827,590**

Attributable to minority interests	11	41,572,408	42,742,980
Attributable to equity holders of the parent		**252,915,736**	**429,084,610**
Earnings per share from total operations			
Basic	12	0.27	0.39
Diluted	12	0.27	0.37
Earnings per share from continued operations			
Basic	12	0.27	0.38
Diluted	12	0.27	0.36

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

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED BALANCE SHEET

30 JUNE 2008 AND 31 DECEMBER 2007

(Amounts stated in Euro)

	Notes	30 Jun 2008	31 Dec 2007
ASSETS			
Current Assets			
Cash and cash equivalents		728,238,098	664,642,854
Short-term investments		393,396,902	1,170,293,202
Accounts receivable		1,518,517,256	1,436,175,160
Inventories		232,751,159	160,592,407
Taxes receivable		204,920,642	239,111,584
Prepaid expenses		158,301,155	106,526,815
Other current assets		58,298,975	38,979,994
Total current assets		**3,294,424,187**	**3,816,322,016**
Non-Current Assets			
Tangible assets	13	3,804,346,881	3,585,397,171
Intangible assets	13	3,815,008,613	3,383,123,427
Financial Investments		551,475,734	565,316,061
Post retirement benefits	6	106,345,533	134,060,599
Taxes receivable		169,232,019	148,340,234
Deferred taxes	9	1,094,242,917	992,880,357
Other non-current assets		511,743,553	496,731,021
Total non-current assets		**10,052,395,250**	**9,305,848,870**
Total assets		**13,346,819,437**	**13,122,170,886**
LIABILITIES			
Current Liabilities			
Short-term debt	14	2,552,621,219	1,256,085,485
Accounts payable		1,108,260,231	1,108,882,163
Accrued expenses		589,461,541	641,050,928
Deferred income		278,157,859	286,056,467
Taxes payable		350,014,947	381,956,714
Provisions		132,011,506	123,340,200
Other current liabilities		111,307,070	67,308,947
Total current liabilities		**5,121,834,373**	**3,864,680,904**
Non-Current Liabilities			
Medium and long-term debt	14	4,368,964,261	4,960,675,814
Provisions		186,212,781	111,833,374
Post retirement benefits	6	1,637,501,424	1,463,932,239
Deferred taxes	9	131,182,826	84,880,140
Other non-current liabilities		533,782,496	554,358,227
Total non-current liabilities		**6,857,643,788**	**7,175,679,794**
Total liabilities		**11,979,478,161**	**11,040,360,698**

SHAREHOLDERS EQUITY

Share capital	15	28,277,855	30,774,000
Treasury shares	15	(342,354,837)	(323,178,913)
Legal reserve	15	6,773,139	6,773,139
Reserve for treasury shares	15	5,587,840	3,091,695
Accumulated earnings and other reserves	15	706,068,286	1,620,761,976
Equity excluding minority interests		**404,352,283**	**1,338,221,897**
Minority interests	11	962,988,993	743,588,291
Total equity		**1,367,341,276**	**2,081,810,188**
Total liabilities and shareholders equity		**13,346,819,437**	**13,122,170,886**

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

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2008 AND 2007

(Amounts stated in Euro)

	Notes	2008	2007
Income and expenses recognised directly in shareholders equity			
Post retirement benefits			
Net actuarial gains (losses)	6	(202,220,014)	321,609,170
Tax effect	9	51,108,749	(85,226,430)
Revaluation of tangible assets			
Revaluation of real estate	3 and 13	208,133,280	-
Tax effect	3 and 9	(55,155,319)	-
Financial instruments and investments			
Hedge accounting			
Change in fair value		1,221,346	4,472,578
Transferred to income statement		(89,283)	(9,239,353)
Investments available for sale:			
Changes in fair value		-	15,093,348
Transferred to profit and loss on sale	8	-	(35,698,600)
Tax effect		(299,997)	7,349,740
Foreign currency translation adjustments (i)		78,108,664	207,838,465
Other expenses recognised directly in shareholders equity, net		(3,298,951)	(1,892,814)
		77,508,475	**424,306,104**
Income recognised in the consolidated income statement		**294,488,144**	**471,827,590**
Total income recognised		**371,996,619**	**896,133,694**
Attributable to minority interests		41,572,408	42,742,980
Attributable to equity holders of the parent		**330,424,211**	**853,390,714**

