



# Results Presentation

Full Year 2006 (Unaudited)

8 February 2007

## 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.

The attached communication has been made public by Portugal Telecom, SGPS, S.A. (the "Company"). Investors are urged to read the Company's Solicitation/Recommendation Statement on Schedule 14D-9, which was filed by the Company with the U.S. Securities and Exchange Commission (the "SEC"), as it contains important information, and the amendments thereto. The Solicitation/Recommendation Statement and other public filings made from time to time by the Company with the SEC are available without charge from the SEC's website at [www.sec.gov](http://www.sec.gov) and at the Company's principal executive offices in Lisbon, Portugal.

Portugal Telecom is listed on the Euronext and New York Stock Exchanges. Information may be accessed on Reuters under the symbols PTC.LS and PT and on Bloomberg under the symbol PTC PL.

# Highlights



[€mn]

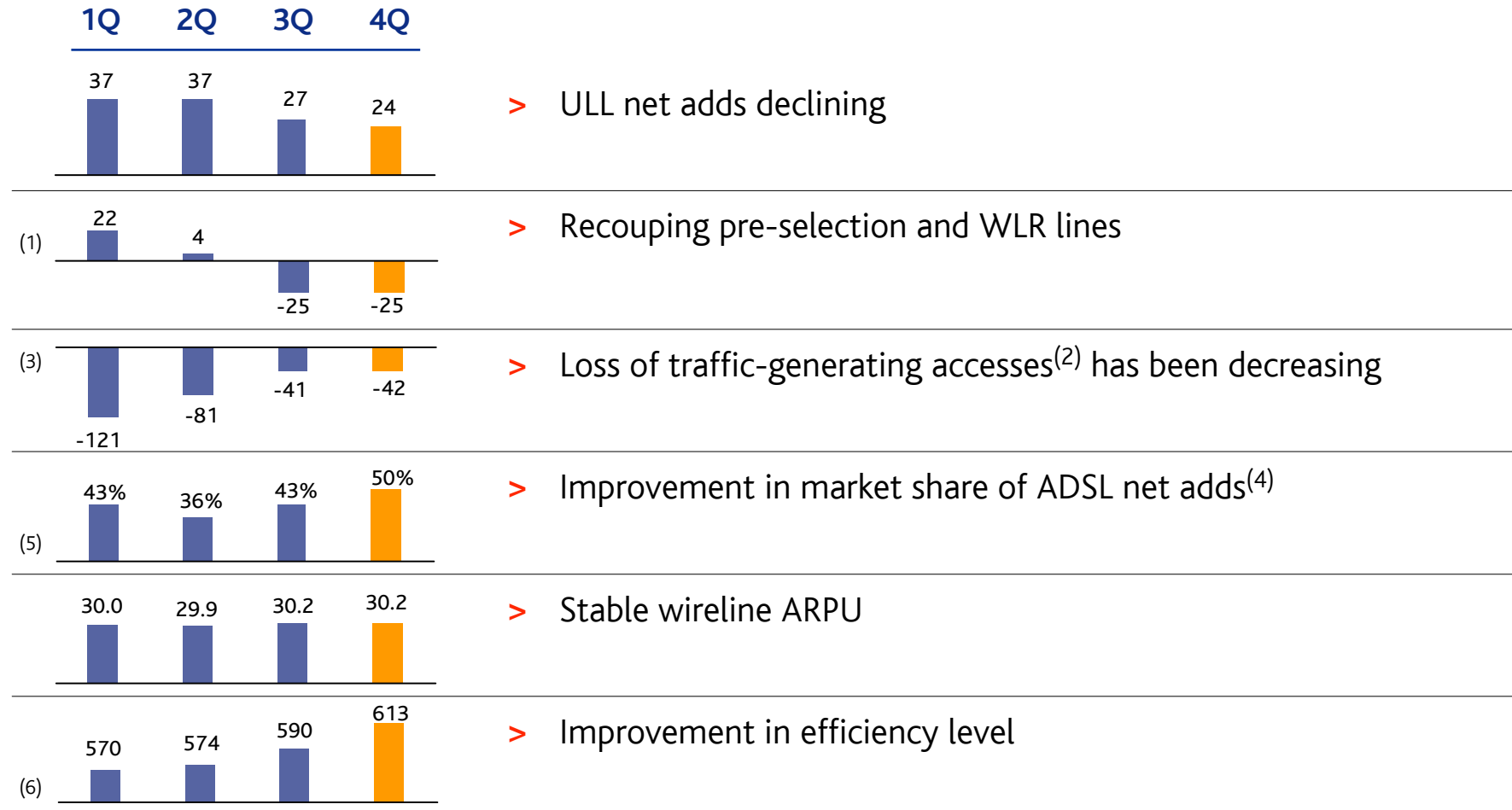
	<u>2006</u>	<u>y.o.y</u>
> Operating revenues	6,343	-0.7%
> EBITDA	2,423	-2.9%
> Net Income	867	+32.5%
> Operating free cash flow	1,599	+22.5%
> Net debt	3,757	+2.3%
> After-tax net unfunded	1,216	-36.4%

