Portugal Telecom

Results Presentation

First Quarter 2007

10 May 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.

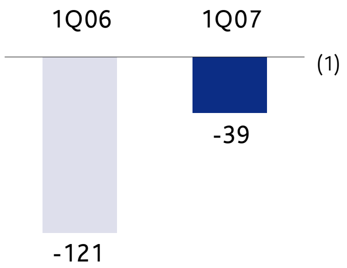
Highlights

	1Q07	y.o.y
> Operating revenues	1,461	+2.5%
> EBITDA	571	+5.1%
> Net Income	177	-16.3%
> Operating free cash flow	295	+12.8%
> Net debt	3,646	-0.9%
> After-tax net unfunded post retirement obligations	1,141	-38.5%

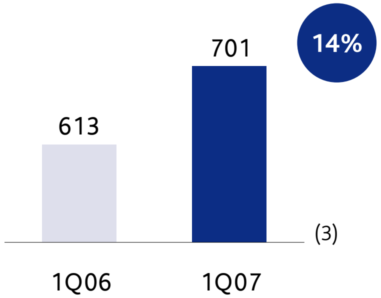
Values in Euro million

Wireline operational highlights

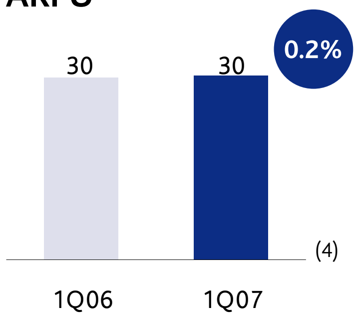
PT Voice Line Net Adds



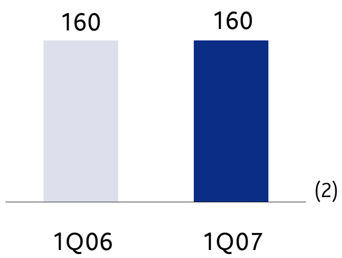
ADSL Retail



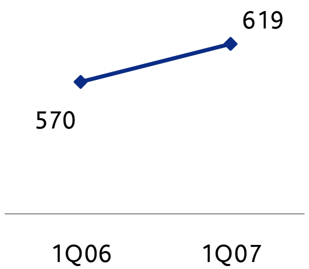
ARPU



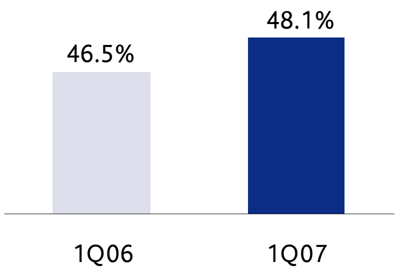
Retail MOU



Lines Per Employee



EBITDA Margin

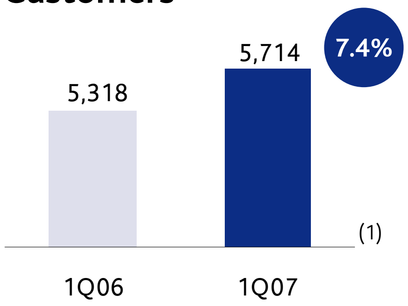


(1) thousand (2) minutes /month (3) thousand (4) Euros

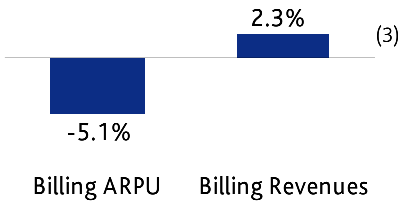
- Level of line loss has slowed down vis-à-vis 1Q06, and is in line with 2H06.
- ADSL continued to grow in 1Q07, reaching 701k.
- Continued growth in data revenues has helped to stabilise ARPU – data ARPU increased by 20% yoy.
- Strong growth in flat-rate pricing plans has helped to sustain retail MOU at 160 minutes.
- Cost rationalisation programme continued to improve efficiency levels and operating margins.