(i) These amounts are mainly related to the appreciation of the Real against the Euro from 2.5963 as at 31 December 2007 to 2.5112 as at 30 June 2008, and from 2.8118 as at 31 December 2006 to 2.6024 as at 30 June 2007, respectively.

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 2008 AND 2007

(Amounts stated in Euro)

	Notes	2008	2007
OPERATING ACTIVITIES			
Collections from clients		3,792,456,181	3,398,921,350
Payments to suppliers		(2,156,449,728)	(1,752,863,314)
Payments to employees		(347,899,301)	(353,402,104)
Payments relating to income taxes		(93,700,763)	(107,762,732)
Payments relating to post retirement benefits	6	(100,814,389)	(163,801,710)
Payments relating to indirect taxes and other	16.a	(186,270,551)	(304,473,149)
Cash flow from operating activities from continued operations		907,321,449	716,618,341
Cash flow from operating activities from discontinued operations		-	126,527,500
Cash flow from operating activities (1)		**907,321,449**	**843,145,841**
INVESTING ACTIVITIES			
Cash receipts resulting from			
Short-term financial applications	16.b	10,599,884,035	8,768,489,704
Financial investments	16.c	16,870,261	115,298,232
Tangible and intangible assets		23,026,795	4,862,109
Interest and related income		139,255,029	99,677,026
Dividends	16.d	9,131,030	38,026,820
Other investing activities	16.e	1,423,410	127,003,463
		10,789,590,560	9,153,357,354
Payments resulting from			
Short-term financial applications	16.b	(9,822,987,735)	(8,121,682,820)
Financial investments	16.f	(157,426,979)	(1,196,622)
Tangible and intangible assets		(460,030,818)	(400,270,030)
Other investing activities		(2,134,574)	(12,988,885)
		(10,442,580,106)	(8,536,138,357)
Cash flow from investing activities related to continued operations		347,010,454	617,218,997
Cash flow from investing activities related to discontinued operations		-	(46,364,829)
Cash flow from investing activities (2)		**347,010,454**	**570,854,168**
FINANCING ACTIVITIES			
Cash receipts resulting from			
Loans obtained	16.g	16,339,912,532	6,447,022,308
Increases in share capital and paid-in surplus		706,082	-
Subsidies		723,707	984,420
Other financing activities		246,473	430,649
		16,341,588,794	6,448,437,377
Payments resulting from			
Loans repaid	16.g	(15,901,842,959)	(7,088,053,295)

Lease rentals (principal)		(7,133,379)	(7,554,596)
Interest and related expenses		(339,168,016)	(290,388,184)
Dividends	16.h	(545,437,158)	(529,015,031)
Acquisition of treasury shares	15	(711,917,017)	-
Other financing activities		(31,388,474)	(23,344,540)
		(17,536,887,003)	(7,938,355,646)
Cash flow from financing activities related to continued operations		(1,195,298,209)	(1,489,918,269)
Cash flow from financing activities related to discontinued operations		-	5,994,601
Cash flow from financing activities (3)		**(1,195,298,209)**	**(1,483,923,668)**
Cash and cash equivalents at the beginning of the period		**664,642,854**	**548,464,617**
Change in cash and cash equivalents (4)=(1)+(2)+(3)		**59,033,694**	**(69,923,659)**
Effect of exchange differences		4,561,550	21,107,165
Cash and cash equivalentes of discontinued operations as at the date of spin-off		-	(36,665,630)
Cash and cash equivalents at the end of the period		**728,238,098**	**462,982,493**

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 2008

(Amounts stated in Euros, except where otherwise stated)

1. Introduction

Portugal Telecom, SGPS, SA (Portugal Telecom) and subsidiaries (Group , Portugal Telecom Group , or the Company), is engaged in rendering a comprehensive range of telecommunications and multimedia services in Portugal and other countries, including Brazil and Africa.

