First Quarter 2007 Results Conference Call

Moderator: Mr. Zeinal Bava

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Portugal Telecom

Operator: Good morning or good afternoon, ladies and gentlemen, and welcome to the Portugal Telecom 2007 First Quarter Results Conference Call hosted by Executive Board Member of Portugal Telecom, Mr. Zeinal Bava, and Mr. Luis Pacheco de Melo, Group CFO.

At this time, all participants have been placed on a listen only mode and the floor will be open for questions and comments following the presentation.

If you have any questions, please press star, one on your touchtone phone.

I would now like to turn the floor over to your host. Sir, please go ahead.

Mr. Zeinal Bava: Yes, thank you very much. Good afternoon, ladies and gentlemen.

Thank you very much for attending this call on behalf of our team and our Board.

I'll just take you through some of the operational highlights before sending you over to my colleague, Luis Pacheco de Melo.

As you know, we announced today results for the first quarter, which ended 31 March 2007.

Consolidated operating revenues amounted to 1.461 million euros, an increase of 2.5 percent year-on-year. Our EBITDA increased over 5 percent year-on-year to 571 million euros. That's equivalent to a margin of 39.1 percent.

The net income for the period amounted to 177 million euros. EBITDA minus capex increased 6.8 percent to euros 442 million and our net debt at the end of March amounted to roughly 3.6 billion euros, as well.

The after tax unfunded plus retirement benefit obligations was slightly above 1.1 billion. And with regard to our Capex, our capex in this period amounted to 128.7 million euros. Capex as a percentage of revenues was slightly below 9 percent - 8.8 percent to be more exact.

Turning now over to some of the operational highlights, let me start by taking you through our wireline division. Level of line loss in the first quarter of this year has slowed down vis-à-vis first quarter of '06 and is very much in line with the trends that we reported to you during the second half of '06.

Unbundled local loop - similar trends, as well, as the fourth quarter. But, if you look at year-on-year, ULL was down about 39 percent.

We continued to promote aggressively ADSL. ADSL grew in first quarter '07. We now have over 700 thousand ADSL subscribers.

Our share of net adds is roughly 40 to 45 percent of ADSL net adds in the first quarter. Of course, this is our estimate because not all information has been made public. In our own estimates, we think that in the first quarter, we commanded between 40 to 45 percent of the share of ADSL net adds in the Portuguese market.

The growth in data revenues has helped stabilize ARPU. Data ARPU is growing by 20 percent. And the flat rate pricing plans that we have launched and as you know, one of the regulatory hurdles which we had had in the past, which was to include traffic in our monthly bills, we were able to overcome that. And today, if you have a fixed line phone in Portugal, you have all of your night calls for free included in that monthly bill.

That has helped us basically further introduce these flat rate pricing plans. And the retail MOU as a result is at about 160 minutes. And it's being sustained at those levels.

Considering the pressure on the top line, we continue to focus on cost reduction. We have in the first quarter of this year reduced our staffing levels by about 151, having reduced our staffing levels by about 792 last year, which instantly was well in excess of what we had guided the market, which was about 500.

So, we did more than 500 because we anticipated some of those staff reductions. And it's worth highlighting that post all this, in terms of lines per employee, we are about 619 lines per employee, which makes us probably one of the more efficient fixed line operators in Europe.

The cost containment program in our Company also covers other cost items - namely, support services, other supplies and, of course, a much stricter control of client provisions.

And as a result, as you will have seen in our press release, our other operating costs were also down as a result. So, this cost discipline will continue. And we think that this is the way we can continue to, to some extent, deal with the top line pressure. And margins have done quite well in the first quarter, up from about 46.5 percent last year to 48.1 percent this year.

Moving now to our mobile division, TMN in Portugal, on the back of the strong subscriber growth which we had last year and the focus that the Company has when putting in the postpaid market and in wireless broadband, we saw billing revenues grow.

The Home-zoning product that we launched, Casa T, already has more than 100 thousand subscribers. And the good news is that it's showing ARPU enhancement.

Recently, TMN has also launched its fixed line service. That happened just a few days ago. So, we are looking forward to offer that service also to our customers.

As a result, we've also launched a number of other pricing plans aimed at the youth segments, SMS and so on.

And all in all, what we have seen in the first quarter is that billing revenues increased by 2.3 percent and the average customer base grew and that more than offset the dilution of customer ARPU as a result of this growth.

MOUs are stable. Mobile termination rates at the moment stand at about 11 cents and as you know and you will have seen certainly in our press release, had an impact of 7 million euros in our revenues. If one was to exclude this impact, the service revenues would have been up by almost 3 percent.

Data revenues are growing in terms of overall contribution. We have seen non-SMS data revenues grow by over 37 percent. And here, it's worth highlighting the wireless broadband, which is doing extremely well at the TMN. And we have more than quadrupled the number of subs that we had compared to last year.