TMN operational highlights

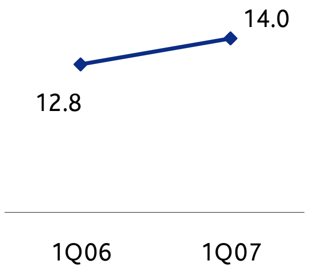
Customers



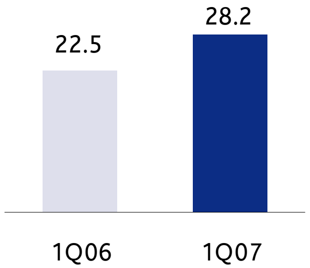
Billing Revenues



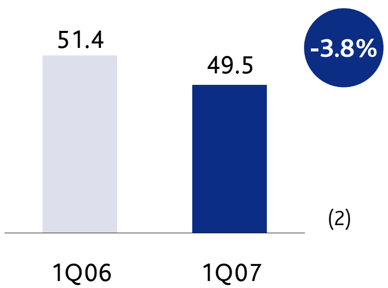
Data % Serv. Revenues



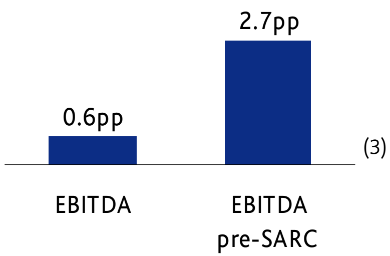
Non-SMS % data revenues



Unitary SARC



Margin improvement

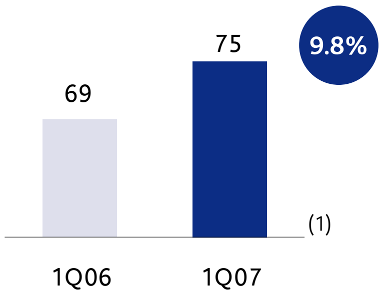


(1) thousand (2) Euros (3) y.o.y

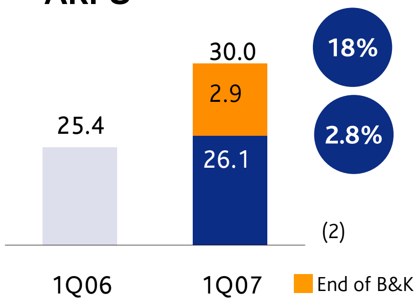
- Continued growth in customer base, with focus on postpaid and wireless broadband.
- Home-zoning product, Casa t, surpassed 100k subscribers during 1Q07.
- Billing revenues increased by 2.3% on 1Q07, with growth in average customer base more than offsetting dilution of customer ARPU.
- Increased weight of data revenues, underpinned by growth of over 37% in non-SMS data.
- Notwithstanding strong pick-up in commercial activity, lower unitary SARC and continued cost rationalisation allowed for improvement in operating margins to 44.3%.

