

Results Presentation

First Half 2008

7 August 2008

Important notice



This release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not statements of historical fact, and reflect goals of the company's management. The words "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "predicts," "projects" and "targets" and similar words are intended to identify these forward-looking statements, which necessarily involve known and unknown risks and uncertainties. Accordingly, the results of operations of the company to be achieved may be different from the company's current goals and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the company does not undertake any obligation to update them in light of new information or future developments.

First Half 2008 highlights



	<u>1H08 ⁽¹⁾</u>	<u>y.o.y</u>
> Operating revenues	3,250	10.0%
> EBITDA pre PRBs	1,193	5.6%
> EBITDA	1,171	2.1%
> Net income	253	-41.1%
> Net income excluding exceptional items	301	-10.8%
> Operating cash flow	717	13.8%
> Net debt	5,800	35.5%
> After-tax unfunded post retirement obligations	1,107	22.3%
> Diluted adjusted EPS ⁽²⁾	0.31	7.5%

(1) Values in Euro million

(2) Value in Euro

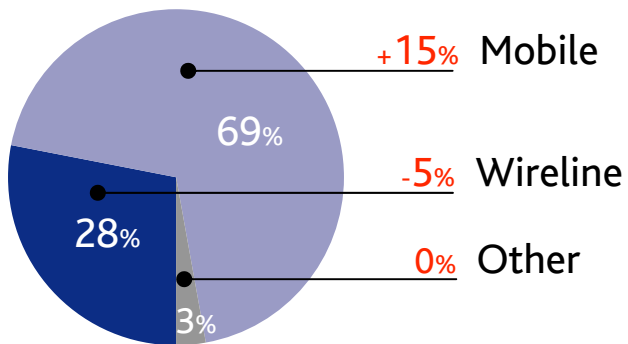
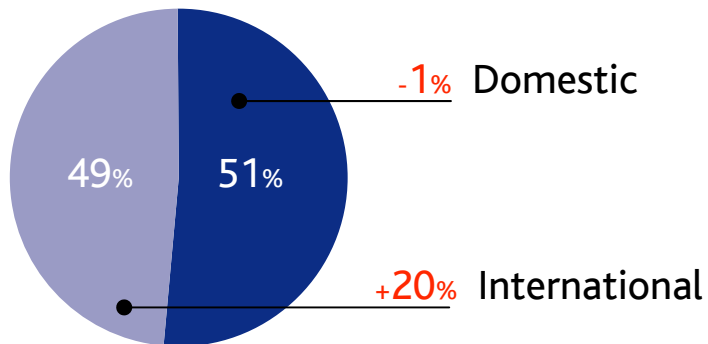
Exposed to mobile and emerging markets

[Revenues by region and by business segment: 1H08, 2-year CAGR]



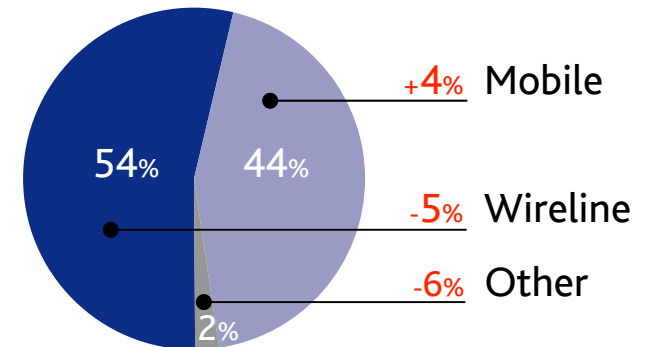
Consolidated revenues

Revenues: Euro 3,250 million



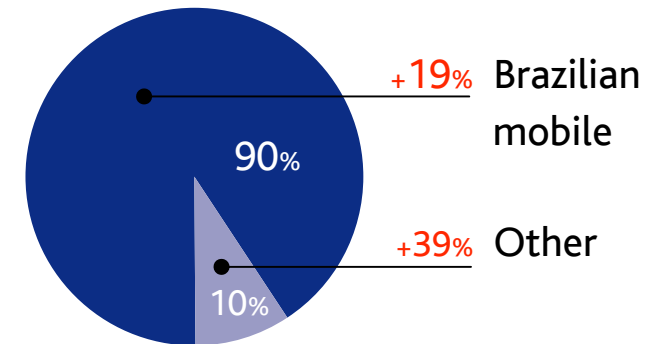
Domestic market

Revenues: Euro 1,665 million



International market

Revenues: Euro 1,585 million



- > Revenue contribution from fully consolidated international assets increased from 43.3% in 1H07 to 48.6% in 1H08
 - In 2Q08, the contribution of international assets to consolidated revenues exceeded 50%
 - Brazil is the main growth driver

Portuguese competitive landscape

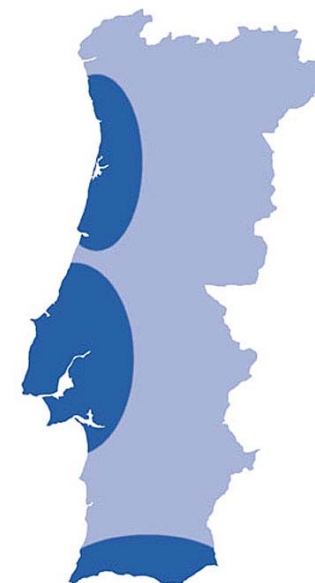


Telecoms market ⁽¹⁾	Fixed voice market	3.8 mn
	Portugal Telecom	71%
	Sonaecom	12%
	Cabovisão	7%
	Zon	5%
	Other	4%
	Broadband market	1.6 mn
	Portugal Telecom	43%
	Zon	28%
	Cabovisão	11%
	Sonaecom	16%
	Other	2%
	Mobile market	14.1 mn
	Portugal Telecom	46%
	Vodafone	37%
Sonaecom	17%	
Pay-TV Market	2.1 mn	
Zon	74%	
Cabovisão	14%	
Portugal Telecom	6%	
Others	6%	

Wireline market ⁽¹⁾

	ULL	Non-ULL
Network	2	1
Players	5	4
Households	2.1 mn	2.8 mn
Fixed voice	2.0 mn	1.8 mn
Broadband	1.0 mn	0.6 mn
Pay-TV	1.4 mn	0.7 mn

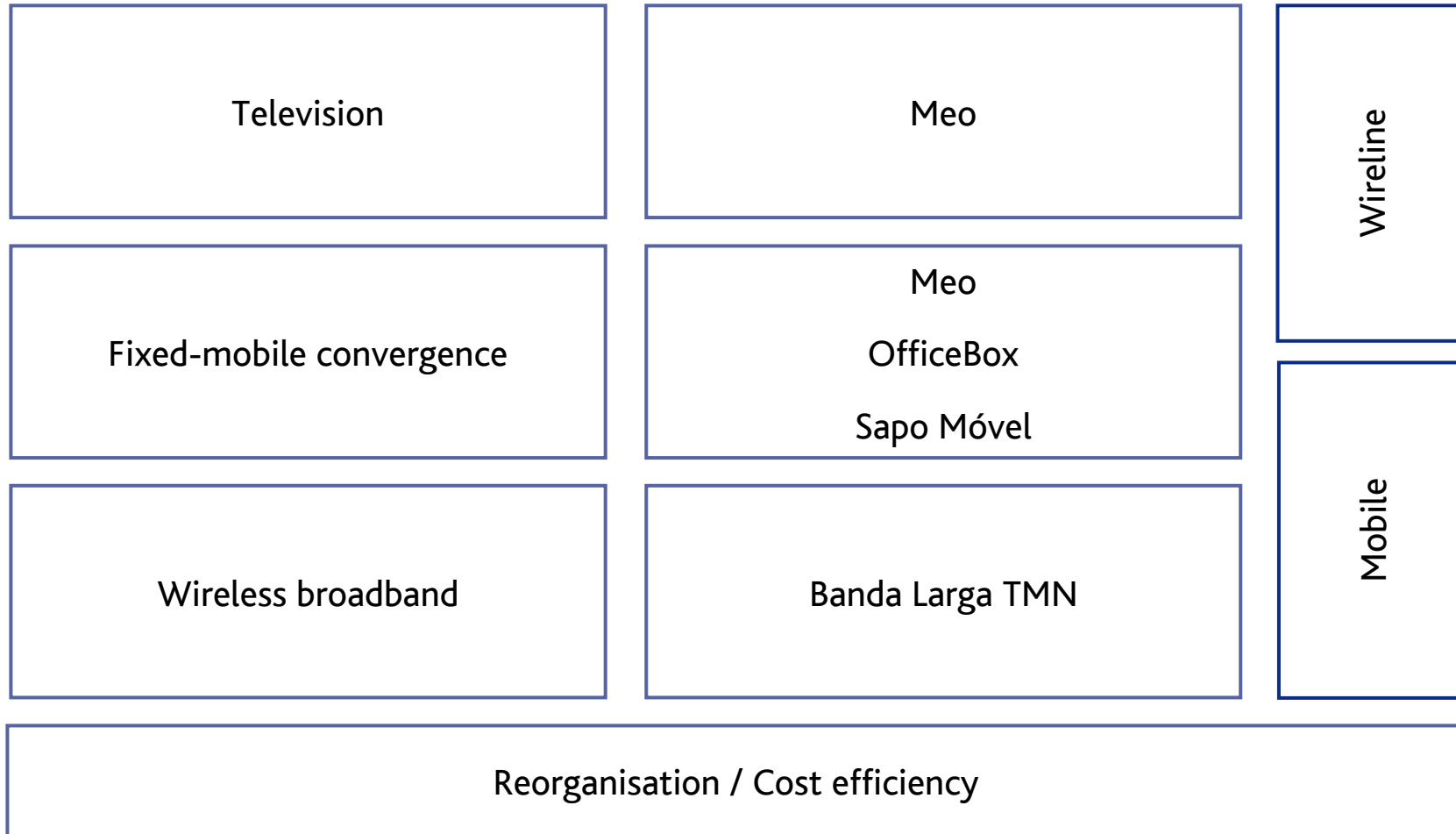
Note: Assumes 85% overlap between cable and ULL areas and all DTH subscriber in non-ULL areas