# Announced guidance achieved



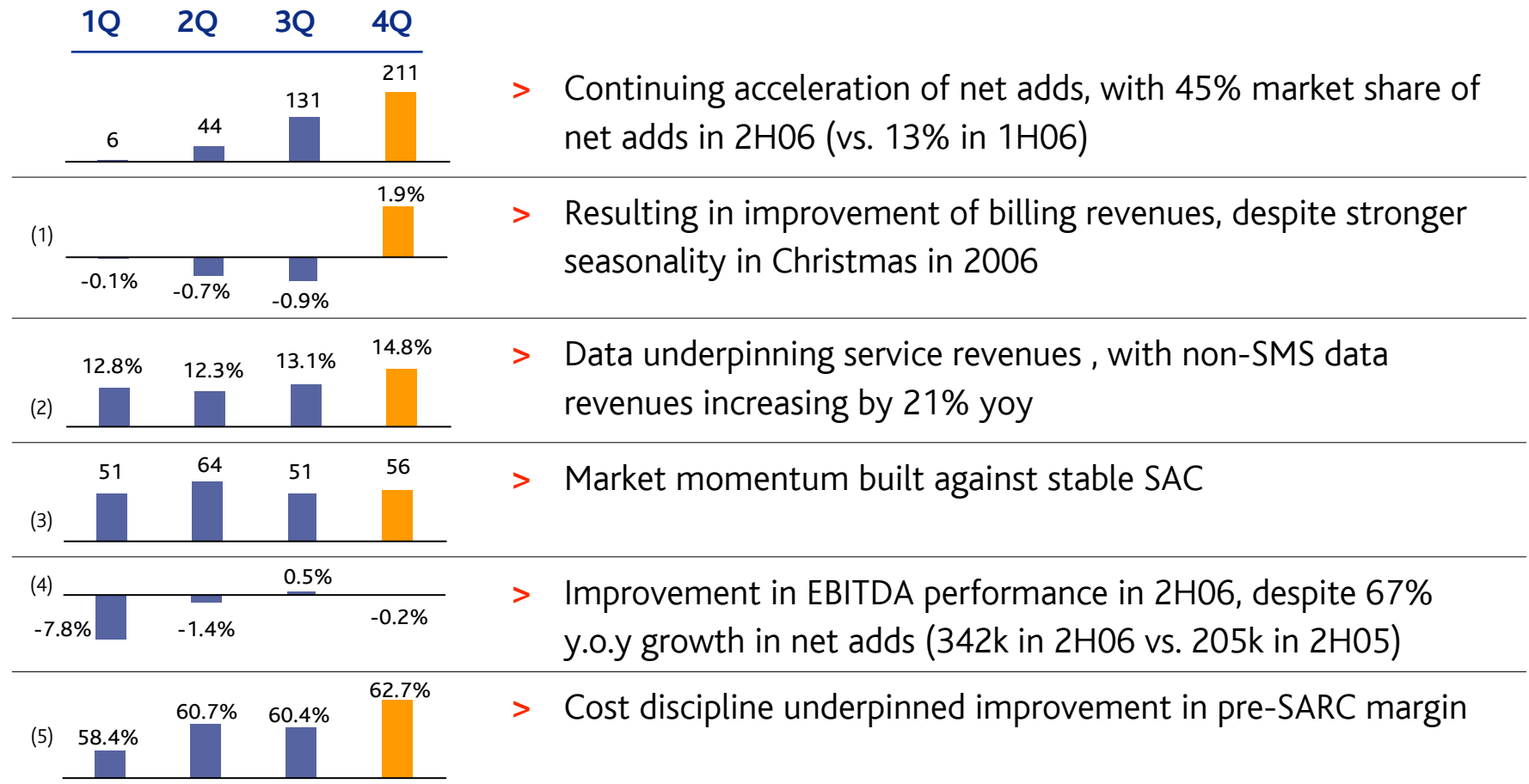
	2006 EBITDA guidance	2006 reported
Wireline	Flat vs. "normalised" 2005	Flat
TMN	(2%) – (3%)	(2.2%)
PTM	5%-10%	8.1%