In April 2008, after ANATEL s authorization, Vivo completed the stock purchase agreement with Telepart Participações SA (Telpart) to acquire control of Telemig Celular Participações SA (Telemig Celular Participações), which provides mobile services in the Brazilian state of Minas Gerais through Telemig Celular (Note 2).

Except for the above mentioned, the services provided by the Group have not significantly changed during the first half of 2008, as compared to those reported in our last annual report.

The consolidated financial statements for the six month period ended 30 June 2008 were approved by the Board of Directors and authorized for issue on 31 July 2008.

2. Basis of presentation

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with International Accounting Standard Nº. 34 IAS 34 Interim Financial Reporting . These financial statements do not include the total information as required by the IFRS and accordingly should be read in conjunction with consolidated financial statements for the year ended 31 December 2007. In addition, further explanations for the major variations in costs and revenues are disclosed in our management report, which should be read in conjunction with these consolidated financial statements.

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

The main change in the consolidation Group during the first half of 2008 is related to the consolidation of Telemig Celular Participações and Telemig Celular (together Telemig) as from 1 April 2008, following the conclusion of the acquisition of shareholder s control of Telemig on 4 April 2008. Telemig Celular Participações held a 83.25% stake on Telemig Celular, which provides mobile services in the Brazilian state of Minas Gerais.

On 4 April 2008, under the stock purchase agreement for the acquisition of shareholder control, Vivo acquired from Telepart a 22.7% stake of Telemig Celular Participações for an amount of R$ 1,239 million (Euro 449,669,662). The total shares acquired includes 53.9% of ordinary shares, which grant shareholder control to Vivo, 4.3% of preferred shares and certain subscription rights. On 8 April 2008, Vivo launched two voluntary tender offers to purchase up to 1/3 of the outstanding preferred shares of Telemig Celular Participações and Telemig Celular. These offers were concluded on 15 May 2008 and as a result Vivo acquired additional stakes of 20.0% and 3.8% of Telemig Celular Participações and Telemig Celular, respectively, for a total amount of R$ 522 million (Euro 204,029,602). The acquisition process of Telemig Celular Participações and Telemig Celular will be concluded after the mandatory tender offers announced on 15 July 2008 (Note 18).

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As at 1 April 2008, the detail of the consolidated net assets of Telemig acquired by Portugal through Vivo and the goodwill recorded following the acquisition of shareholder control was as follows (50% share of Portugal Telecom):

ASSETS	
Cash and cash equivalents (Note 16)	170,803,876
Accounts receivable	39,476,039
Inventories	9,827,699
Prepaid expenses	15,581,874
Taxes receivable	16,291,914
Tangible and intangible assets (Note 13)	152,856,473
Deferred taxes (Note 9)	29,712,059
Other non-current assets	61,151,283
Total assets	**495,701,217**
LIABILITIES	
Short-term debt (Note 14)	43,157,425
Accounts payable	31,651,602
Accrued expenses	22,806,175
Other current liabilities	53,150,894
Medium and long-term debt (Note 14)	8,228,972
Non-current provisions	53,798,378
Other non-current liabilities	4,655,672
Total liabilities	**217,449,118**
Minority interests (Note 11)	38,415,568
Book value of net assets acquired	**239,836,531**
Percentage of share capital acquired in the first transaction	22.7%
	54,502,852
Subscription rights acquired	13,559,569
Portugal Telecom s share of net assets acquired	**68,062,421**
Purchase price (Note 16)	224,834,831
Goodwill (Note 13)	**156,772,410**

The goodwill recorded in connection with the voluntary tender offers completed in May 2008 was as follows (50% share of Portugal Telecom):

Portugal Telecom s share of net assets acquired (i)	**62,027,768**
Purchase price (Note 16)	102,014,801
Goodwill (Note 13)	**39,987,033**

(i) Net assets acquired in connection with the acquisitions of 20.0% of Telemig Celular Participações and 3.8% of Telemig Celular.