- > ULL areas:
 - Competition from ULL and cable players
 - Lost leadership in broadband (approx. 26% share)

- > Non-ULL areas
 - 2 DTH platforms covering 100% of Portuguese territory
 - Wholesale based competition
 - Portugal Telecom 1st player in broadband (66% share)

Key initiatives

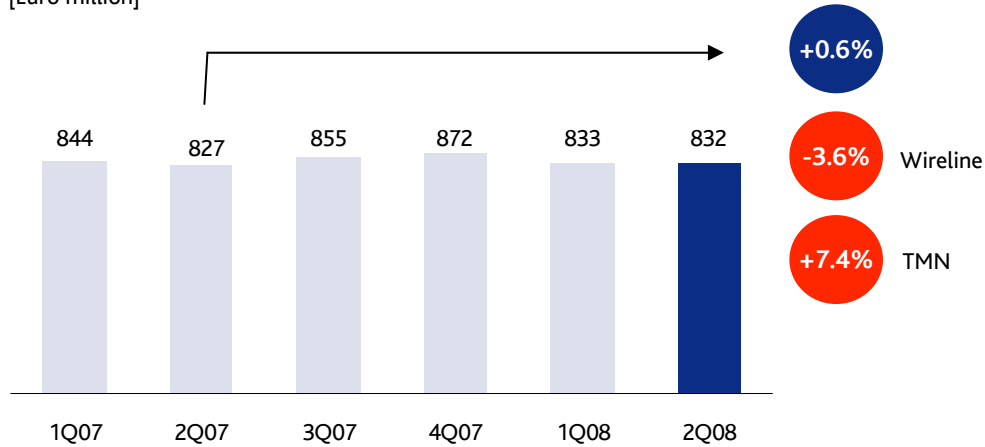


Domestic operations – Sustained performance



Revenues

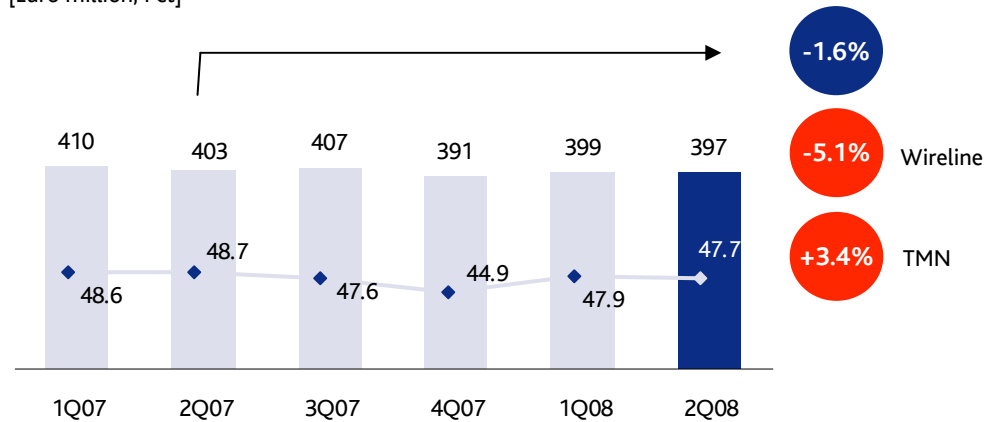
[Euro million]



- > Revenues increased by 0.6% as a result of
 - Strong performance of the mobile segment in line with previous quarters
 - Sustained recovery in the wireline segment underpinned by the take up of the television service

EBITDA⁽¹⁾ and EBITDA⁽¹⁾ margin

[Euro million, Pct]

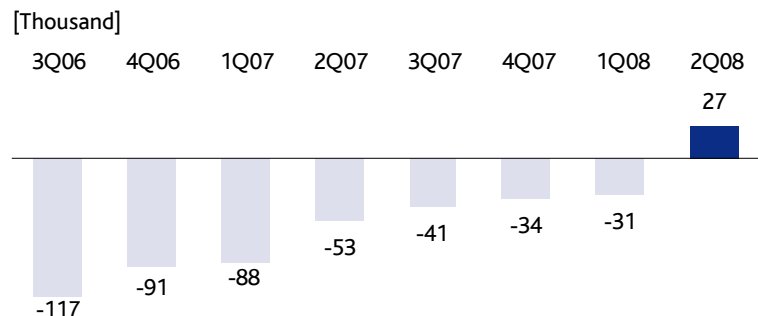


- > Improving performance in EBITDA⁽¹⁾ (-1.6% y.o.y) against a backdrop of
 - Intense commercial activity in the wireline segment (TV net adds at +70k in 2Q08) and at TMN (net adds up by 19.5% y.o.y)
 - Higher customer care and support costs due to strong take up of wireless broadband and television services
 - Cost control is reflected in 10.5% decline in wages and salaries and in other opex, which only increased by 1.3%

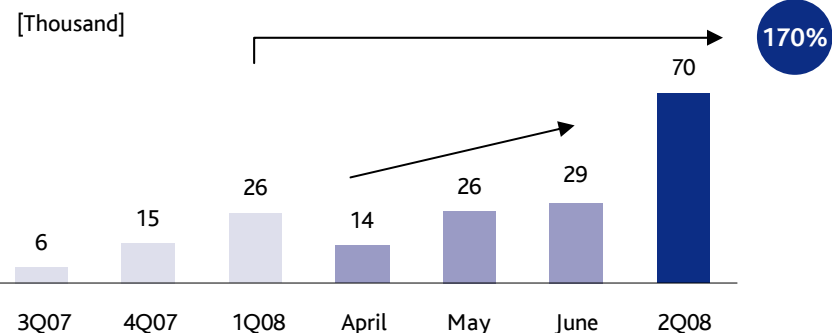
Wireline – Improving performance in a challenging environment