# Operational momentum – Wireline



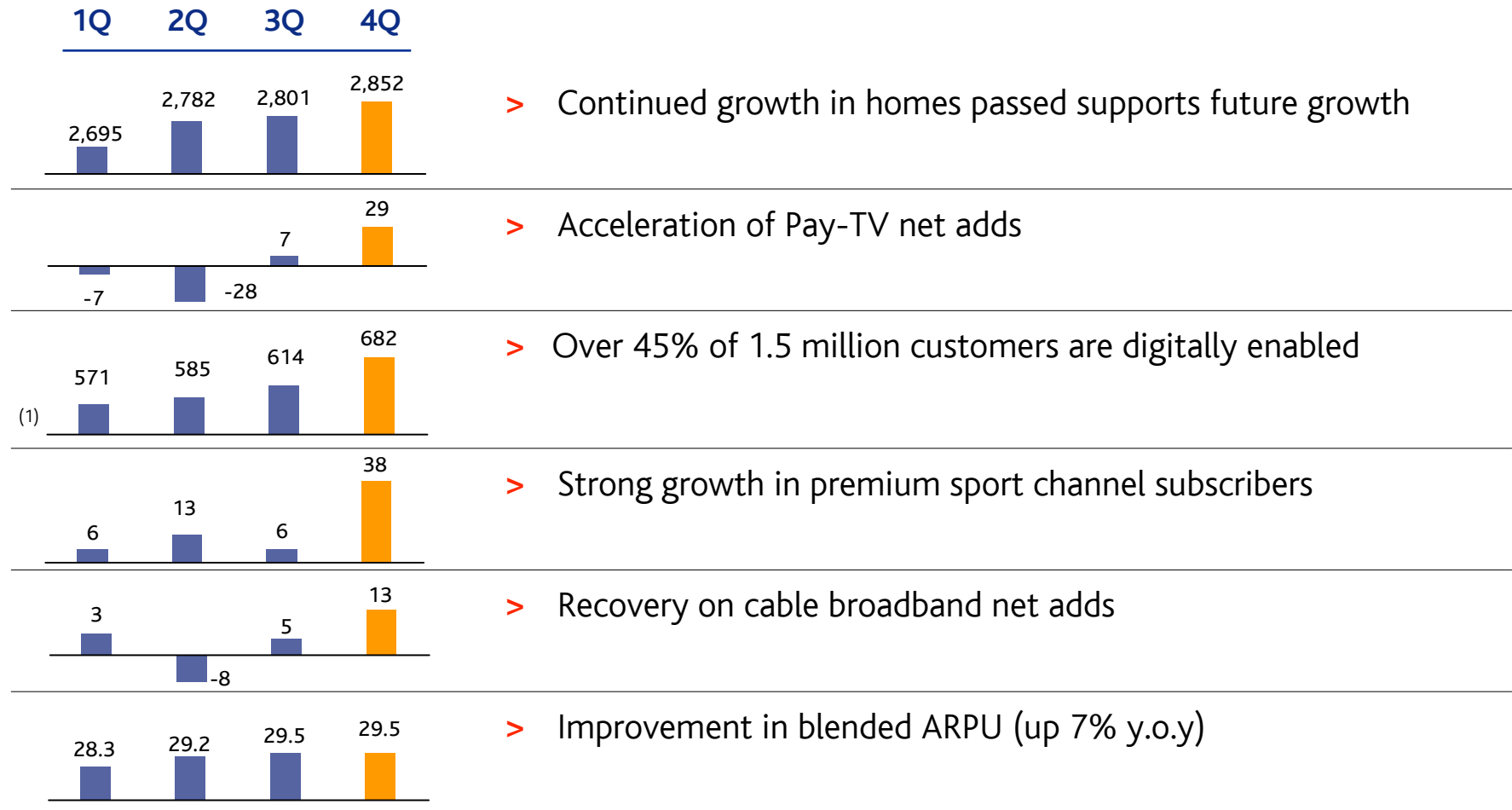
(1) Carrier pre-selection + wholesale line rental net adds (2) PSTN/ISDN less pre-selection (3) Traffic generating access net adds (4) PT estimate (retail ADSL/(retail ADSL+ULL+wholesale ADSL) (5) Market share (6) Main accesses/wireline employees

# Operational momentum – TMN



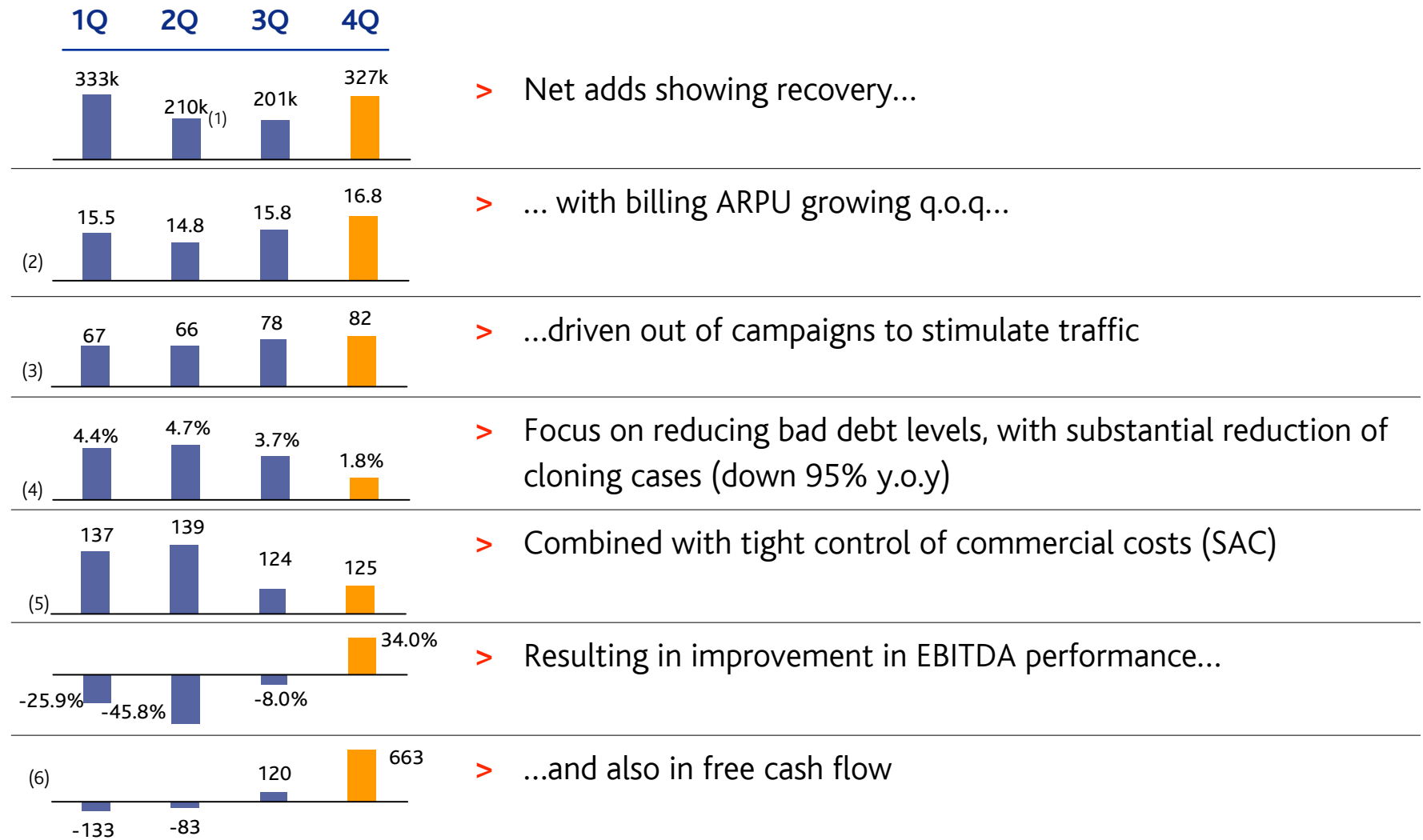
(1) Change yoy (2) Data/Service Revenues (3) Subscriber Acquisition Costs (4) EBITDA yoy (5) EBITDA pre-SARC/Service Revenues