Vivo operational highlights

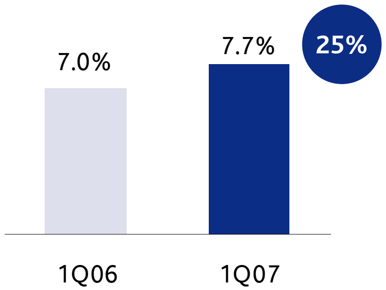
MOU



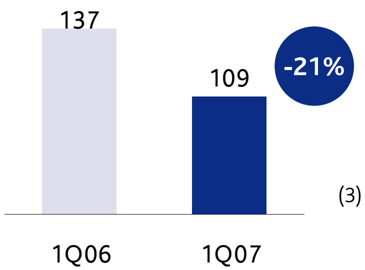
ARPU



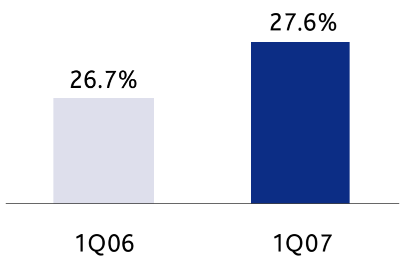
Data % Serv. Revenues



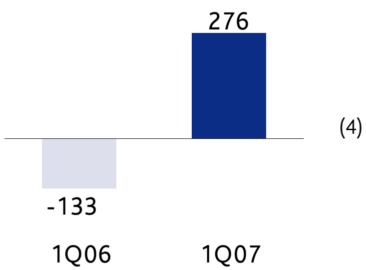
SARC



EBITDA margin



FCF



(1) Minutes /month (2) Reais (3) Reais (4) R$ million

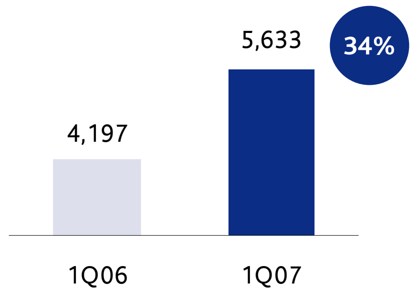
- Vivo maintained strategic focus on acquiring and retaining higher value customers.
- GSM/EDGE network implemented in record time (covers 86% of municipalities with CDMA coverage).
- GSM accounted for 16% of gross adds in 1Q07.
- Campaigns to stimulated usage have successfully resulted in 10% increase in MOU and 3% increase in underlying ARPU.
- Lower unitary SARC, partially helped by GSM, and continued cost focus resulted in margin improvement (notwithstanding dilutive impact of change in interconnect regime).
- Strong improvement in FCF profile.

International assets in Africa and Asia continued to grow

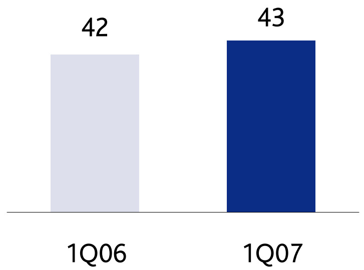
	Stake	EBITDA (€mn)	y.o.y local
Africa			
Meditel	32%	43	4.4%
Unitel	25%	88	18.1%
MTC	34%	15	12.0%
CVT	40%	10	5.4%
CST	51%	1	22.8%
Asia			
CTM	28%	21	10.8%
Timor Telecom	41%	2	59.7%

Meditelecom [Morocco]

Customers
[thousand]

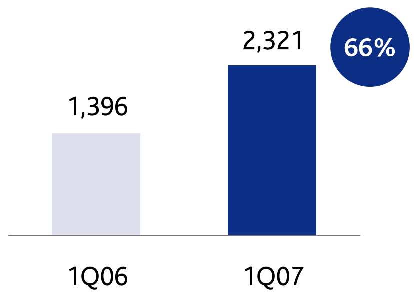


EBITDA
[Euro million]

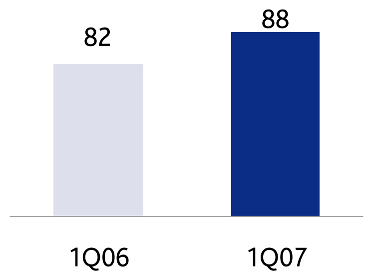


Unitel [Angola]

Customers
[thousand]



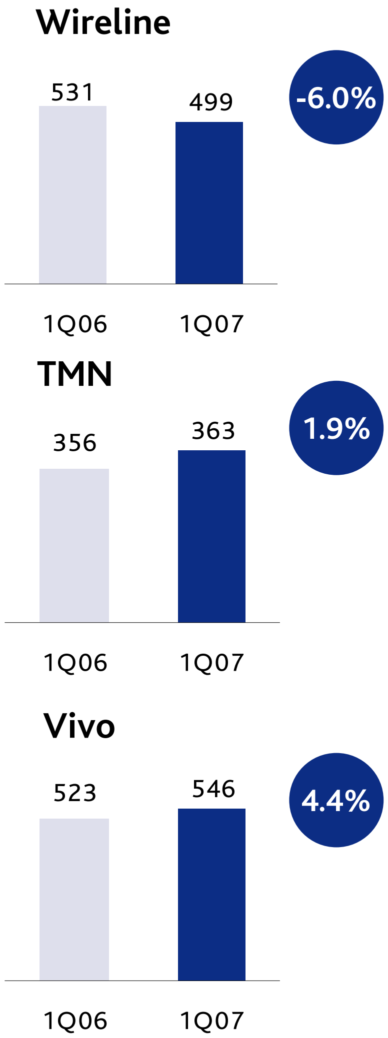
EBITDA
[Euro million]