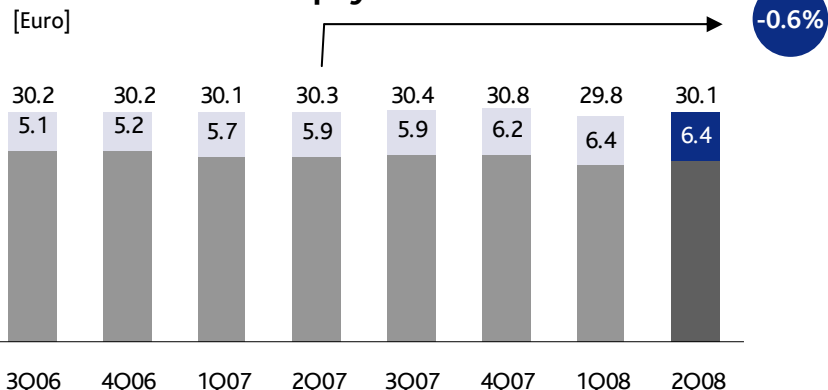
Retail RGUs – Net Adds⁽¹⁾



TV customers - Net Adds



ARPU⁽²⁾ and data & pay-TV contribution



- > Retail RGU's increased 27k
 - Reversal of negative trend seen in the last eleven quarters
 - Pay-TV offer up 70k q.o.q
 - Loss of traffic generating lines broadly stable
 - Flat-fee ADSL up 16k q.o.q notwithstanding strong growth in wireless broadband at TMN

- > Strong take up in television (already 17.4% of ADSL customers)
 - Dual platform, IPTV and DTH (launched in April), covering 100% of households
 - Circa 50% of IPTV net adds are new customers to PT

- > TV marketing focusing on distinctive features
 - High definition: broadcasting of major sport events
 - Digital recording up to 140 hours
 - Video on demand
 - Content quality: Key content (locals, sports, movies) available with Disney Channel recently added to the basic package

- > Flat ARPU⁽²⁾
 - Growth in data and other ARPU, driven by pay-TV, offsetting the decline in subscription and voice ARPU

(1) 4Q07 adjusted for the database clean-up of 103 thousand customers, related with inactive prepaid broadband customers.

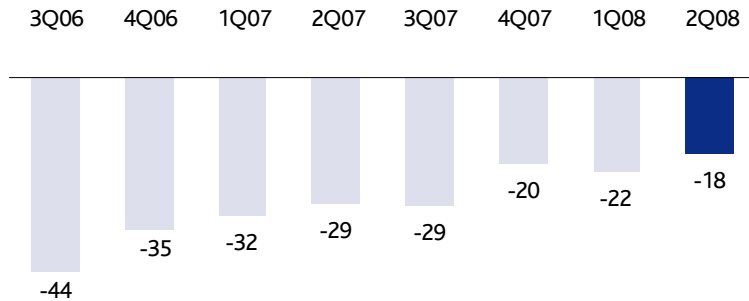
(2) Includes the contribution of data & pay-TV to blended ARPU. Not affected by the ADSL database cleanup.

Wireline – Strong focus on operational efficiency

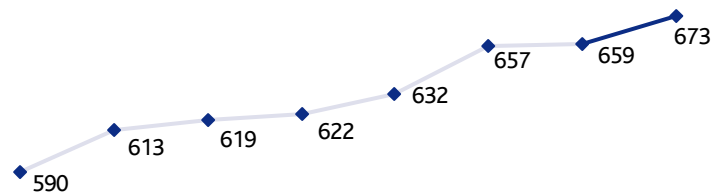


Revenue loss

[Euro million]

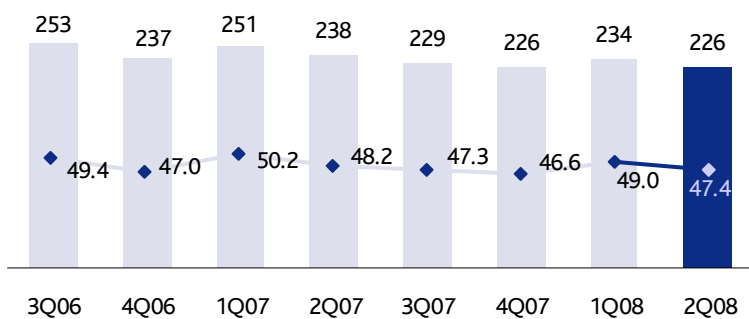


Lines per employee



EBITDA⁽¹⁾ and EBITDA⁽¹⁾ margin

[Euro million, Pct]



> Revenue loss showing a continued improvement

- Voice revenues decreased by 10.3% y.o.y as a result of line loss and increased pricing pressure
- Data and corporate revenues up 3.9% y.o.y as a result of a successful migration towards advanced and integrated solutions
- Other revenues up 8.6% y.o.y underpinned by portal revenues (+19.3%) and equipment sales (+25.9%)

> Operating expenses excluding PRBs down 2.1% y.o.y

- Strict cost control (-10.4% in wages and salaries)

> EBITDA⁽¹⁾ down 5.1% against a backdrop of increased commercial activity

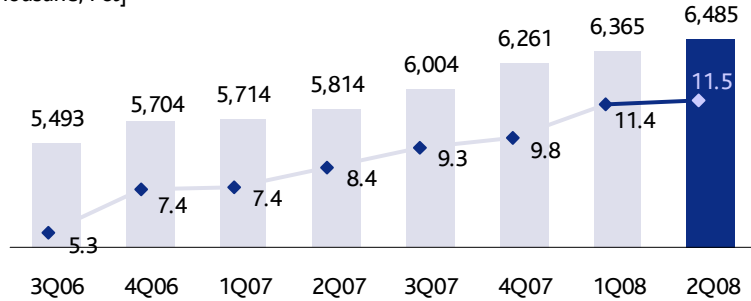
- Increase in commercial costs mainly due to marketing campaigns associated with rollout of pay-TV
- Increase in direct costs mostly due to programming costs

TMN – Strong operational momentum



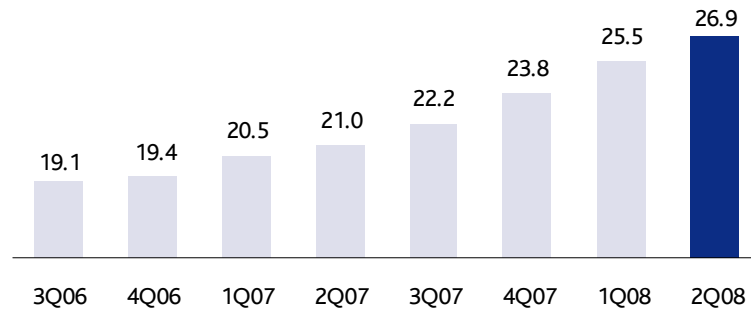
Customers and growth (y.o.y)

[Thousand, Pct]



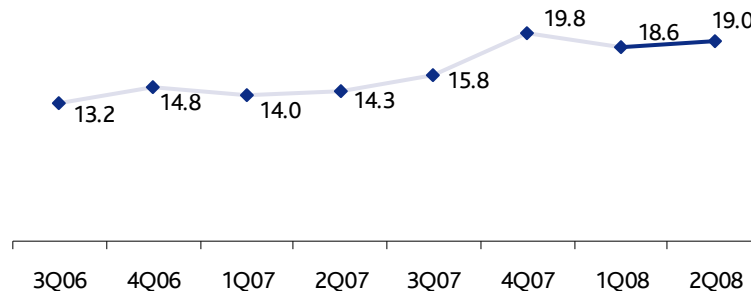
Weight of post-paid customers

[Pct]



Data % Serv. Revenues

[Pct]



> Continued momentum in customer growth

- Customer base up by 11.5% y.o.y
- Continued take-up of wireless broadband
- Focus on postpaid segment

> Wireless broadband remained a key priority

- Wireless broadband experiencing high growth
- Most plans involve a loyalty programme
- TMN was recently elected by the readers of "PC Guia", a specialised magazine, as the best wireless broadband provider in Portugal

> Continued growth in data services on the back of wireless broadband growth

- Data at 19% of service revenues in 2Q08 (+4.8pp y.o.y)
- Non-SMS accounts for circa 50% of data revenues

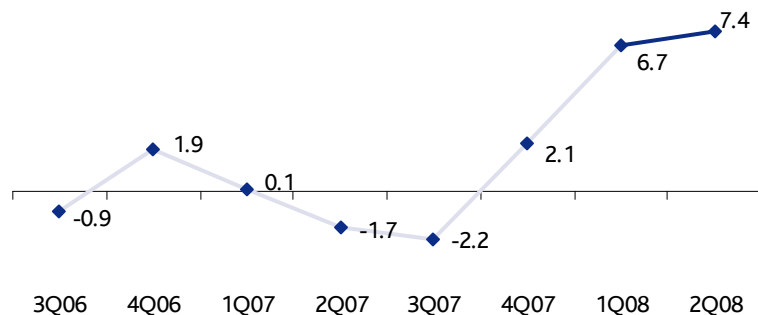
> Development of fixed-mobile convergent products both in voice and data