# Operational momentum – PTM



(1) Digital set top boxes (thousand)

# Operational momentum – Vivo



(1) Excluding database cleanup (2) R\$ (3) Minutes of Use (4) Provision/Revenues and excluding one-off (5) Subscriber Acquisition Costs in R\$ (6) R\$million

## Other main international assets performed strongly

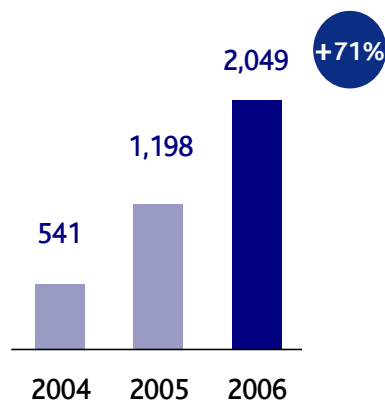


[2006] [Euro million, Δ EBITDA in local currency]

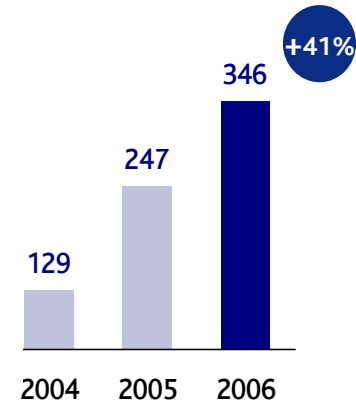
Africa				Asia				Brazil			
	Stake	EBITDA	Δ EBITDA		Stake	EBITDA	Δ EBITDA		Stake	EBITDA	Δ EBITDA
Unitel	25%	346	41%	CTM	28%	81	1.3%	UOL	29%	n.a.	n.a.
Meditel	32%	188	20%	Timor Telecom	41%	7.5	70%				
MTC	34%	68	14%								
CVT	40%	40	26%								
CST	51%	3.1	24%								

### Unitel [Angola]

Customers  
[thousand]

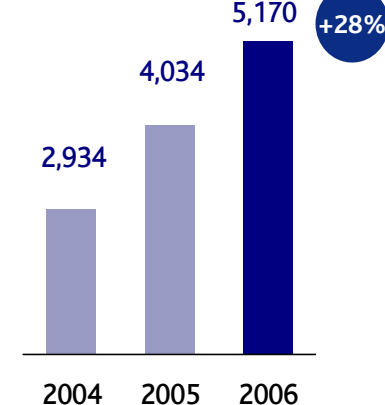


EBITDA  
[Euro million]

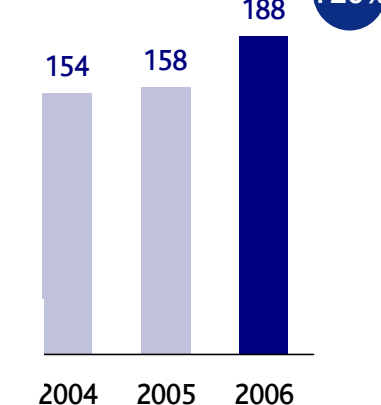


### Meditelcom [Morocco]

Customers  
[thousand]



EBITDA  
[Euro million]

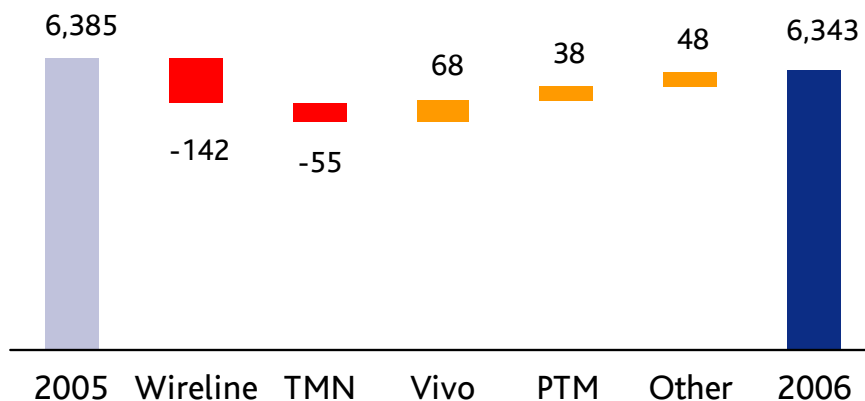


# Revenue and EBITDA performance by division



## Revenues

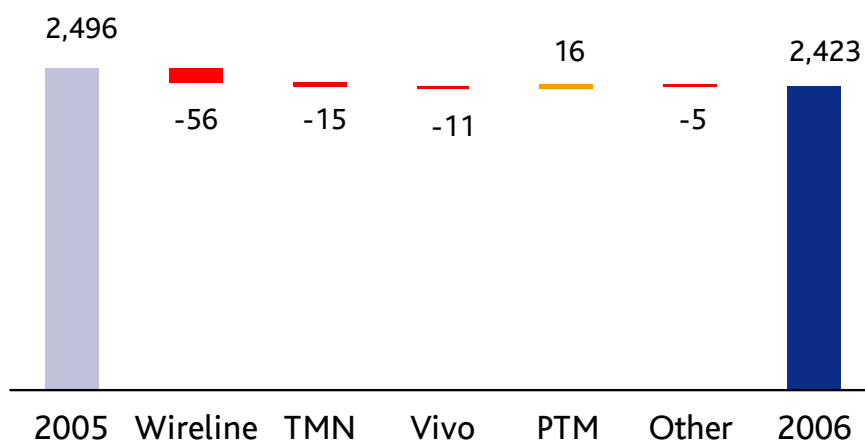
[Euro million]