With regard to subscriber acquisition costs, those are fairly stable - actually down about 3.8 percent. And that's on the back of the work that we have been doing in terms of redesigning the portfolio of handsets that we have and also, better negotiating terms with suppliers and also, a better management of commissions.

And therefore, unitary subscriber acquisition retention costs are now down to 49.5 euros compared to 51.4 in the first quarter of '06.

So, notwithstanding the commercial activity that we have seen, we have been able to improve margins to about 44.3 percent. To this end, we've also benefited from the fact that there has been significant cost control at TMN, as well - namely, in what concerns wages and salaries.

We have reduced our staffing numbers by about 40. We've also reduced the number of directors and executive board members. And as a result, you will have seen in our press release that our wages and salaries were down by more than 10 percent in the first quarter of this year.

As a result, margin has improved about 0.6 percentage points. That's an EBITDA margin at about 2.7 percentage points pre-sac EBITDA margin.

With regard to Vivo, Vivo continues to maintain its focus on acquiring and retaining high value customers in some of the regions - namely, São Paulo. The

GSM/EDGE network has been implemented in record time and it covers now 86 percent of the municipalities, which have CDMA coverage.

GSM already accounted for 16 percent of gross adds in the first quarter of '07. The management of Vivo has done extremely well in a number of campaigns that they have launched to stimulate usage. And as a result, we have seen MOU increase by 10 percent. And that has translated into about 3 percent increase in underlying ARPU.

Subscriber acquisition and retention costs are down 21 percent compared to the first quarter of last year. And that is, of course, partly helped by GSM and continued cost focus, notwithstanding the dilutive impact of the change in the interconnect regime.

The free cash flow profile, as you will have seen also in the results that we've put out, has also improved significantly at Vivo.

One last comment on our international assets in Africa and Asia before handing you over to our CFO - we have seen positive performance across all the assets that we have in Africa and Asia.

Worth highlighting here is that Médi Tel is growing EBITDA about 4.4 percent, in great part because the company continues to invest strongly in acquiring customers. Médi Tel net adds in the first quarter were in excess of 460 thousand.

Unitel in Angola has seen EBITDA grow about 18 percent in the first quarter. And the company that we acquired in Namibia, called MTC, has also seen EBITDA grow about 12 percent. And that has been, as you know, one of the important contributors to our numbers, as well, in this first quarter and that had an EBITDA of about 15 million.

CTM, which is the investment that we have alongside cable and wireless in Macau, is growing at about 10.8. And therefore, across all our international businesses, what you see is solid EBITDA performance.

And above all, what you see is that all these companies are self funding. And therefore, Portugal Telecom is not, at this stage, committing any cash to any one of these individual assets.

Worth highlighting is that the proportionate EBITDA for all these international assets is about 58 million euros in the first quarter of '07. And that's a growth of about 12 percent year-on-year in constant currency.

Let me now hand you over to our CFO before we open the floor for some questions and answers.

Thank you very much.

Mr. Luis Pacheco de Melo: Thank you, Zeinal.

Let me first start by highlighting that as a result of the approval by our shareholders to spin off PT Multimedia, we now account PTM as a discontinued operation. And therefore, the first quarter '06 numbers have been adjusted accordingly.

So, on the revenue side, overall revenues, up by 2.5 percent, which in a constant exchange rate of real/euro would have been 4.3 percent.

There was a decrease of 6 percent in the wireline revenues, impacted mostly by the line loss in 2006, although data and corporate had a very good performance in the first quarter.

TMN's 1.9 percent growth was basically underpinned by customer growth. Billing revenues, as Zeinal mentioned, were up by 2.3 percent.

Vivo revenues in reais went up by 9.3 percent. And Vivo performance was positively impacted by the end of the bill & keep season in the third quarter of last year.

The service revenues of Vivo were up by 21 percent. But, if you exclude the impact of the bill & keep, they would have been up by 6.7 percent.

The consolidation of MTC also had a positive impact of 28 million under other revenues. MTRs, as Zeinal also mentioned, had a negative impact of 10 million in the first quarter of '07.

Moving now to the EBITDA, with regards to EBITDA, total EBITDA for the group was up by 5.1 percent. In constant exchange rate, should have gone up by 6.5 percent.

The wireline EBITDA performance was basically supported by cost efficiencies, costs decreased across the board and with personal costs down by 5.7 percent and total operating cost down by 8.7 percent.

TMN's 3.4 increase in EBITDA was basically underpinned by customer growth, which then translated into an increase in margins of 0.6 percentage points for the year and the 2.7 percentage points on the pre-SARC margin. MTRs had the negative impact of around 3.5 million euros.

Vivo's 13 percent increase in EBITDA in reais was basically driven by ARPU enhancement and greater cost control.