TMN – Continued growth in customer revenues



Customer revenue growth (y.o.y)

[Pct]

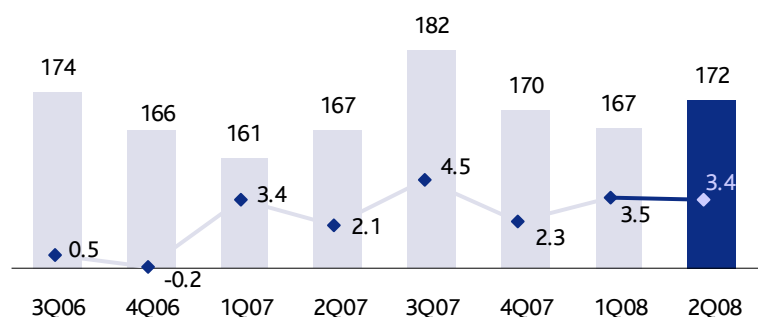


- > Growth of customer revenues (+7.4% y.o.y) accelerating, underpinned by
 - Customer growth (+11.5% y.o.y)
 - Growth in data revenues (+41.1% y.o.y)

- > Growth in service revenues, up by 5.7% y.o.y, was achieved notwithstanding the declines in roaming prices

EBITDA and growth (y.o.y)

[Euro million, Pct]

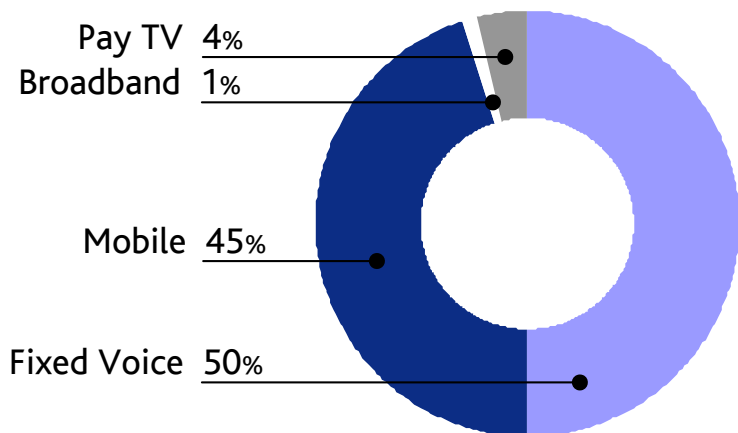


- > EBITDA increased (+3.4% y.o.y) notwithstanding:
 - Intense commercial activity focused on prepaid to postpaid migration and wireless broadband sales
 - Adverse impact of the Euro tariff on roaming
 - Higher support costs related with more complex data services

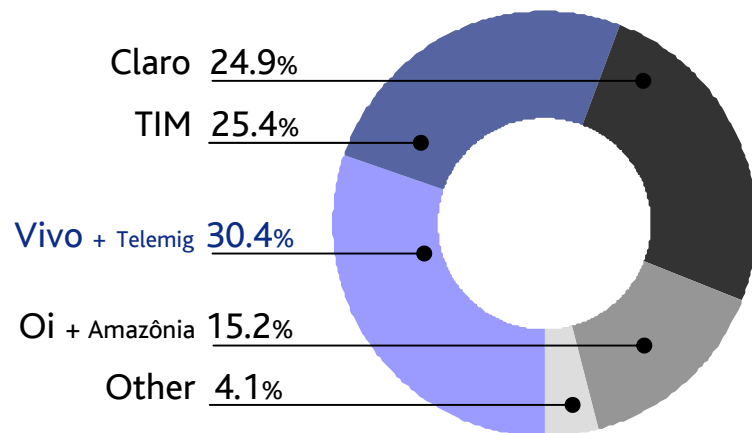
Vivo - Brazilian market



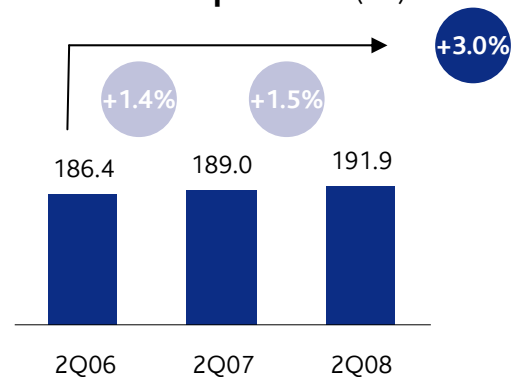
Market Snapshot by Revenues (2007)



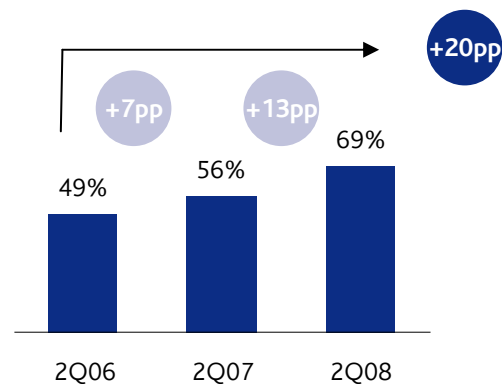
Brazilian Mobile Market Share (2Q08)



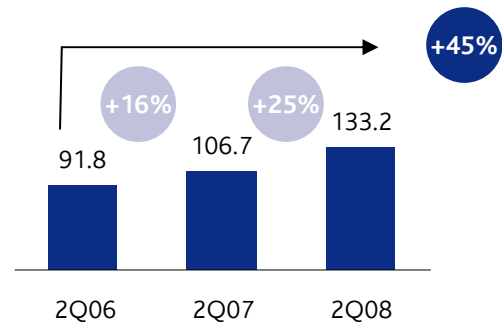
Brazilian Population (mn)



Brazilian Mobile Penetration



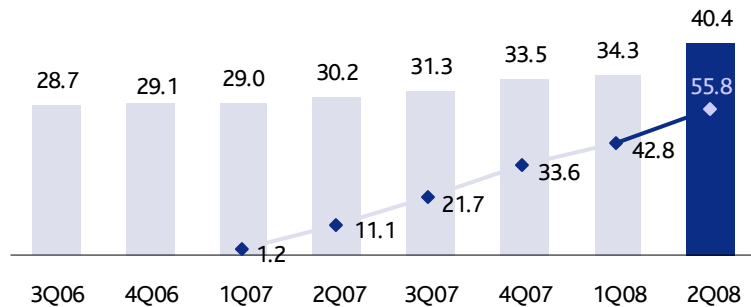
Brazilian Mobile Subscribers (mn)



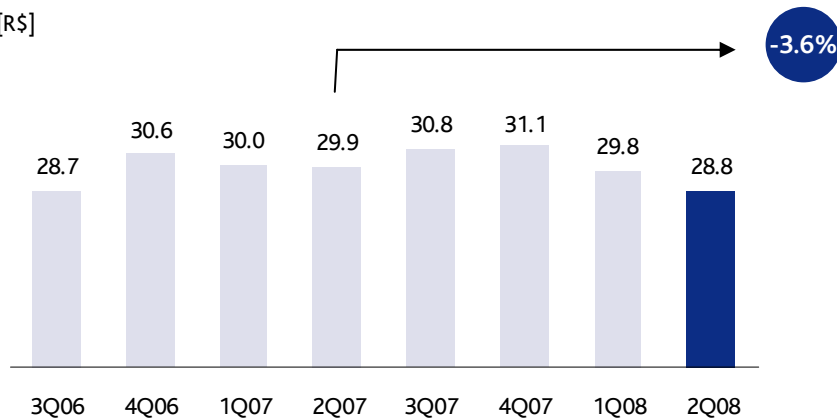
Vivo – Maintaining robust growth trends



Customers and weight of GSM⁽¹⁾
[Thousand, pct]



ARPU
[R\$]



> Maintaining robust growth trends

- Customer base increased by 33.7% y.o.y (19.6% like-for-like)
- Net adds of 2.1 million and gross adds up 58.5% y.o.y
- GSM customers reached 22.6 million at the end of 2Q08, accounting for 89% of gross adds and representing 55.8% of total subscribers