- > Vivo (Real appreciation), PTM and consolidation of MTC had positive contribution to consolidated revenues.
- > Line loss and lower traffic impacted negatively Wireline revenues.
- > MTR cuts had negative impact of €49mn in TMN revenues.

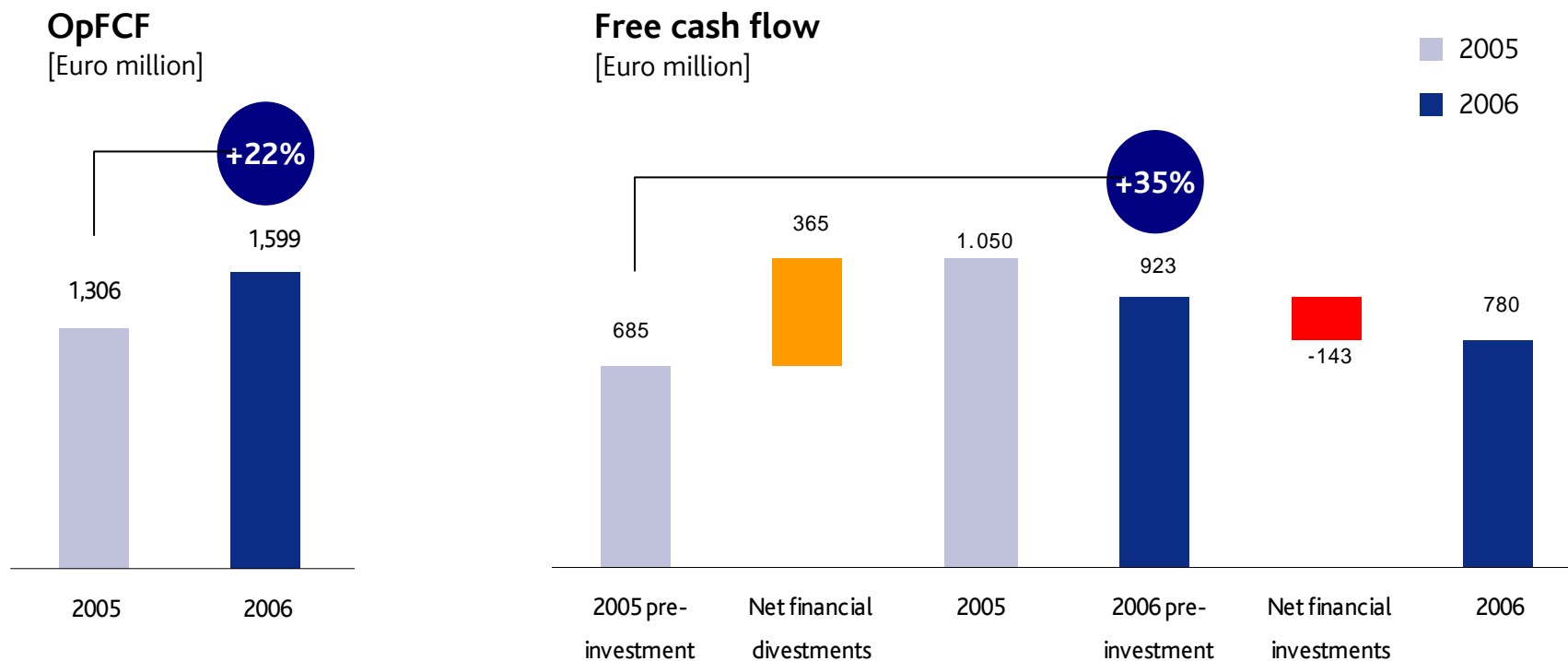
## EBITDA

[Euro million]



- > Cost cutting allowed wireline to offset partially top line pressure at EBITDA level.
- > Excluding MTR cuts (€26mn), TMN EBITDA would have increased by 1.6% yoy.
- > PTM EBITDA rose by 8.1% yoy, underpinned by Pay TV ARPU.