MTC consolidation also had a positive impact of 15 million euros for the quarter.

On the net income front, net income was down by 16 percent, basically due to the tax credits booked in the first quarter of '06 of 53 million. Excluding that impact, net income would have gone up by 12 percent.

Net income was also impacted by higher curtailment costs this year of 53 million, but positively impacted by the gains that we got on the equity swaps of PT Multimedia and on our own shares - PT Multimedia's impact of 38 million and our own shares of 16 million. Discontinued operations and, therefore, PTM earnings before minorities had also a positive impact on the net income.

On the cash flow front, operating free cash flow was up by 13 percent year-on-year to 295, primarily as a result of EBITDA growth. As you know, the first quarter is always negatively impacted by the investments in working capital, which in this first quarter amounted to 184 million.

Moving now to net debt, net debt has decreased by 111 million, despite the buyback of 106 million and the extraordinary contributions to the pension fund.

PTM deconsolidation also helped the decrease on the net debt. Our average cost of debt was 5.5 percent, including Brazil. And excluding Brazil was 3.9 percent with a maturity of 7.7 years.

At the end of March, available cash on the domestic operations, plus undrawn commercial paper and standby facilities totalled 2.5 billion.

Moving now to pensions, our unfunded pension liability after tax decreased to 1.1 billion. And it was basically due to the contributions that we did to the pension fund during the first quarter. The curtailment of 53 million had a negative impact on this reduction. We still expect to contribute around 300 to 320 million to the pension fund in '07.

Just an update on our shareholder remuneration commitments - so, for 2007, we'll pay 47.5 cents, ex-dividend dates will be on the 15th of May, payment dates on the 18th of May. We will pay around 1.1 billion in dividends for the period of 2008 and 2009.

We also committed to a 2.1 billion share buyback and that has been approved at our General Assembly Meeting and is under execution right now. And we also committed to the spin off of PT Multimedia, which was also approved at our shareholders meeting last April.

The exchange rate will be 4 PTM shares for 25 PT shares. These ratios could be adjusted if by the time of the spin off we have brought into our balance sheet the treasury shares.

So, almost half of PT's current market cap will be returned to shareholders over the next three years.

Let me now outline our guidance for 2007. I'll now focus on EBITDA, capex and net debt targets. So, for wireline, our guidance is between 880 to 900 million euros in EBITDA, TMN a flat EBITDA, total group EBITDA between 2 and 2.1 billion, capex for the group between 800 and 850 million euros and we'll target a net debt for the end of the year below 5.7 billion euros.

So, as a summary and to then pass to the question and answers section, I'll highlight that we had a positive operational and financial performance in the first quarter of '07. We had a strong operating and free cash flow generation.

We continue to grow our international assets.

We are on track to deliver commitments presented to shareholders. And we have a superior shareholders remuneration policy.

Thank you very much. And I'll turn now for questions and answer. Thank you.

Operator: Thank you.

Ladies and gentlemen, we will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment please while we poll for questions.

Our first question comes from Christian Kern with Lehman Brothers. Please state your question.

Mr. Christian Kern: Hi there.

I just wanted to check what the underlying line loss assumption is on your fixed line business given your financial guidance.

And the second question would be on Vivo with regards to the IFRS adjustment to the real numbers. It looks that the EBITDA IFRS adjustment was slightly higher than usual. I was wondering if there's anything behind that.

And the third question would be your outlook of the competitive landscape on the wireline side post the PTM spin off, what your expectations would be. Is life going to get tougher there? Any color would be much appreciated.

Thank you.

Mr. Zeinal Bava: Okay, thank you.

I'll answer your first question and then, Luis will answer the second question.

With regard to the underlying line loss assumption for the guidance that we've provided for the wireline, which is 880 million to 900 million is a line loss in terms of traffic generating lines of about 250 thousand to 300 thousand this year.

As you will have seen in the first quarter, we lost about 40 thousand lines. And therefore, we are working on the assumption that as a result of the spin off of PT Multimedia and the fact that some of our competitors are launching a number of fixed mobile convergent product, the competitive environment in Portugal will remain difficult. And therefore, at this stage, we are factoring in a continuing deterioration going forward.

Having said that, I think it's worth highlighting that in the fixed line business, we are also bundling broadband with the voice product. And as you also know and we have announced this publicly, we are working on our IPTV solution, as well, which we think we will be able to launch before the summer.

So, we are obviously factoring in that we will have our own triple play offer also in the wireline division to help us tackle the possible increasing competition in the Portuguese telecoms market.

Luis, did you want to provide the explanation on the IFRS?

Mr. Luis Pacheco de Melo: Okay.

So, as you know, under the Brazilian GAAP, selling a telephone with minutes included or in the recharge, Brazil accounts for that revenue upfront. And under IFRS, we have to defer that revenue. So, basically, the difference that we've seen between the Brazilian GAAP and that is mainly related to the revenues.