> Strengthened strategic position with acquisition of Telemig

- Acquisition of controlling stake concluded on 3 April
- VTO⁽²⁾ over up to 1/3 of PN shares concluded on 15 May
- MTO⁽³⁾ over non-controlling ON shares to be concluded on 15 August

> ARPU down 3.6% against a backdrop of strong customer growth

- Customer ARPU flat
- Data ARPU up 25% y.o.y
- Interconnection ARPU down as a consequence of F2M migration

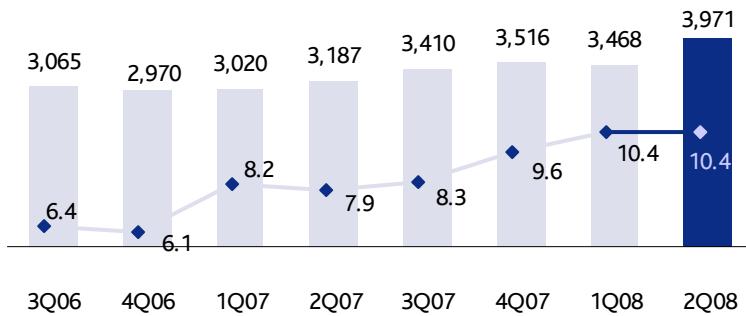
(1) Includes Telemig as of 2Q08
 (2) Voluntary tender offer
 (3) Mandatory tender offer

Vivo – Top line and EBITDA growth accelerating



Revenues and data % serv. revenues

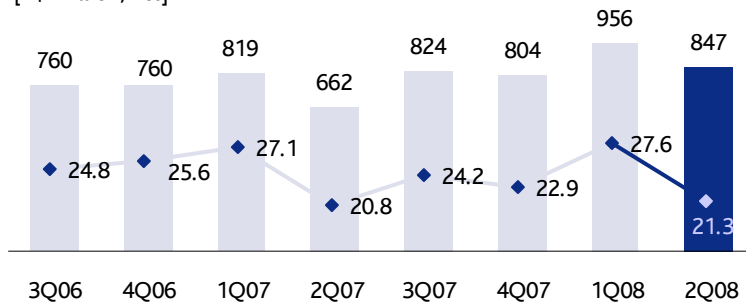
[R\$ million, Pct]



- > Strong growth of data revenues, up by 68.5% y.o.y
 - Growth in customer base of Zap, Flash/Desk Modem, Blackberry and smartmail customers
 - Increased SMS usage
 - Increased usage of content SMS leveraging on new partnerships with content providers

EBITDA⁽¹⁾ and EBITDA⁽¹⁾ Margin

[R\$ million, Pct]

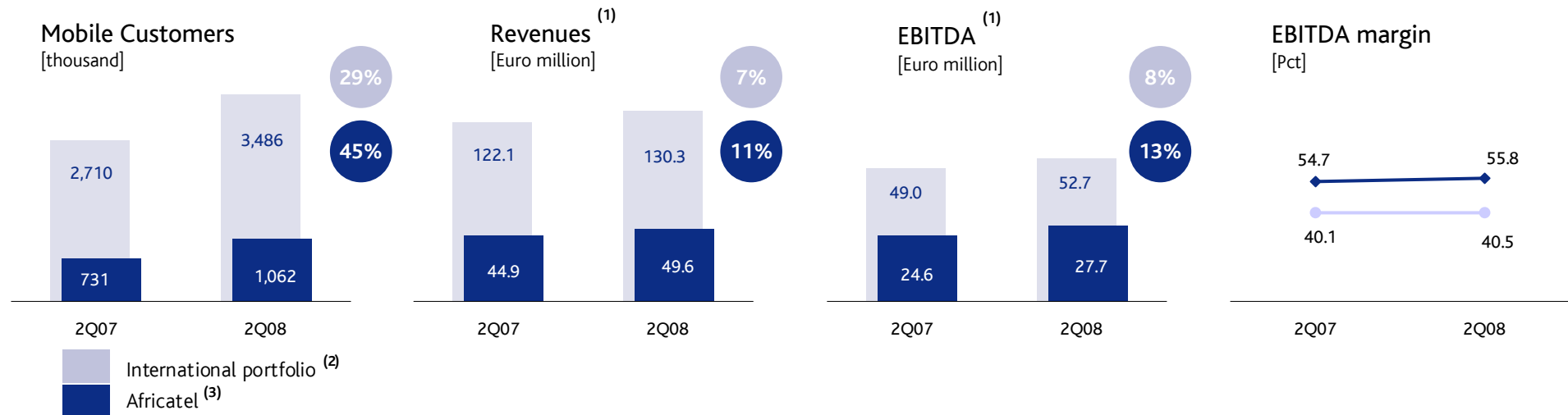


- > EBITDA⁽¹⁾ growth of 28.0% y.o.y (17.8% excluding Telemig), despite intense commercial activity (+58.5% y.o.y gross additions)
 - Notwithstanding, unitary SARC declined 18.2% y.o.y
 - EBITDA margin + 0.6pp y.o.y

Strong growth from other international assets



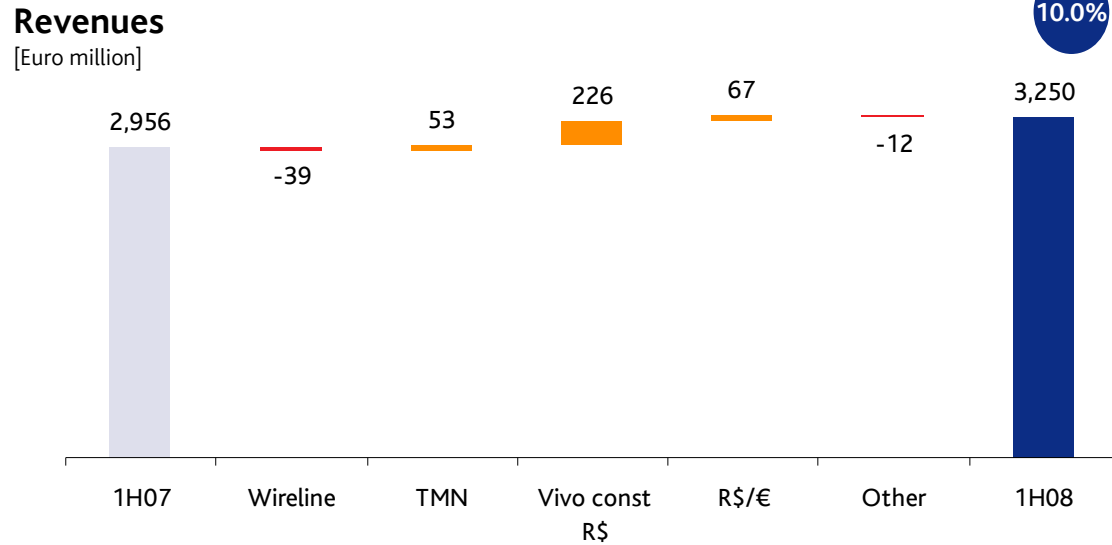
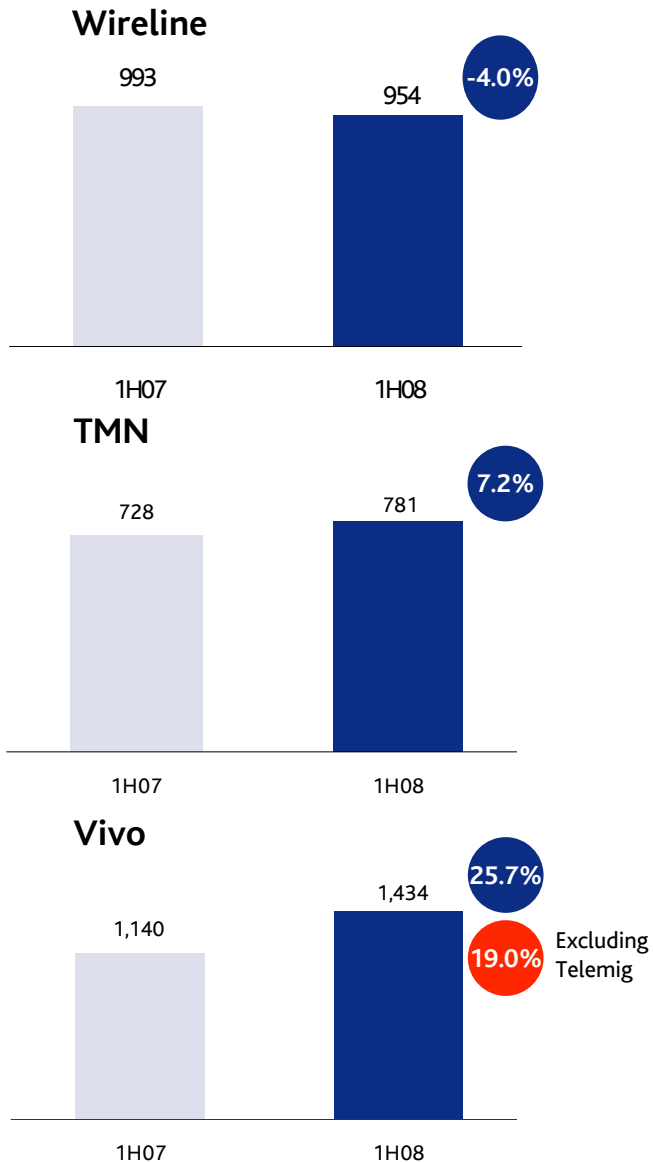
International and Africatel [proportional and local GAAP]