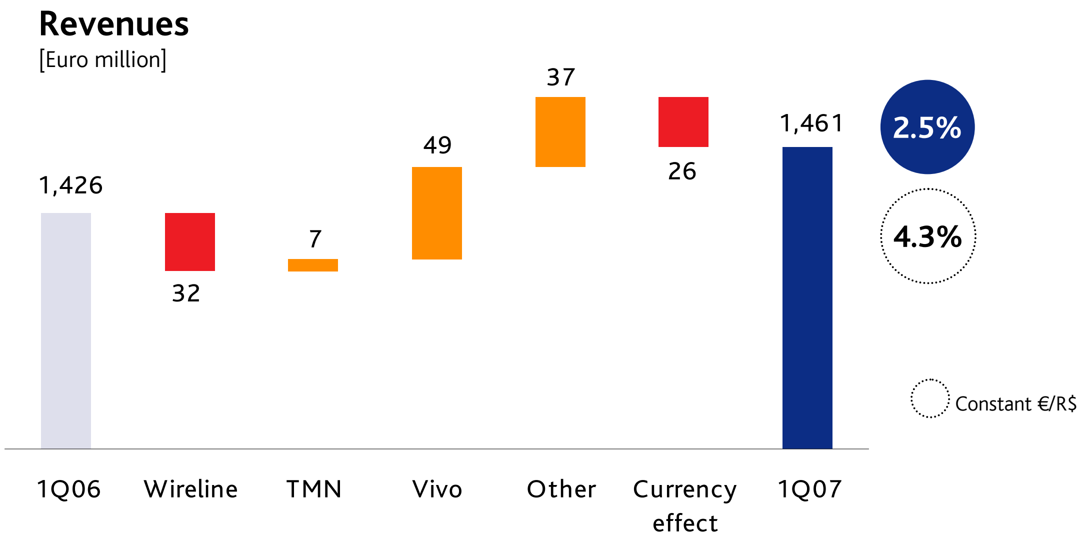


> Positive performance across various assets in Africa and Asia, which are self-funding.

> Proportionate EBITDA for international assets (ex-Vivo) amounted to €58mn in 1Q07, an increase of 12% yoy in constant currency.

Revenue growth performance underpinned by growth at Vivo and TMN

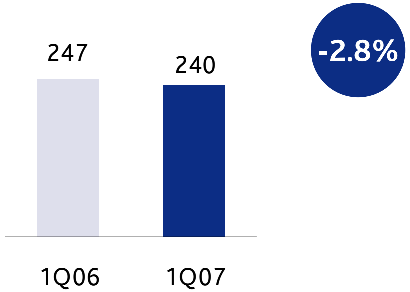




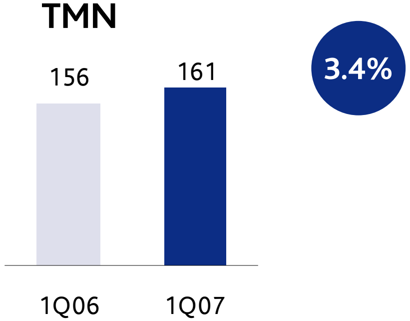
- TMN performance underpinned by strong customer growth, while wireline impacted negatively by line loss.
- Vivo performance impacted positively by the end of bill & keep and by growth in underlying ARPU.
- Consolidation of MTC (Namibia) had positive effect of €28mn.
- Mobile termination rate (MTR) cuts had negative impact of €10mn in 1Q07.