Mr. Zeinal Bava: Thank you. Next question please.

Operator: Thank you.

Our next question comes from **Mathieu Robilliard** with BNP Paribas. Please state your question.

Mr. Mathieu Robilliard: Good afternoon. I have two questions please - first, with regards to Vivo.

When we look at the monthly trends of net adds in Vivo, it seems that there's been a slight recovery in the month of March. And I'm referring to data published by the regulator where you have more than 150 net adds whilst you were losing customers in the first two months.

My question is, do you think that's a sustainable trend? Do you think you've hit the bottom in terms of losing market share at Vivo? And is that to do with the introduction of GSM?

Second question had to do with the mobile business. Do you have a sense as to when we can expect any changes to the termination rates in Portugal?

And the third question linked to Africa - maybe if you could update us on what you're looking to do there. I mean, is there a path to control for instance, for Angola? Are you looking at other potential acquisitions?

Thank you.

Mr. Zeinal Bava: Thank you very much.

With regard to Vivo, as you will have seen, we are already beginning to see the benefits of having migrated to GSM in the overall performance of the company, both in terms of net adds, and at this stage, perhaps most importantly, in terms of financial impact - namely, subscriber acquisition and retention costs.

We remain obviously very focused on the turnaround that's being done. Worth highlighting is that we have been able to implement the network in record time.

And I think it's also worth mentioning is the success that some of these plans and promotions that we have done that have simulated usage, particularly in the prepaid market.

So, we think that all the right things are being done at Vivo in order to pave the way for this company to regain the momentum which it had enjoyed in the last few years before all the changes that we have done. And again, if you also look at the churn, the churn is also down.

And if you also look beneath the numbers, you'll see that they use a strategic focus on acquiring and retaining high value customers. So, Portugal Telecom continues to be very much committed to ensuring a smooth turnaround of Vivo.

We continue to work extremely well with Telefonica in that regard. The board members with whom we interact with regard to Vivo at Telefonica are very constructive and have been working with us extremely well.

So, we hope that the next few months, we will continue down this path of seeing that performance at Vivo, obviously underpinned also by a better outlook for Brazil overall, both in terms of interest rates, consumer demand and so on.

With regard to termination rates, today, as you know, mobile termination rates in Portugal are about 11 cents. We don't have a view as to what's in the mind of the regulator.

We see, for example, that Spain at the end of this year will be at about 11 cents, as well. So, we are monitoring what's going on. But, at this stage, we don't have any visibility.

Having said that, I would like to also call your attention to something which is, for us, equally material, which has to do with the amount that we pay for the use of spectrum in Portugal, which, as you know, is well above European average. If anything, it's almost twice as high as what other operators are paying in Europe.

TMN on a per annum basis pays about 25 to 27 million euros for the use of spectrum. And that is well above, double of what is the European average. So, we obviously are working with the regulator to ensure that if there are going to be any major changes in the mobile termination rates in this market, they are in line with some references - for example, Spain, which has 11 cents for '07 - and of course, alongside a major change in how spectrum is being charged in Portugal.

TMN, at this stage, not only pays the highest amount, but doesn't have any efficiency in terms of spectrum because we got the same amount of spectrum as any one of our competitors. And therefore, that whole model needs to be changed.

And we think that the Portuguese telecom regulator, which is very constructive and I think very much with the eye on the ball in terms of major trends in the world, will be looking at that, as well.

Your third question related to Africa - I think with regard to Africa, you may recall that in our documentation which we put out at the time of the offer from Sonae, we are looking to monetize our African holding company.

And the main purpose for that is to monetize, to crystallize value, but to monetize and perhaps generate some cash that we can use to further expand our footprint in that region without increasing our overall exposure to Africa, as such.

We think we will not only be able to better financially control the exposure, but also benefit from having the right partners in the region that may open up different opportunities for us in terms of the future.

In that regard, you will have seen that we did this acquisition in Namibia, MTC last year, which has been doing extremely well. So, with regard to Africa, our focus is in making sure that our efforts continue to do well.

And if you consult our presentation, you will see that Unitel continues to grow well - 18 percent in terms of EBITDA. You will see that in Medi, we are making huge efforts to expand--it's a land grab where basically, we're growing the market and trying to obtain as many subs as possible.

And what you will see is that we will continue to work to crystallize some of that value and continue to look further for opportunities in the region.

Thank you.

Operator: Thank you.

Our next question comes from David Wright with JP Morgan. Please state your question.

Mr. David Wright: Yeah, hello. It's David here.

I'm struggling with this guidance a little. I think the group EBITDA guidance was 2 to 2.1. Now, if I say take the mid point, 2.05, I take the mid point of fixed line, 890, and I deduct last year's mobile number because I think you assumed that was flat, then that gives me about 500 million euros.