- > Positive performance across various assets in Africa and Asia, underpinned by customer, revenue and EBITDA growth...
- > ... partially eroded by adverse currency movements
- > Proportionate EBITDA for international assets (ex-Vivo) amounted to Euro 53 million in 2Q08

(1) Proforma consolidation using the percentage of ownership held by PT
 (2) Africatel; Meditel; CTM; TT; Mobitel; HDT
 (3) Unitel; MTC; CVT; CST; Directel; Teledata; Multitel; Guné Telecom; GuinéTel

Revenue performance underpinned by mobile growth

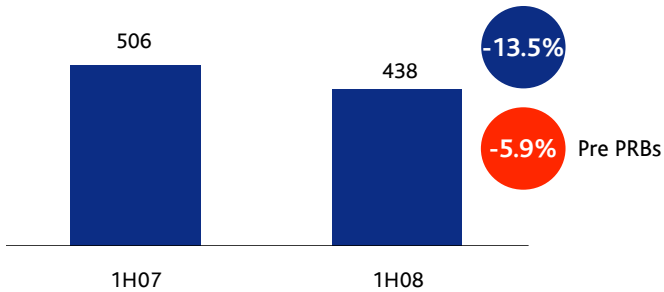


- > Wireline impacted negatively by line loss and pricing pressure, partially offset by growth in data & corporate and wholesale revenues
- > TMN performance driven by continued customer growth, particularly in postpaid (mainly corporate) and wireless broadband
- > Vivo top line growth supported by strong customer growth and consolidation of Telemig
- > Other revenues reflecting a decline in the call center business and adverse currency movements

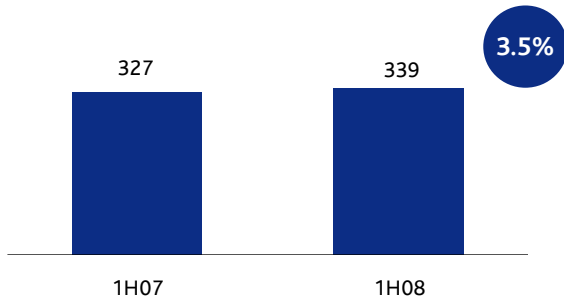
EBITDA performance supported by top line growth



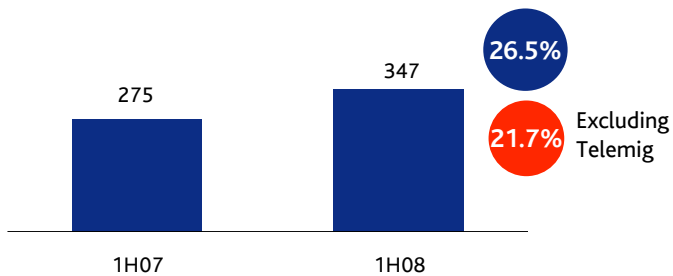
Wireline



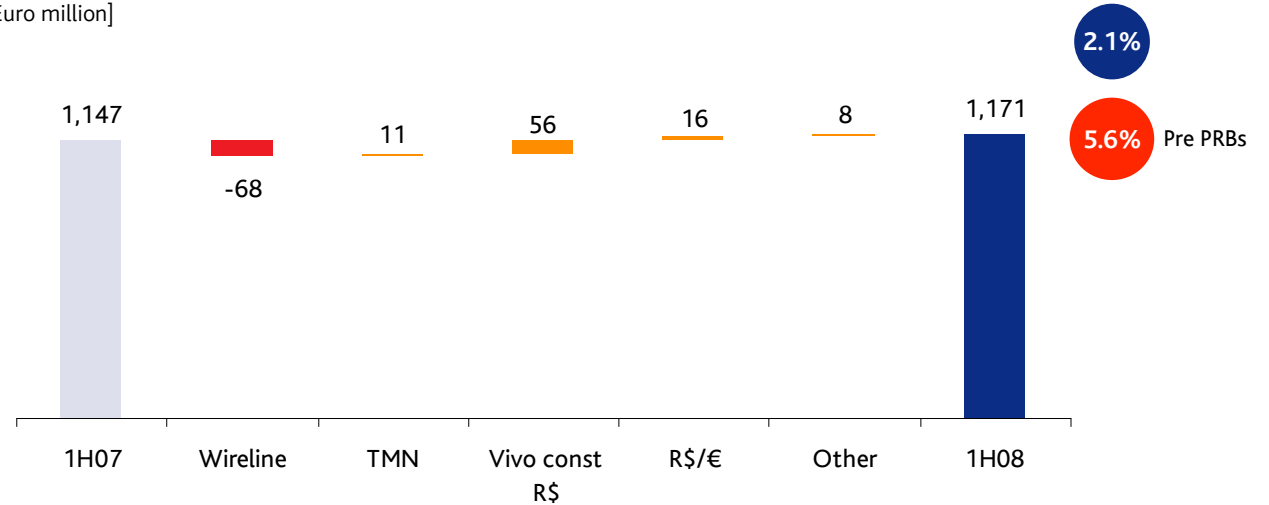
TMN



Vivo



EBITDA [Euro million]



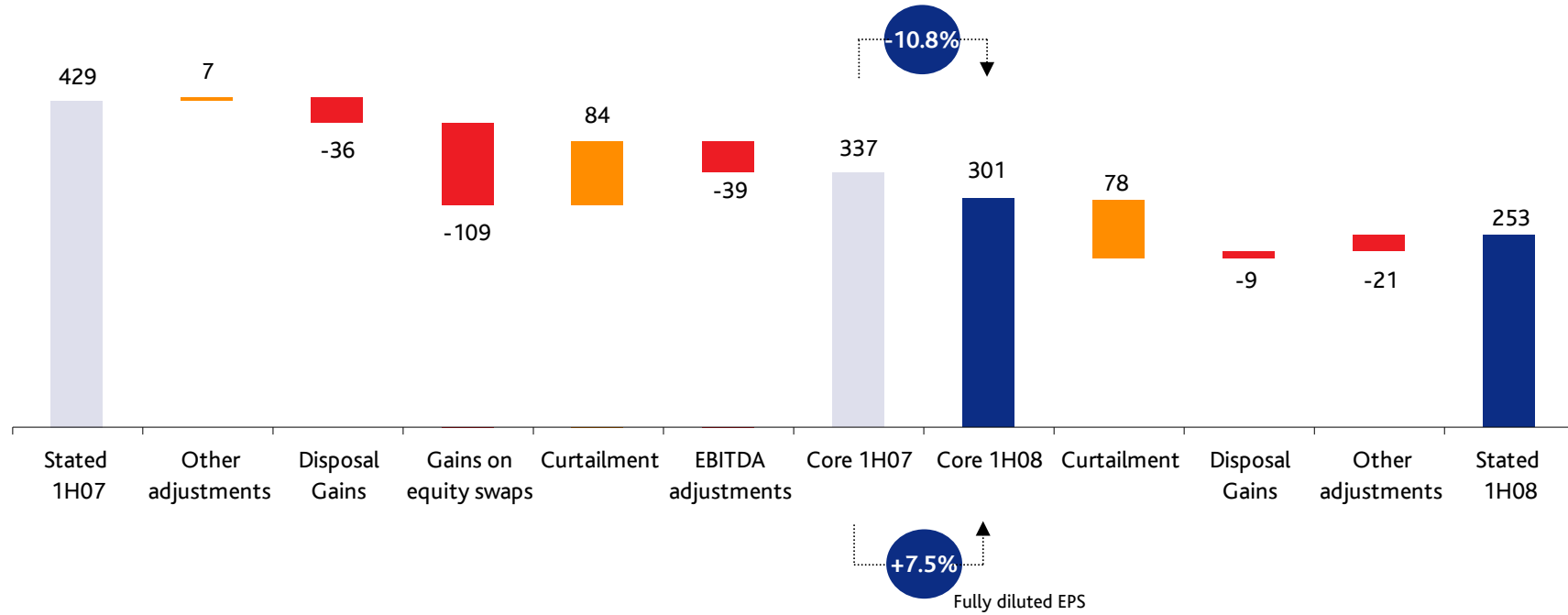
- > Wireline EBITDA decreased resulting from (1) prior year service gains of Euro 36 million registered in 1H07; (2) revenue loss, and (3) commercial costs associated with launch of TV, despite good performance of addressable costs
- > TMN EBITDA improvement supported by continuous customer growth, notwithstanding increased commercial activity in the quarter and declining roaming prices
- > Vivo EBITDA with solid performance, notwithstanding strong customer growth
- > Other EBITDA increased mainly as a result of the increased contribution from international assets