EBITDA performance driven by mobile growth

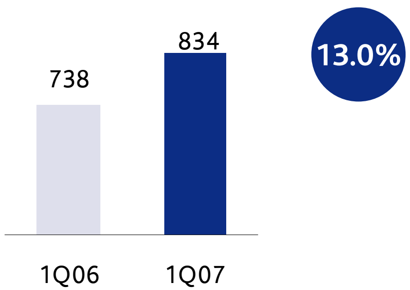
Wireline



TMN

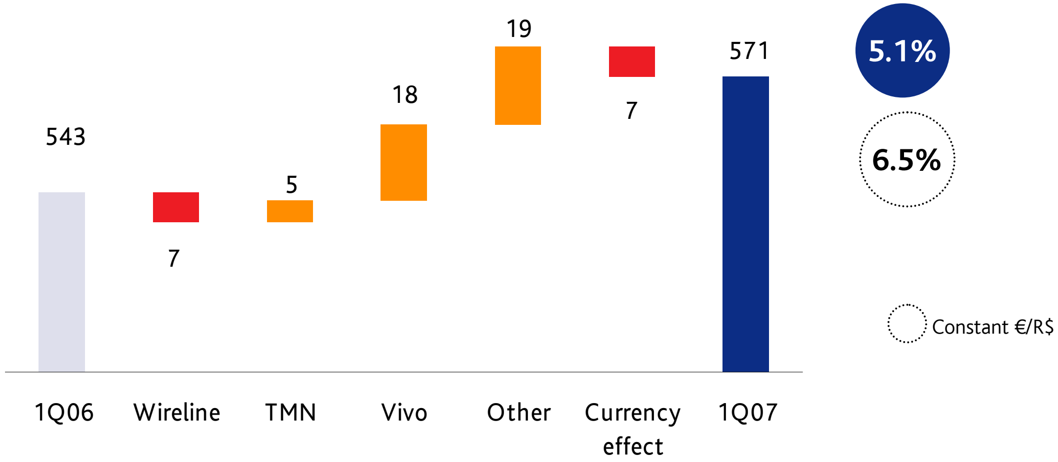


Vivo



EBITDA

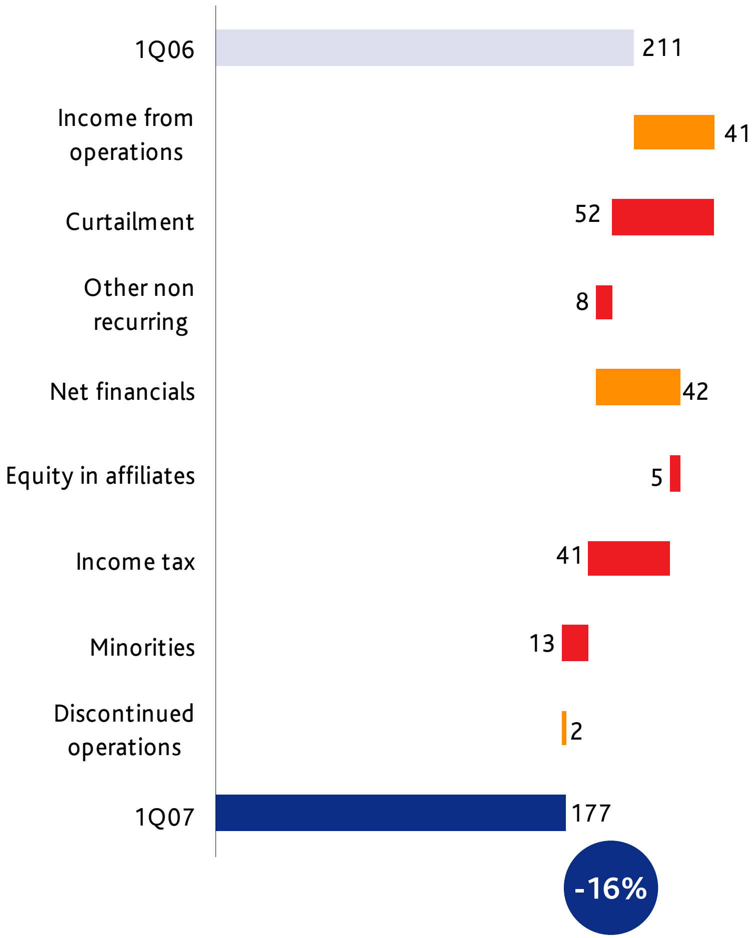
[Euro million]



- Wireline EBITDA performance supported by greater cost efficiency (+1.6pp margin increase).
- TMN EBITDA growth underpinned by customer growth and margin improvement (+0.6pp margin increase).
- Vivo EBITDA growth driven by ARPU enhancement and greater cost control (+0.9pp margin increase).
- Consolidation of MTC had positive impact of €15mn.
- MTR cuts had negative impact of €4mn.