Now, obviously, that compares to last year's Vivo 496 and that included that very exception Q2 margin. And as you've just pointed out, churn is better, ARPU is growing and you're seeing some positive momentum from GSM.

So, that pretty well looks bearish to me. And of course, we've got the consolidation effect that has just put 19 million into the other EBITDA line in the first quarter. So, there's kind of a run rate of 80 million there.

So, I don't quite make the 2 to 2.1 billion guidance. Can you talk me through that?

Mr. Zeinal Bava: Okay.

So--okay. We have to bear in mind that the current trading conditions in the domestic market remain challenging. We have to--on the international part--I see that you start from the domestic, assuming the domestic and then, going to the international.

And on the international side, you have to bear in mind two or three things. One - the conditions on those markets where we operate - the main one, of course, is Brazil, the competitive environment down there and also, you have to bear in mind the exchange rate, possible exchange rate exposure into the Brazilian reais.

So, all that in mind, we are giving this guidance between 2 and 2.1 billion for EBITDA.

Mr. David Wright: Yeah. Well, I guess you can see where I'm coming from, which is that you're effectively guiding to flat moving currency Vivo and then, we're sort of totally eliminating this 19 million for the international assets that was recorded in Q1.

Is that 19 million erroneous? Should we expect that as a run rate? And if so, that means Vivo is going backwards by sort of 10 to 15 percent. It just looks like the group guidance is very, very cautious here. I mean, it should be 2.1 to 2.2, no?

Mr. Zeinal Bava: I think we've said that 2 to 2.1 I think we could be debating here a lot for an extra 50 plus or minus. I think one needs to take into account that there are a number of moving parts.

At this stage, we are not providing any guidance specific to Vivo, as you will have seen. And the main reason is because Vivo is going through a turnaround. And therefore, we would like to keep some of those options open for the management of Vivo to better decide what's in the long term best interest of Vivo considering what's going on in the Brazilian market.

So, we believe that over the next few months, we may have the opportunity to come back to you with some revised guidance. And I think we look forward to seeing better performance of Vivo.

And indeed, you're right in pointing out that we are considering that Vivo performance will stay pretty much in line with last year. I think we have to remain cautious at this stage, considering what has happened in the past in the Brazilian market.

And hopefully, next time we speak to you, which will be in July when we announce our second quarter results, we may come to a different perspective. But, at this stage, we feel very comfortable with 2 to 2.1 that we've provided to you as a group.

Mr. David Wright: So, just to check, is the 19 million or the EBITDA, is that a reasonable quarterly run rate we should expect from the international assets?

Mr. Luis Pacheco de Melo: Yes, it's a run rate, yes.

Mr. David Wright: Okay. Thanks.

Operator: Our next question comes from Brian Rusling with Cazenove. Please state your question.

Mr. Brian Rusling: Yeah, hi. I've got three questions.

Actually, following on from David's comment there, perversely, the net debt target looks incredibly aggressive given the 2.1 billion EBITDA. Can I just get a clarification on your pension contributions this year? Are the 300 million exceptional plus the sort of normal 260 million?

And presumably, to get to 5.7, you're not expecting to pay much tax or interest. That would be the first question.

The second one is on wireline costs. The line that you call other wireline, other operating cost has gone down by 14 million in the quarter. And the run rate throughout the quarters last year was 92 million. Why? Can you give us some actual details behind the 14 million reduction there?

And the final question is on PT Multimedia. Obviously, the launch of their telephony product at the end of January and they've done some sort of promotion, I think, at the end of April, as well. You know, the 6 thousand customers taken in the first quarter doesn't sound like a great cross-selling of a telephony product across 1.4 million customers.

How does it work in terms of promotions in the market? How is it working with this new promotion launch at the end of April?

Mr. Zeinal Bava: Okay, thank you.

Let me start with your question on the other operating costs in the wireline, which were down about 14 million. Give you that break down, just to be very transparent on this one.

Support services were down compared to last year by about 5.3 million. And support services were down simply because the number of faults have come down. As a result, the number of calls that are coming into our call centers have come down.

The level of basically the responses in our call centers which fix problems has gone up to 70 to 80 percent. So, that is one of the main reasons why support services costs have come down 5.3 million.

Worth highlighting is that we've also brought together, as you know, a number of back office functions under one umbrella called our Shared Services Company, PT Pro. And that is seeing significant improvement in terms of efficiency, as well.

So, of that 14, 5.3 is support. Other supplies are down about 1.3 million. And that's because, as you know, our purchasing unit is doing a pretty good job in terms of acquisition and negotiating prices for us.

And client provisions were down 6 million. So, of that 14 million, 6 million relates to client provisions.

Client provisions were lower because we've also taken up better credit scoring systems and so on and so forth. So, that delta is explained by that.