Net Income



Core net income

[Euro million]



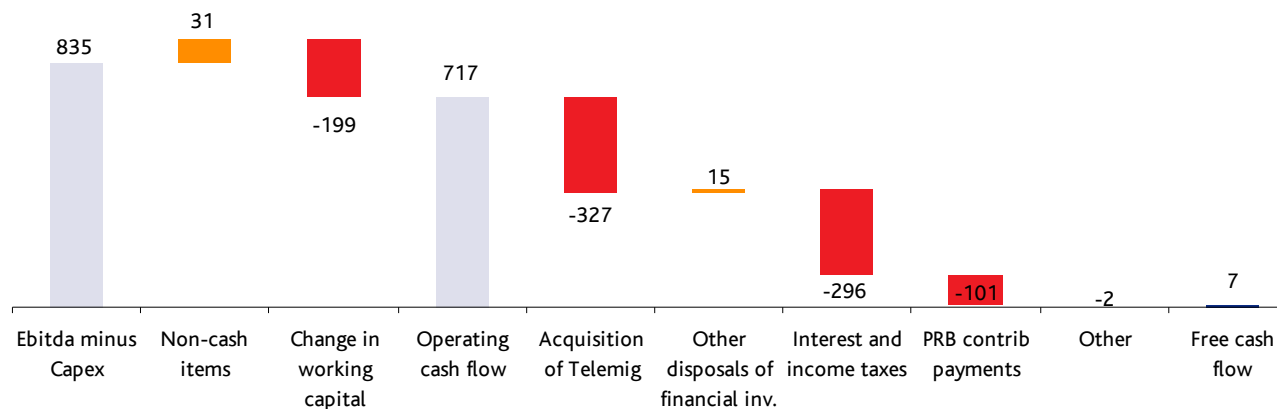
- > Core net income decreased due to higher interest costs and D&A
- > Adjusted fully diluted EPS increased by 7.5% y.o.y to Euro 0.31

Free cash flow



Free Cash Flow

[Euro million]



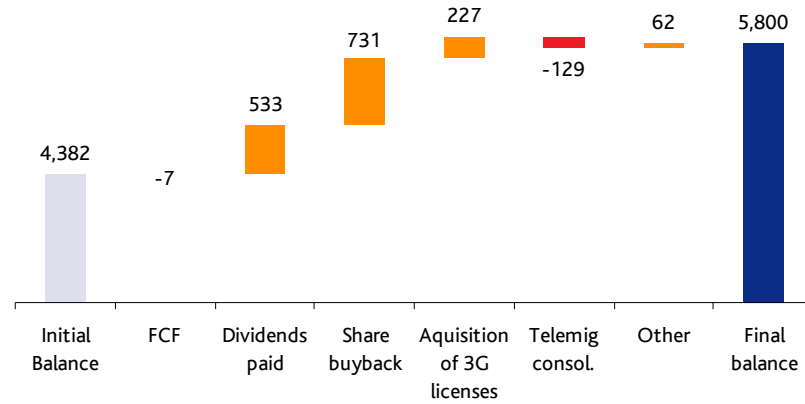
- > OpFCF amounted to Euro 717 million in 1H08, an increase of 13.8% y.o.y
 - Lower working capital investment (-27.6% y.o.y)
 - Flat EBITDA pre PRBs minus capex
- > In 1H08, financial investments reflect the acquisition of Telemig (Euro 327 million) and the divestment of the 34% stake in Banco BEST (Euro 16 million)
- > Net interest paid increased by Euro 13 million, explained by higher debt as a result of shareholder remuneration policy and acquisitions in Brazil

Net debt profile



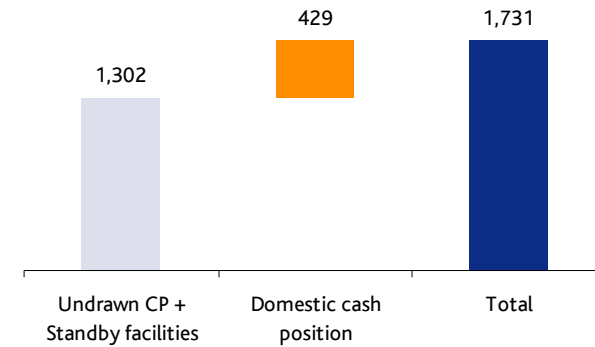
Change in Net Debt – 1H08

[Euro million]

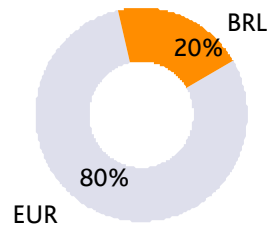


Undrawn CP + Standby Lines + Cash in Portugal

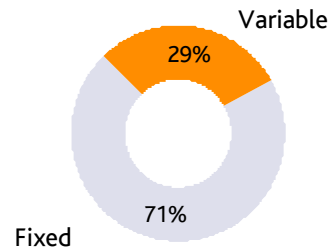
[30 June 2008, Euro million]



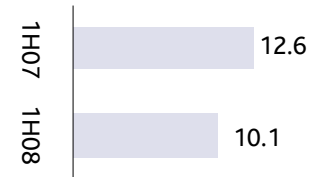
Currency (gross debt)



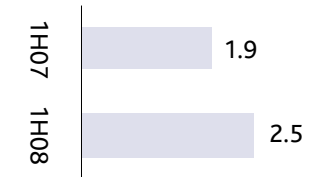
Rates (net debt)



Interest Cover



Net debt to EBITDA



Avg. Cost of Debt **4.6%**

- Ex. Brazil **4.0%**

Maturity **5.0**

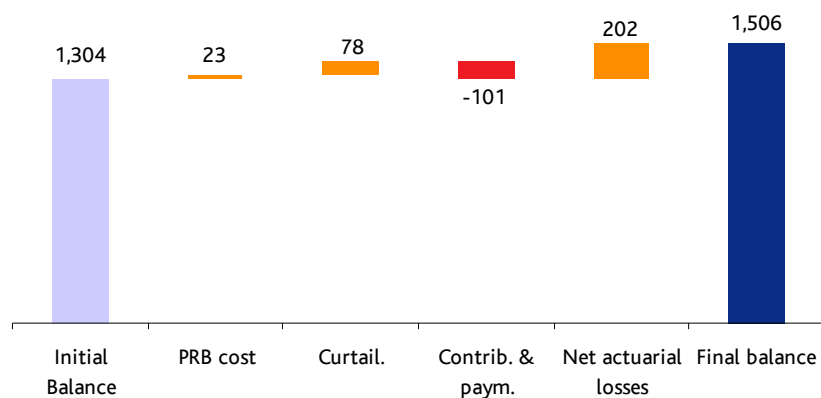
- Ex. Brazil **5.1**

Post retirement benefits | obligations



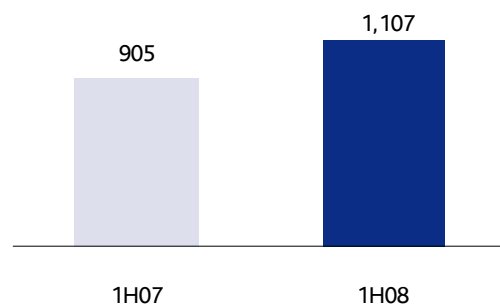
Change in Gross Unfunded Obligations

[Euro million]