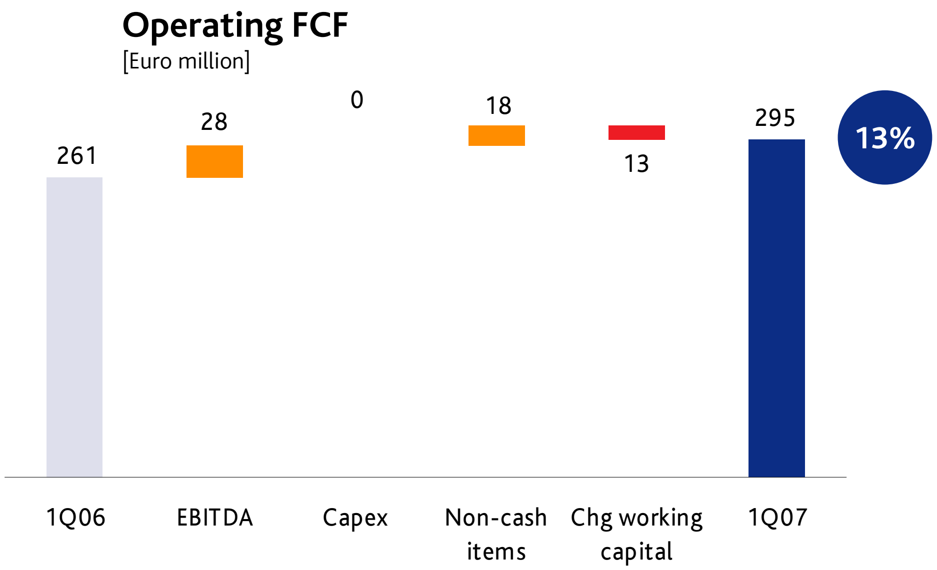
Net income affected by higher curtailment cuts and income taxes

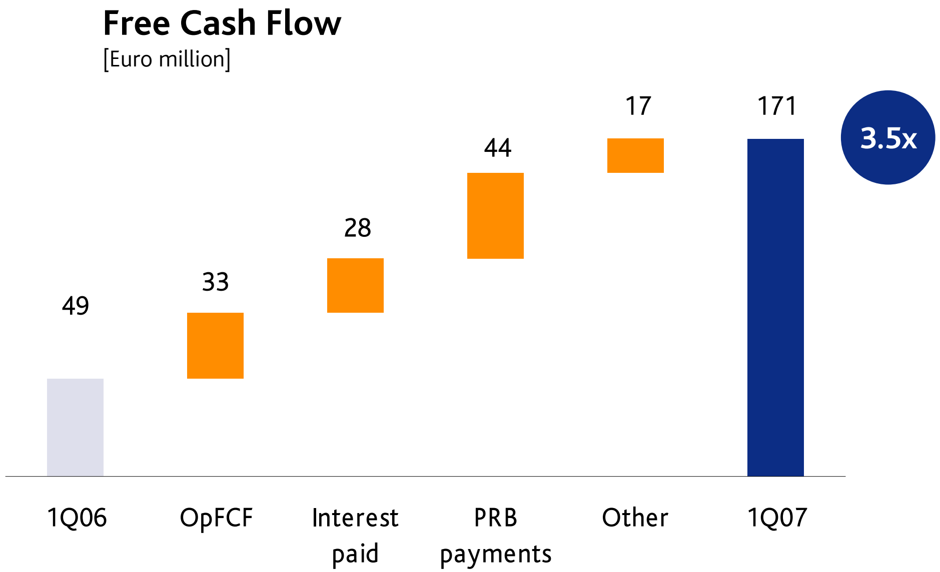
Net Income
[Euro million]