And we think that we will continue to see support cost and other supplies still come down because that is certainly one of the main focuses that we have in the wireline, alongside staff reductions that we hope to continue to do going forward.

With regard to the PTM voice offer, we basically announced this offer at the end of January. It was a soft launch. The company did not do any below the line or above the line offer. All we did was a press conference, which brought to people's attention that this service was being made available.

It was a soft launch because we had just basically got the technical solution sorted out. So, we wanted to go slow the first 60 days. And therefore, the 6 thousand net adds that we have had, I would say is even ahead of the expectations of the PT Multimedia management considering that it was all inbound and there was no outbound or push sales of the service.

We at Multimedia have launched, on the 2nd of May, a campaign to promote the voice. This time, it's above the line. So, it includes advertising on television, magazines. And we now have our stores equipped with our MTAs, so our modems.

And we are now going to obviously see what kind of demand this product will generate. I think the believe at PT Multimedia is that the introduction of voice not only will enhance ARPU at PT Multimedia, but most importantly, will help reduce churn.

And I think the first 6 thousand that we added were, again, I repeat, ahead of expectations. And I think we need to monitor what happens in the next 90 to 120 days to provide or to have a view as to what is the real or the factor demand in the Portuguese market for that service.

On your issue of the net debt, let me hand you over to Luis Pacheco de Melo. Luis, please?

Mr. Luis Pacheco de Melo: Okay.

So, just following on the numbers that we posted out in the last answer, so if you take the operating free cash flow, EBITDA minus cap ex, the mid point if you take over there is more or less 1.3 billion. Pension contributions for the total year should be around 500 million, tax, cash tax at around 230 million, cash interest, more or less, at 220 million, dividends at around 530 million and then, the buyback, so - the 2.1 billion buyback on the PT shares.

And so, basically, this will justify more or less the numbers that we presented of 5.7.

Operator: Thank you.

Our next question comes from Nuno Vieira with Millennium. Please state your question.

Mr. Nuno Vieira: Yes, hello. Thank you very much.

I've got just a couple of questions. In PTM, we saw a growth in your revenue generating units and in also considering this per basic subscriber. Do you expect it for year end on the back of voice and also on the back of the sale of Fantastic Life?

And also, what do you expect the impact of the launch of voice to have on churn? And if you can give us a broad guidance on what is the level of churn currently at PTM.

In addition to concerning PTM, I've got another question. PTM has the authorization to acquire up to 10 percent of share capital. Would you consider a possible share buyback program or something like that, also taking in mind the spin off from PT?

And finally, I'd just like to know, the interest rates have climbed a bit since you've last reviewed the actual discount rate assumption to 5 percent. Should we expect these current rates to remain flat over the coming quarters?

Thank you.

Mr. Zeinal Bava: Okay. Thank you.

Well, PTM is, as you know, a discontinued operation in this press release. But, I will try and answer broadly your questions.

If you look at the PTM press release, what you see is, yes, subscriber numbers with regard to extended basic have gone up. And this is on the back of the success that we are having with the digital package, which is all 65 channel package. And that is underpinning, I think to some extent or to a great extent, the ARPU uplift that we are seeing.

ARPU in PT Multimedia is up 6.7 percent year-on-year and actually quarter-on-quarter is up 3.1 percent. So, that all goes very well in terms of the future. And this is with very little or almost meaningless contribution from the voice product, which as I've just said earlier, was just launched in end of January, very much below the line.

With regard to the voice offer, we were not providing churn numbers at PT Multimedia. We haven't provided that to the market.

But, what we can say is that one of the difficulties that we have had in providing some churn numbers is that some of that churn that we have seen in PT Multimedia has related to, as you know, piracy issues.

And I think we saw a very good announcement recently by the Portuguese government, which has approved a law which will penalize significantly piracy in Portugal when it comes to consumers with fines going all the way to 3 thousand or 5 thousand euros and if you are an enterprise that is engaged in such activities, with fines going all the way to 5 million euros.

So, I think that crackdown on piracy will be pretty useful for the development of the pay TV industry in Portugal overall and, of course, will also benefit PT Multimedia.

With regards to voice, at this stage, it's, as I said, early days to say what kind of take up in our subscriber base we are likely to have. I think the good news is that we are seeing very good performance at the moment in our broadband product.

The re-launch that we have done of the brand and of the new services and the recent campaign that we did of 9 euros 99 cents has done extremely well.

So, what you are seeing is that the share of net adds of Net Cabo , which is our broadband product at Multimedia, has increased significantly. So, if you look at the overall market including ADSL, we would think that Net Cabo has between 20 to 25 percent share of net adds.

And that share of net adds is improving. And part of that improvement of the share of net adds is on the back of the voice launch that we have done, which together with TV, offers consumers, I would say, a pretty interesting package.