As at 30 June 2008 Vivo did not complete the process of allocating the purchase price to the fair value of the net assets acquired. Accordingly, Vivo qualified, on a preliminary basis, the difference between the purchase price and the carrying value of the net assets acquired as goodwill, as described above. Vivo expects to conclude the purchase price allocation up to year end.

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Portugal Telecom s consolidated income statement for the six month period ended 30 June 2008 includes the results of Telemig as from 1 April 2008, whose net income before minority interests amounted to Euro 3 million. The pro-forma consolidated operating revenues and net income before minority interests of Portugal Telecom for the six month period ended 30 June 2008 as if Telemig had been consolidated as from 1 January 2008 are as follows (amounts in millions):

	Reported figures	**Telemig 1Q08**	**Pro-forma**
Operating revenues	3,250	71	3,321
Net income (before minority interests)	294	38	333

3. Accounting policies, judgments and estimates

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

The Company has decided to change the accounting principle of real estate properties included under the caption Tangible assets from the cost method to the fair value method, as permitted by International Accounting Standard Nº. 16 IAS 16 Tangible assets . The Company s management believes that the market value method is preferable than the cost method given the nature of the assets revalued, and therefore improving the presentation of the Company s financial position in the financial statements. The revaluation of real estate properties was effective as at 30 June 2008 and resulted in recording a revaluation reserve of Euro 208,133,280 (Note 13), which will be amortised in accordance with the criteria used to amortize the revalued assets. The corresponding tax effect amounting to Euro 55,155,319 (Note 9) was recorded as a deferred tax liability. The net impact of the revaluation was recorded directly in the consolidated statement of recognised income and expenses. The recognition of this reserve did not increase Portugal Telecom s distributable reserves as at 30 June 2008.

4. Exchange rates

As at 30 June 2008 and 31 December 2007, assets and liabilities denominated in Reais were translated to Euros using the exchange rates of 2.5112 and 2.5963, respectively. During the first half of 2008 and 2007, the income statements of subsidiaries expressed in Reais were translated to Euros using the average exchange rates of 2.5946 and 2.6661, respectively.

5. Segment reporting

Portugal Telecom s primary basis of business segmentation remains the same as reported in the last annual report, including the following business segments: (i) Wireline (including Retail, Wholesale and Data & Corporate); (ii) Domestic Mobile (TMN); and (iii) Brazilian Mobile (Vivo). As mentioned above, Vivo s results include the results of Telemig as from 1 April 2008.

The following information gives an overall summary of the results of Portugal Telecom s business segments for the six month periods ended 30 June 2008 and 2007.

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In the first half of 2008 and 2007, revenues by business segment and its contribution to Group s consolidated revenues is as follows:

	2008 Standalone revenues	2008 Intragroup revenues	2008 Consolidated revenues	2007 Standalone revenues	2007 Intragroup revenues	2007 Consolidated revenues
Revenues relating to reportable segments:						
Wireline	953,705,730	(59,420,542)	894,285,188	992,927,642	(56,716,349)	936,211,293
Domestic Mobile - TMN	780,755,471	(41,228,446)	739,527,025	728,137,225	(37,993,163)	690,144,062
Brazilian Mobile - Vivo	1,433,541,338	(44,873)	1,433,496,465	1,140,315,036	(7,161)	1,140,307,875
Revenues relating to other businesses	340,460,592	(157,657,977)	182,802,615	326,761,626	(137,629,594)	189,132,032
Group consolidated revenues			3,250,111,293			2,955,795,262

In the first half of 2008 and 2007, the reconciliation between income before financial results and taxes from reportable segments and Group s consolidated net income is as follows:

	2008	2007
Income before financial results and taxes relating to reportable segments:		
Wireline	193,006,291	248,735,987
Domestic Mobile - TMN	221,561,676	218,914,342
Brazilian Mobile - Vivo	42,393,425	29,026,765
Income before financial results and taxes relating to other businesses (i)	25,118,903	(1,531,772)
	482,080,295	**495,145,322**
Minus:		
Net interest expenses (Note 7)	115,553,944	90,850,738
Equity in earnings of associated companies, net	(74,452,687)	(52,869,542)
Net other financial losses (gains) (Note 8)	31,917,361	(127,122,323)
Income taxes (Note 9)	114,573,533	141,098,400
Plus:		
Net income from continuing operations (Note 10)	-	28,639,541
Consolidated net income	**294,488,144**	**471,827,590**

(i) The change in this caption is primarily related to the improvement of the results of certain international businesses, such as Mobitel and Cabo Verde Telecom, and to the expenses incurred by Portugal Telecom in the first half of 2007 related to the tender offer launched by Sonaecom in 2006.

6. Post retirement benefits

As at 30 June 2008, the Company did not obtain an actuarial study to recognize post retirement benefits and therefore costs recorded during the first half of 2008 are based on the 2007 actuarial study, adjusted by curtailment costs incurred during that period.

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The movements occurred in net liabilities with post retirement benefits during the first half of 2008 and 2007 were as follows:

	Pension benefits	Healthcare benefits	Total
Balance as at 31 December 2006	**1,807,570,587**	**(134,060,519)**	**1,673,510,068**
Net periodic post retirement benefits gains	(10,622,400)	(6,675,816)	(17,298,216)
Work force reduction program costs	81,997,992	2,435,000	84,432,992
Net actuarial losses	(287,029,010)	(34,580,160)	(321,609,170)
Payments, contributions and refunds	(227,577,635)	63,775,925	(163,801,710)
Balance as at 30 June 2007	**1,364,339,534**	**(109,105,570)**	**1,255,233,964**

	Pension benefits	Healthcare benefits	Total
Balance as at 31 December 2007	**1,440,662,106**	**(110,790,466)**	**1,329,871,640**
Net periodic post retirement benefits costs/(gains)	26,633,036	(4,775,993)	21,857,043
Work force reduction program costs	74,884,470	3,137,113	78,021,583
Net actuarial losses	167,665,600	34,554,414	202,220,014
Payments, contributions and refunds	(88,902,653)	(11,911,736)	(100,814,389)
Balance as at 30 June 2008	**1,620,942,559**	**(89,786,668)**	**1,531,155,891**

Certain post retirement benefit plans have a surplus position and therefore are presented in the balance sheet separately from those plans with a deficit position. As at 30 June 2008 and 31 December 2007, net post retirement obligations were recognized in the balance sheet as follows:

	30 Jun 2008	31 Dec 2007
Pension plans with a deficit position	1,636,548,414	1,463,019,423
Healthcare plans with a deficit position	953,010	912,816
Plans with a deficit position	**1,637,501,424**	**1,463,932,239**
Pension plans with a surplus position	(15,605,855)	(22,357,317)
Healthcare plans with a surplus position	(90,739,678)	(111,703,282)
Plans with a surplus position	**(106,345,533)**	**(134,060,599)**
	1,531,155,891	**1,329,871,640**

The detail of post retirement benefit costs in the first half of 2008 and 2007 is as follows:

	2008	2007
Post retirement benefits, net:		
Service cost	5,211,036	8,329,184
Interest cost	103,583,000	103,350,520
Expected return on plan assets	(86,007,000)	(91,218,000)
Amortization of prior years service gains	(929,993)	(1,559,920)
Prior years service gains (i)	-	(36,200,000)
	21,857,043	**(17,298,216)**
Curtailment costs, net		

Work force reduction program (ii)	73,062,407	81,975,451
Termination payments (ii)	4,959,176	2,457,541
	78,021,583	**84,432,992**

(i) Prior years service gains recorded in the first half of 2007 were related to certain changes made by Portugal Telecom to the pension plans which reduced the benefits granted.