## Strong cash flow performance

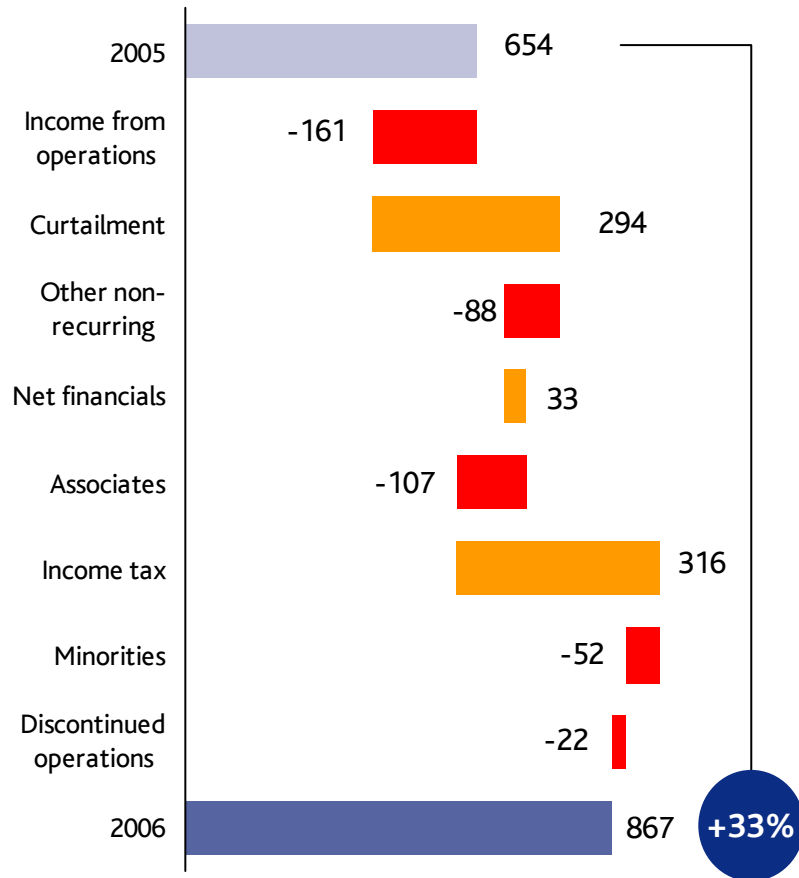


- > OpFCF up by 22% yoy to €1.6bn, underpinned by working capital improvement
- > FCF before net financial investments increased by 35% yoy
- > Net divestments of €365mn in 2005 (Lusomundo, Primesys, UOL IPO) vs. net investments of €143mn in 2006 (MTC, BES)

# Net income reached historical high

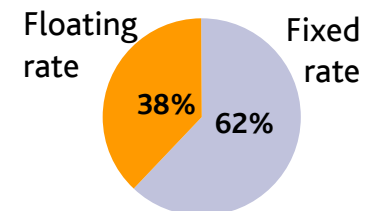
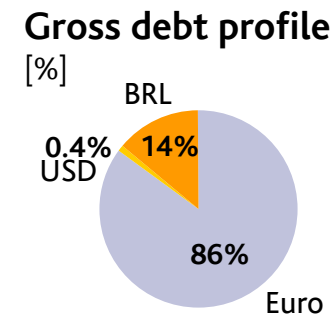
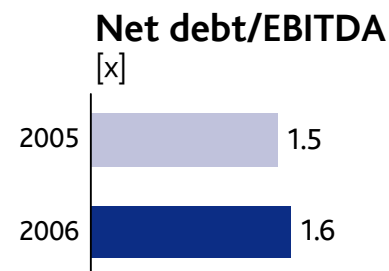
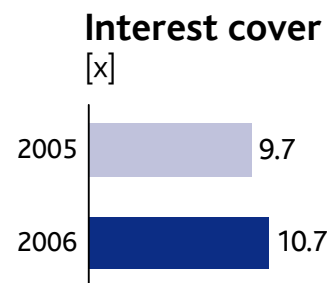
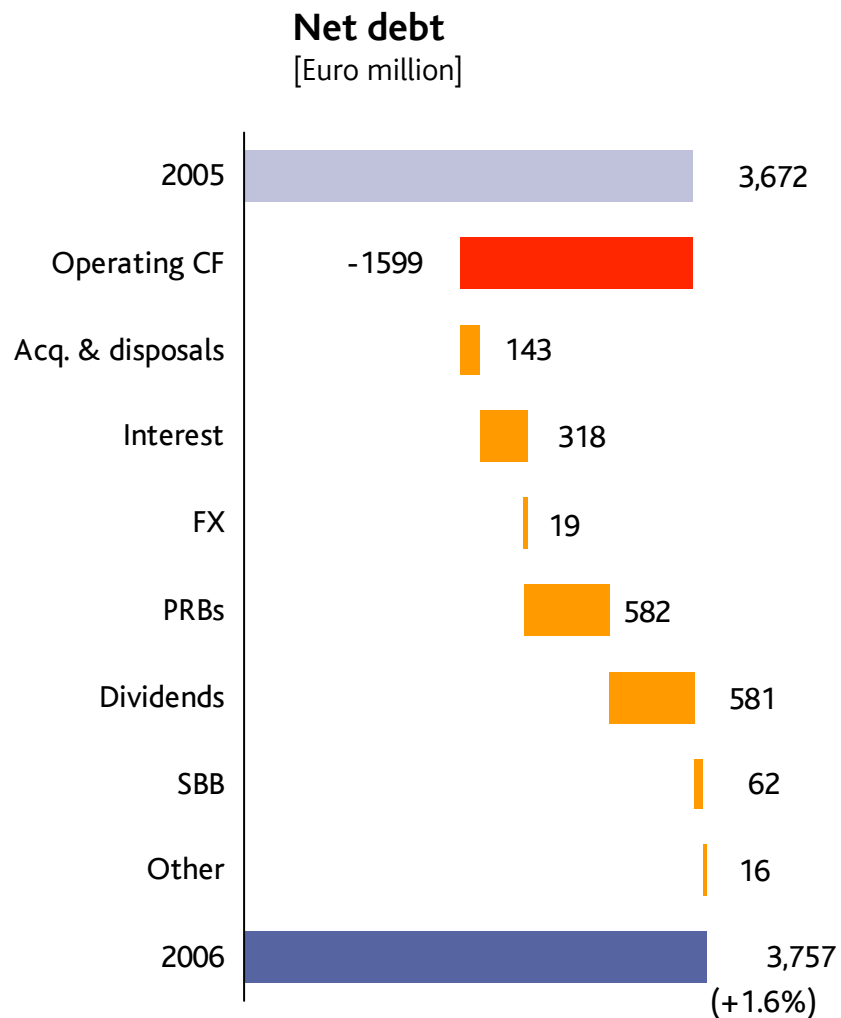


**Net Income**  
[Euro million]



- > Net income increased by 33% yoy to €867mn.
- > Increase in net income resulted from primarily:
  - Lower income taxes: capital gain in 1Q06 (€53mn), adoption voluntary taxation on capital gains (€142mn), and recognition of tax credit at Vivo (€134mn).
  - Lower curtailment cost: redundancy programme encompassed less employees and impact of termination SNS protocol.