On the buyback, what you see on the buyback is that, yes, indeed, Multimedia has approved a share buyback. And that is something, you know, the Board of PTM will have to consider.

And that buyback is something which basically gives flexibility to the Board to consider usage of cash if they decide to do so in the future.

Thank you.

Mr. Luis Pacheco de Melo: Okay.

So--and--your questions relating to discount rates on the pensions. So, we review that every two quarters - so, half year, end of the year. We will do that next quarter.

If it were today, we would go for an adjustment - so, an increase on the discount rate of 25 basis points. The current discount rate is at 4.75. And just to let you know, every 25 basis points increase relate to approximately 100 million decrease on the liability - so, on the PBO.

Thank you.

Operator: Our next question comes from Bosco Ojeda with UBS. Please state your question.

Mr. Bosco Ojeda: Hi, good afternoon.

A couple of questions - the first one - I'm not sure if you could update or give us some color on the timing of the share buyback and also the pricing and also the timing for the spin off, whether it's--that's going to be back end loaded, the spin off of Multimedia--sorry--that it's going to be back end loaded towards your October commitment or what sort of timing you expect there.

And the second question - I wonder if you could come back to the--your African comment. Is Morocco - do you think that that scenario might come to the table if you go back to negotiate with Telefonica or it's a different issue that would not come into those negotiations?

Thank you.

Mr. Zeinal Bava: Okay. Thank you.

Well, on the buyback, as you know, we have acquired slightly over 10 million shares. We are proceeding in line with what we announced and we presented to shareholders in February. So, we will continue to execute.

As you know, we have to fulfill certain obligations in terms of regulations as to how much we can buy on a daily basis and so on and the periods that we have to respect around sort of the blackouts around the announcements.

So, we are going to progress with that buyback. And we remain committed to honor all the obligations that we have basically taken upon ourselves in February. So, that is something which we will continue to do.

And the 5.7 billion euros of net debt or less that Luis Pacheco de Melo indicated for year-end is including the execution of the buyback, which is, as you know, in the amount of 2.1 billion. And we have done already roughly 100 million.

With regards to Morocco and Telefonica, our relationship with Telefonica is a good working relationship. We, as I mentioned, continue to work very well and constructively with them in Brazil.

And I think the results that you are seeing coming out of Vivo are, in our view, a reflection of the good working relationship that both shareholders have and that both shareholders have with the management team at Vivo. And therefore, we think that likewise in Morocco, we have to continue to work to see whether we can get Medi acquiring more customers and growing EBITDA at the same time.

So, I will not comment on whatever you said on negotiations. What I can say is that we continue to work with TEF well and we intend to continue to focus on improving performances.

On the timing of the spin off, we think the spin off will be done by the end of the third quarter, which means we hope that by September, the spin off will be done.

Perhaps, on this point, let me just ask Pacheco de Melo to tell you about the treatment of the spin off in terms of how the shares will be given so you, as you've asked, can all be on the same page.

Mr. Luis Pacheco de Melo: Okay.

So, the spin off will be treated as a normal dividend. So, you should consult your tax advisories on this.

And shareholders will receive shares net of any tax that they have to pay as a withholding tax.

Mr. Luis Pacheco de Melo: Okay. Thank you.

Mr. Bosco Ojeda: Thank you.

Operator: Our next question comes from Teresa Martinho with Banif . Please state your question.

Ms. Teresa Martinho: Hello. Teresa Martinho from Banif.

Can you give us an update or guidance related to the headcount reduction program to be carried this year?

And a second question - I don't know if it's possible to give an update of the exact amount of owned shares, but until now, related to the share buyback program. Thank you.

Mr. Luis Pacheco de Melo: Okay.

So, starting with your last question, then, we will disclose every 1 percent that we acquire. So, right now, we have disclosed the amounts up to March. And then, we will disclose when we get there, the--when we surpass the 2 percent point.

The curtailments, our aim is for 500 headcount reduction with a total cost, curtailment cost at around 150 million.

Operator: Thank you.

Our next question comes from Javier Borrachero with ING. Please state your question.

Mr. Javier Borrachero: Yes, good afternoon.

I've got one question on PT Multimedia. I know that the Company is no longer consolidated. But, maybe you can also give us some guidance in terms of EBITDA as you have done for the rest of division and also related to the PT Multimedia.

So far, the Triple Play is offered as such a Triple Play. Are you contemplating offering , or there is a possibility to subscrib to any of the, any single service or any bundle of two services such as the Triple Play? Thank you.

Mr. Zeinal Bava: Okay, thank you.

With regard to the guidance of PT Multimedia, I think as part of the spin off, the PT Multimedia management will do an analyst call and will certainly provide you with specific guidance - not just EBITDA, but across a range of key assumptions for that business.