(ii) Costs incurred in the first half of 2008 and 2007 are related to the reduction of 267 and 253 employees, respectively.

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Net actuarial losses in the first half of 2008 and 2007 are as follows:

	2008	2007
Changes in actuarial assumptions (i)	-	241,964,176
Differences between actual data and actuarial assumptions		
Pension benefit obligation related	-	38,100,994
Asset related	(202,220,014)	41,544,000
	(202,220,014)	**321,609,170**

(i) In June 2007, Portugal Telecom prepared an actuarial study and has reviewed its actuarial assumptions as follows: increase in the discount rate from 4.75% to 5.25% for pension and healthcare liabilities and from 4.25% to 4.75% for salary liabilities, reflecting the evolution of market yields. As at 30 June 2008, Portugal Telecom has concluded that the impact of potential changes in actuarial assumptions was not material for the presentation of the consolidated financial statements.

Cash flows relating to post retirement benefits in the first half of 2008 and 2007 are as follows:

	2008	2007
Payments of salaries to pre-retired and suspended employees	83,375,442	76,200,124
Contributions to the funds	568,035	148,919,970
Healthcare expenses	11,911,736	11,448,358
Termination payments	4,959,176	2,457,541
Refund of expenses paid on account by PT Comunicações (i)	-	(75,224,283)
	100,814,389	**163,801,710**

(i) This caption is related to the reimbursement made in the first half of 2007 by PT Prestações, the fund created to cover healthcare responsibilities, of healthcare expenses paid by PT Comunicações on behalf of the fund in previous years.

7. Net interest expense

In the first half of 2008 and 2007, this caption consists of:

	2008	2007
Interest expense:		
Related to loans obtained and financial instruments	170,996,275	154,893,535

Other (i)	3,148,144	2,120,286
Interest income:		
Related to cash, short-term investments and financial instruments	(49,042,046)	(58,333,066)
Other (i)	(9,548,429)	(7,830,017)
	115,553,944	**90,850,738**

(i) These captions include primarily interest expense and income related to delayed payments and receipts, respectively, and also interest income related to long-term tax receivables related to Vivo.

The increase in net interest expenses is primarily explained by the increase in Portugal Telecom s average net debt, mainly as a result of the ongoing share buyback program.

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8. Net other financial losses (gains)

In the first half of 2008 and 2007, this caption consists of:

	2008	2007
Net gains on financial assets and other investments		
Free-standing cross currency derivatives	6,058,467	5,049,092
Equity swaps over PT Multimédia shares (i)	-	(77,428,725)
Disposal of the investment in BES (Note 9) (ii)	-	(35,698,600)
Financial settlement of equity swaps over Portugal Telecom's own shares (Note 16)	-	(31,247,010)
Net foreign currency exchange losses (gains) (iii)	12,734,382	(2,635,303)
Other, net (iv)	13,124,512	14,838,223
	31,917,361	**(127,122,323)**

(i) This caption is related to the change in the fair value of the equity swaps over PT Multimédia shares until 14 May 2007, when these derivatives were cash settled and, as a result, Portugal Telecom has received an amount of Euro 94,477,028 (Note 16).

(ii) This caption is related to the gain obtained from the disposal of the investment in BES for an amount of Euro 110,318,600 (Note 16). This gain corresponds to the accumulated changes in the fair value of this investment until the date of the disposal, previously recorded under shareholders equity.

(iii) Losses recorded in the first half of 2008 are primarily related to the devaluation of the US Dollar against the Euro.

(iv) This caption includes mainly banking services, commissions, net financial discounts and other financing costs.

9. Income taxes

During the the first half of 2008, there have been no significant changes in the relevant tax legislations applied to Portugal Telecom.

In the first half of 2008 and 2007, the reconciliation between the nominal and effective income tax for the period is as follows:

	2008	2007
Income before taxes	409,061,677	584,286,449
Statutory tax rate	26.5%	26.5%
	108,401,344	154,835,909