- Curtailment costs amounted to €53mn in 1Q07, in connection with reduction of 151 employees.
- Net financial gains increased by €42mn as a result of change in fair value of PTM equity swap (€38mn) and settlement of equity swaps on own shares (€16mn).
- Income taxes increased by €43mn due to €53mn tax credit booked in 1Q06. Effective tax rate fell from 37% (adjusted) in 1Q06 to 30% in 1Q07.
- Discontinued operations include PTM earnings before minorities, following approval of PTM spin-off at 27 April 2007 AGM.

Robust cash flow generation





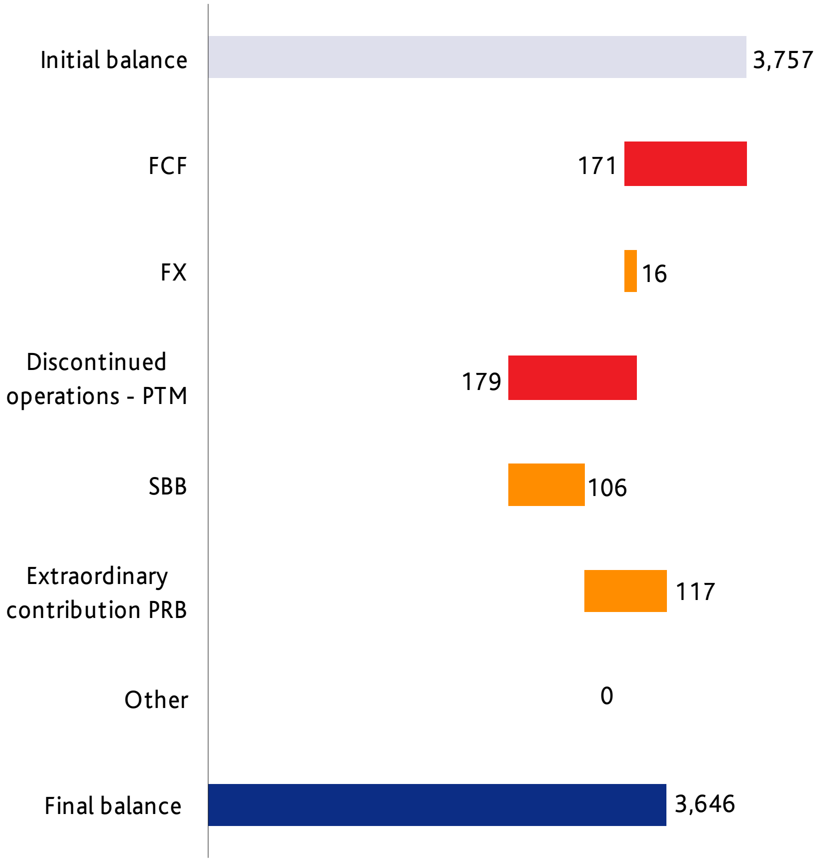
> OpFCF increased by 13% yoy to €295mn, primarily as a result of EBITDA growth.

> FCF increased by €122mn to €171mn in 1Q07 as a result of:

- Higher OpFCF.
- Lower interest paid (in 1Q06 PT paid first annual coupon of Eurobond issued in March 2005 and last annual interest instalment of Eurobond repaid in 2006).
- Lower PRB contribution and payments (€22mn healthcare expenses reimbursement in 1Q07 and €14mn contribution in 1Q06 related to curtailment in 4Q05).