So, I don't feel comfortable in this call to give you these numbers. But, no doubt, the Multimedia management and IR will be available to take any calls you may have going forward.

With regard to Triple Play, I didn't quite understand your question. Could you just repeat that please?

Operator: Mr. Borachero, please press star, one to queue yourself again.

Go ahead, sir.

Mr. Javier Borrachero: Yes.

My question is, if you want to have a voice service on PT Multimedia, you need to subscribe to the Triple Play - so, have a broadband connection. Now, my question is, if at some point PT Multimedia will introduce the possibility of using or subscribing just to, let's say, TV and voice without broadband or just choosing broadband or just voice without having the rest of the services?

Mr. Zeinal Bava: Well, we have two offers at the moment at Multimedia. The first one is a Triple Play. So, if you own TV plus net and if you buy voice, you can buy voice for 9 euros 99 cents unlimited calls six line in Portugal. And if you don't have broadband and if you just have a television service, you can buy the voice service, but then, you have to pay 14 euros 99 cents.

So, the idea is that you get a 5 euro discount if you were to adhere to a Triple Play service. So, if you have just TV and if you want to buy Internet plus voice at PT Multimedia, in the first 12 months of the year, you are entitled to a discount of 5 euros on the voice service and about 7 euros on the Internet service.

So, there are significant advantages for Portuguese consumers to adhere to the Triple Play.

So, the bias for the Company is to have people take the Triple Play service as opposed to just the Double Play, you know, being television plus voice. I hope that was clear.

Mr. Javier Borrachero: Yes. Thank you.

Operator: Our next question--our final question comes from Georgios Ierodiaconou with Dresdner. Please sate your question.

Mr. Georgios Ierodiaconou: Good afternoon. This is Georgios Ierodiaconou from Dresdner Kleinwort.

A couple of questions, please - the first one - you earlier talked about IP TV and I was wondering whether you are contemplating getting some premium content from Lusomundo Media or whether it's just going to be a launch and then see how successful it is.

My second question would be regarding changing your bundle of the retail offers. As I can see, in the first quarter wholesale line rental accesses are more than 160 thousand if I'm not mistaken. That gives you a kind of a holiday from regulation in the retail. If you could elaborate a bit on that.

And finally, a question on provisions - when I look at your cash flow statement, I see there were non cash items included in EBITDA, which were around 17 million more than they were in the quarter last year.

Aside from PRBs being lower than 6 thousand, the rest are provisions. So, therefore, could I assume that provisions were 17 million higher this quarter or this last year? Thank you.

Mr. Zeinal Bava: Okay.

I'll take the first two questions and Luis will provide to you the answer to the third one.

With regard to the IP TV launch, in terms of the service, the Portugal Telecom Group will, of course, benefit from the content, which PT Multimedia has. And as you know, PT Multimedia on what the industry calls killer content, be it sports or be it the movie, premium movie, PT Multimedia does sell that same content to all of the players in the Portuguese market under arms-length conditions.

So, the IP TV service will have content, which it will be able to acquire both from PT Multimedia and also directly from Sport TV, which owns the sporting rights and the sporting package for Sport TV and which is sold by PT Multimedia and other pay TV operators and DTH operators in the Portuguese market.

So, on killer content, movies and sports, that content is available. And the IP TV offer, no doubt, will have that.

On the--you actually pointed out something which was quite relevant - the 150 thousand wholesale line rental. It was actually, reaching that number that allowed us to include minutes in the monthly subscription in the fixed line.

So, whereas before, we used to charge 15 euros for a fixed line phone and then, you had to pay an extra 15 euros to require a flat rate all fixed line calls, day and night, 7.5 for day and 7.5 for night and weekends, we as a result of that have gone forward with this promotion, which is not actually a promotion. It's a default now for all customers that if you pay us 15 euros, you get inclusive all traffic for free for off-peak during weekdays.

So, as opposed to buying a flat rate for 30 euros, you're now buying a flat rate for 22.5 euros. And that has already been implemented. And that is something which we believe has gone down well with the Portuguese consumer and is one of the reasons why our loss of traffic generating lines is doing in line with what we have seen in terms of trends in the third and the fourth quarter of last year, which is a run rate of about 40 thousand a quarter.

Pacheco, do you want to answer the third one, please?

Mr. Luis Pacheco de Melo: Okay.

So, as you stated, the difference is basically related to the PRBs and to provisions related to contingent liabilities. So, that justifies almost the 17 million difference.

Mr. Zeinal Bava: Okay, thank you very much for being on this call. My team and I, we appreciate you being available.

And, of course, as usual, our Investor Relations Director, Nuno Prego, will be available by mail or by phone to answer any questions that you may have or to provide you any further clarification.

Again, on behalf of the Portugal Telecom Board, thank you for being on this call and we look forward to speaking to you soon.

Thank you. Bye bye.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you all for your participation.