# Solid debt profile



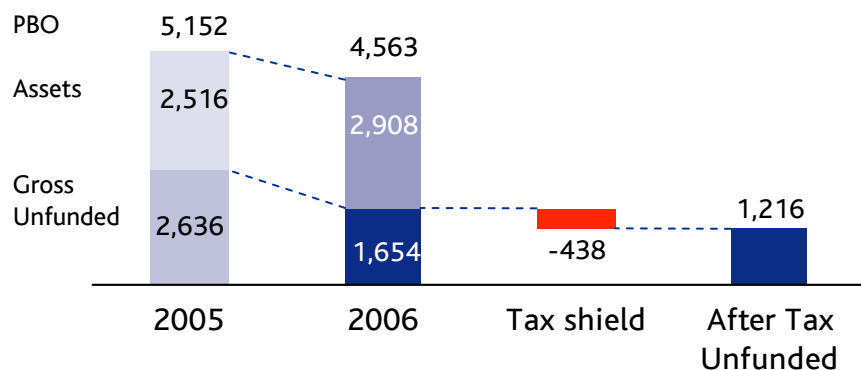
- > Net debt down €352mn in 4Q06 as a result of FCF generated.
- > Cash plus undrawn facilities totalled €2.5bn at the end of Dec 2006.
- > Average cost of debt (excl. Vivo and PTM swaps) stood at 3.8% in 2006.
- > Debt maturity excluding Brazil is 7.9 yrs.

# Significant reduction in unfunded post retirement obligations



## Unfunded pension liability

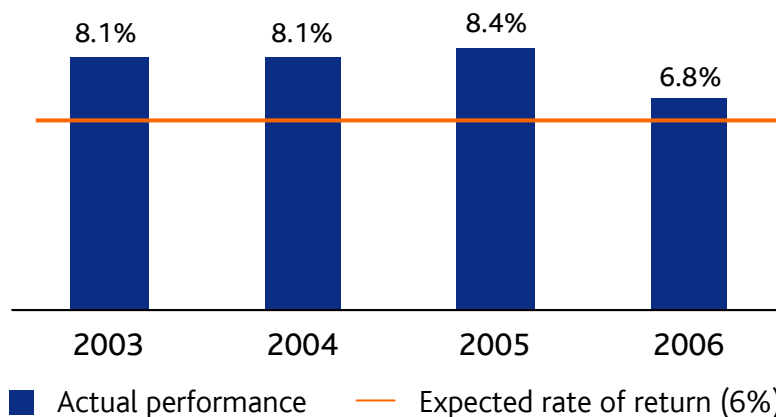
[Euro million]



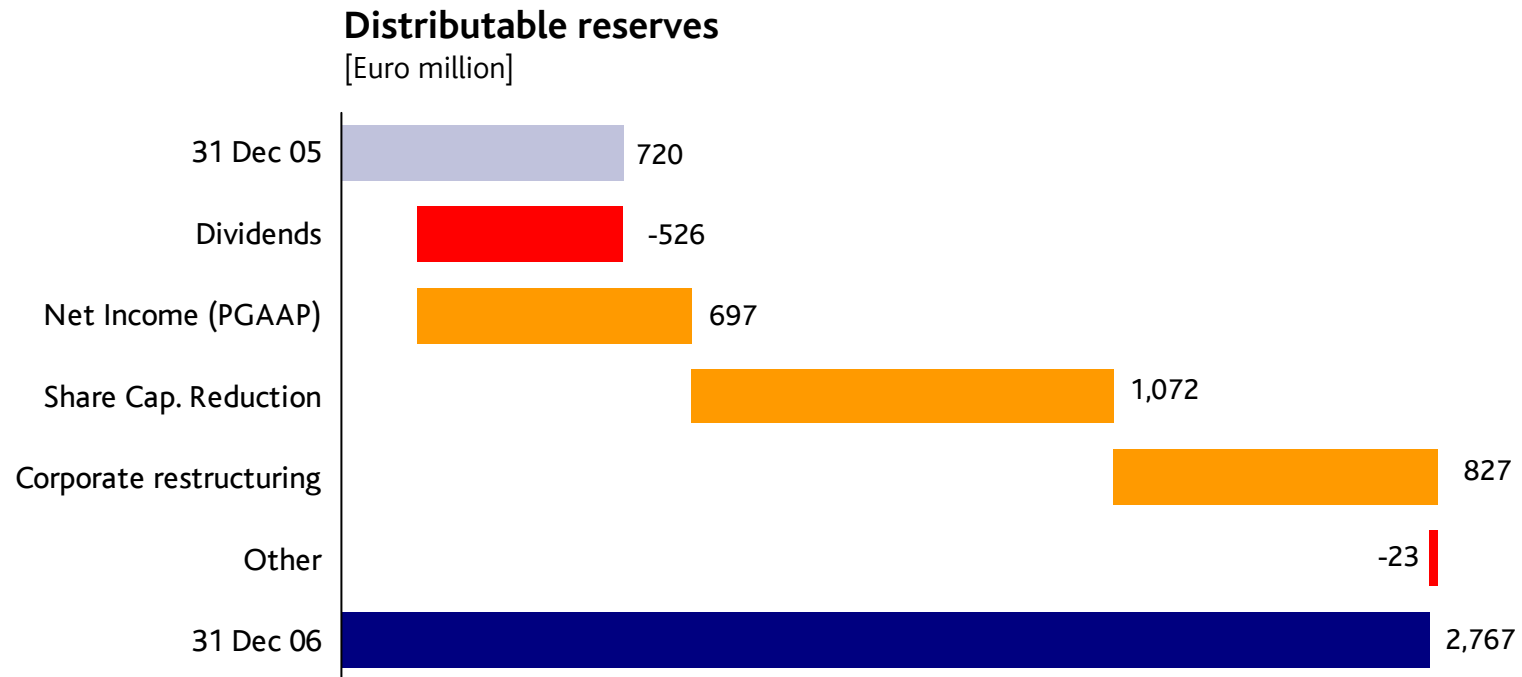
- > Combination of several factors resulted in strong reduction of unfunded post retirement obligations.
- > Adjustment to PT's healthcare plan and decision not to sign new protocol with SNS lowered PBO by €367mn.
- > After tax net unfunded amounted to €1.2bn at the end of 2006.
- > Pension funds outperformed expected rate of return in all of the past 4 years.