After-tax Unfunded Obligations

[Euro million]



- > Post retirement benefit plans closed since 1994 for pensions and 2000 for healthcare
- > After-tax obligations increased to Euro 1,107 million, due to the underperformance of the plan assets versus the target rate of 3% for 1H08 and a Euro 78 million curtailment cost

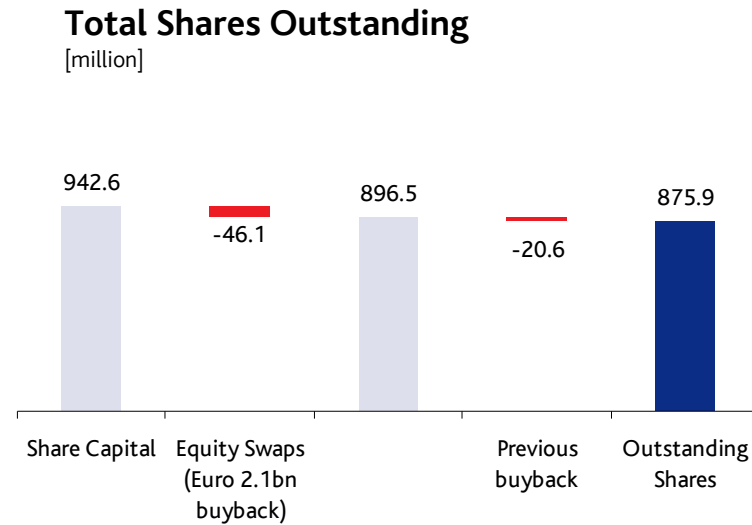
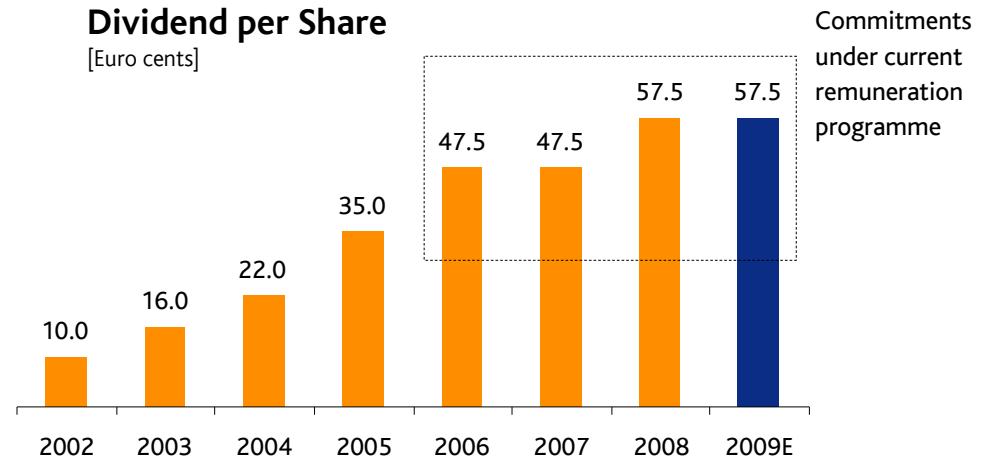
Shareholder remuneration



- > PTM spin-off successfully completed on 7 November

- > Share buyback programme concluded on 25 July
 - Acquisition of 232 million own shares totalling Euro 2,100 million
 - Acquired 20.6% of share capital⁽¹⁾
 - 876 million shares outstanding, considering 20.64 million own shares held through equity swaps that relate to a previous buyback

- > Dividend per share reiterated at Euro 57.5 cents payable in 2009



(1) Share capital at the time of the remuneration commitments (March 2006) was Euro 1,128,856,500, represented by 1,128,856,500 shares. Current share capital is Euro 28,277,855.31 represented by 942,595,177 shares.

Summary



- > Positive momentum in 1H08
- > Successful launch of TV strategy is moving wireline focus towards growth
- > Strong performance of mobile assets
 - Wireless broadband continues to be a key growth driver at TMN
 - Strong customer growth underpins Vivo's performance
- > Continued growth in international assets
- > Focus on operational efficiency
- > Attractive cash flow profile
- > Buyback completed and 2009 dividend reaffirmed

Financial highlights



Euro million	2Q08	2Q07	y.o.y	1H08	1H07	y.o.y
Operating revenues	1,674	1,495	12%	3,250	2,956	10%
Wireline	476	494	(4%)	954	993	(4%)
TMN	392	365	7%	781	728	7%
Vivo	767	594	29%	1,434	1,140	26%
Other and eliminations	40	43	(7%)	82	94	(13%)
EBITDA pre PRBs ⁽¹⁾	587	548	7%	1,193	1,130	6%
Wireline (pre PRBs)	226	238	(5%)	460	489	(6%)
TMN	172	167	3%	339	327	3%
Vivo	164	124	32%	347	275	26%
Other	25	20	27%	47	39	21%
Income from operations ⁽²⁾	263	301	(13%)	561	606	(7%)
Net income	113	253	(55%)	253	429	(41%)
Capex	216	170	27%	358	299	20%
EBITDA pre PRBs - Capex	371	378	(2%)	835	831	0%
Net debt	5,800	4,280	35%	5,800	4,280	35%
After-tax unfunded PRB obligat.	1,107	905	22%	1,107	905	22%
EBITDA margin (%)	34.4	38.5	(4.1 pp)	36.0	38.8	(2.8 pp)
Capex as % revenues	12.9	11.4	1.5 pp	11.0	10.1	0.9 pp

(1) EBITDA = income from operations + depreciation and amortisation + post retirement benefits

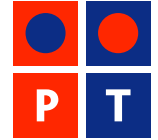
(2) Income from operations = income before financials and taxes + goodwill impairment + curtailment costs + losses (gains) on disposal of fixed assets + net other costs

Operating highlights



	2Q08	2Q07	y.o.y	1H08	1H07	y.o.y	
Wireline	Main accesses ('000)	4,156	4,342	(4%)	4,156	4,342	(4%)
	Retail accesses	3,678	3,861	(5%)	3,678	3,861	(5%)
	Wholesale accesses	478	481	(1%)	478	481	(1%)
	Traffic-generating lines net adds	(39)	(37)	4%	(72)	(76)	(5%)
	ADSL retail	667	715	(7%)	667	715	(7%)
	ADSL retail net adds	11	14	(24%)	16	30	(48%)
	ARPU (Euro)	30.1	30.3	(1%)	30.1	30.2	(0%)
	Retail Traffic	1,240	1,320	(6%)	2,505	2,659	(6%)
TMN	Customers (k)	6,485	5,814	12%	6,485	5,814	12%
	Net Adds (k)	120	100	20%	223	110	103%
	MOU	115	120	(5%)	114	118	(3%)
	ARPU (Euro)	18.6	19.7	(6%)	18.5	19.4	(5%)
	Customer	15.0	15.7	(4%)	14.9	15.5	(4%)
	Interconnection	3.2	3.5	(7%)	3.2	3.5	(6%)
	Data as % Service Revenues (%)	19.0	14.3	4.8 pp	18.8	14.1	4.7 pp
Vivo	Customers (k)	40,435	30,241	34%	40,435	30,241	34%
	Net Adds (k)	2,125	1,210	76%	2,965	1,187	150%
	MOU	94	77	23%	86	76	13%
	ARPU (R\$)	28.8	29.9	(4%)	29.1	29.9	(3%)
	Customer	16.6	16.6	0%	16.7	16.5	1%
	Interconnection	12.0	13.0	(8%)	12.3	13.2	(7%)
	Data as % Service Revenues (%)	10.4	7.9	2.5 pp	10.3	8.0	2.2 pp

Portugal Telecom



Nuno Vieira

Investor Relations Director

+351 21 500 1701

nuno.t.vieira@telecom.pt

www.telecom.pt