## Fund returns

[%]



## Strong increase in distributable reserves



- > Distributable reserves totalled €2.8bn at the end of Dec 06, following:
  - Share capital reduction (€1.1bn),
  - Internal corporate restructuring (€0.8bn).

## Financial highlights



Euro million	4Q06	4Q05	y.o.y	2006	2005	y.o.y
<b>Operating revenues</b>	<b>1.635</b>	<b>1.715</b>	<b>(5%)</b>	<b>6.343</b>	<b>6.385</b>	<b>(1%)</b>
Wireline	505	540	(6%)	2.072	2.214	(6%)
TMN	387	397	(3%)	1.502	1.557	(4%)
Vivo	535	620	(14%)	2.105	2.037	3%
PTM	177	158	12%	666	628	6%
<b>EBITDA</b>	<b>738</b>	<b>710</b>	<b>4%</b>	<b>2.423</b>	<b>2.496</b>	<b>(3%)</b>
Wireline	352	360	(2%)	1.073	1.129	(5%)
TMN	166	167	(0%)	659	674	(2%)
Vivo	160	124	29%	496	507	(2%)
PTM	53	51	2%	211	195	8%
<b>Income from operations</b>	<b>428</b>	<b>395</b>	<b>8%</b>	<b>1.214</b>	<b>1.375</b>	<b>(12%)</b>
<b>Net income</b>	<b>340</b>	<b>293</b>	<b>16%</b>	<b>867</b>	<b>654</b>	<b>33%</b>
<b>Capex</b>	<b>423</b>	<b>361</b>	<b>17%</b>	<b>1.001</b>	<b>943</b>	<b>6%</b>
<b>EBITDA - Capex</b>	<b>315</b>	<b>349</b>	<b>(10%)</b>	<b>1.423</b>	<b>1.552</b>	<b>(8%)</b>
<b>Net debt</b>	<b>3.757</b>	<b>3.672</b>	<b>2%</b>	<b>3.757</b>	<b>3.672</b>	<b>2%</b>
EBITDA margin (%)	45,2	41,4	3,8 pp	38,2	39,1	(0,9 pp)
Capex as % revenues	25,9	21,1	4,8 pp	15,8	14,8	1,0 pp
EBITDA - Capex margin (%)	19,3	20,4	(1,1 pp)	22,4	24,3	(1,9 pp)

EBITDA = income from operations + depreciation and amortisation.

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

# Operating highlights



	4Q06	4Q05	y.o.y	2006	2005	y.o.y	
<b>Wireline</b>	Main accesses (k)	4,404	4,478	(2%)	4,404	4,478	(2%)
	Main accesses net adds (k)	(14)	7	n.m.	(74)	101	n.m.
	ADSL retail (k)	685	585	17%	685	585	17%
	ADSL Retail net adds (k)	27	38	(29%)	100	204	(51%)
	Pricing Plans (k)	2,827	1,795	58%	2,827	1,795	58%
	Total Traffic (mn minutes)	3,314	3,641	(9%)	13,442	14,818	(9%)
	ARPU (Euro)	30	30	1%	30	30	(1%)
<b>TMN</b>	Customers (k)	5,704	5,312	7%	5,704	5,312	7%
	Net Adds (k)	211	97	117%	391	259	51%
	MOU	120	123	(2%)	120	122	(1%)
	ARPU (Euro)	21	22	(7%)	21	23	(8%)
	Customer bill	17	18	(5%)	17	18	(5%)
	Interconnection	4	4	(16%)	4	5	(19%)
<b>Vivo</b>	Customers (k)	29,053	29,805	(3%)	29,053	29,805	(3%)
	Net Adds (k)	327	964	(66%)	(752)	3,262	n.m.
	MOU	82	74	11%	74	78	(5%)
	ARPU (R\$)	31	29	6%	27	29	(5%)
<b>PTM</b>	Pay TV Customers (k)	1,480	1,479	0%	1,480	1,479	0%
	Pay TV Net Adds (k)	29	(6)	n.m.	1	30	(96%)
	Cable Broadband Accesses (k)	362	348	4%	362	348	4%
	Cable Broadband Net Adds (k)	13	7	95%	14	43	(68%)
	Pay-Tv Blended ARPU (Euro)	30	27	7%	29	28	6%

Portugal Telecom



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