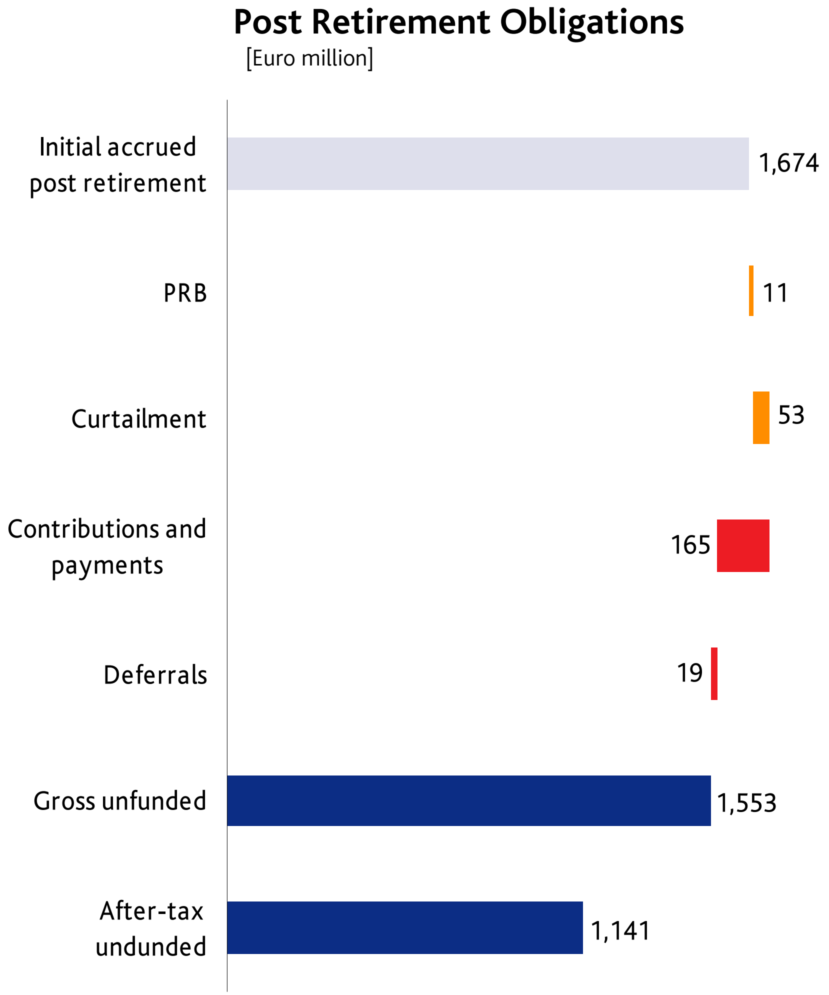
Solid debt profile

Change in Net Debt – 1Q07
[Euro million]



- Average cost of debt of 5.5% with maturity of 7.3 years in 1Q07.
- Excluding Brazil and interest on PTM equity swap, average cost of debt was 3.9% with maturity of 7.7 years in 1Q07.
- Net debt-to-EBITDA ratio improved to 1.6x (1.7x in 1Q06) and interest cover improved to 11.6x (11.0x in 1Q06).
- Available cash from domestic operations plus undrawn commercial paper and standby facilities totalled €2.5bn at end of March 2007.

Continued reduction in unfunded post retirement obligations



- Gross unfunded obligations fell by €100mn in 1Q07 to €1.55bn, with the €165mn of contributions and payments being partially offset by PRB cost and curtailment cost.
- PRB cost decreased by €6mn to €11mn as a result of lower unfunded obligations.
- After-tax unfunded obligations decreased to €1.1bn .

Superior shareholder remuneration

> 47.5 € cents DPS payable in 2007
  - ex-dividend date: 15 May 2007
  - payment date: 18 May 2007

> €1.1bn in annual dividends payable over the period 2008-2009

> €2.1bn share buyback approved and under execution (€106mn completed as at 31 March 07)

> PTM spin-off approved
  - 4 PTM shares for 25 PT shares
  - Execution expected to occur end of 3Q07 / beginning of 4Q07

> Almost half of PT's current market cap returned to shareholders over the next three years

Summary

- Positive operational and financial performance in 1Q07
- Strong OpFCF and FCF generation
- Continued growth in international assets
- On track to deliver on commitments presented to shareholders in February 2007
- Superior shareholder remuneration policy

Financial highlights

Euro million	1Q07	1Q06	y.o.y
Operating revenues	**1,461**	**1,426**	**2%**
Wireline	499	531	(6%)
TMN	363	356	2%
Vivo	546	523	4%
Other and eliminations	52	15	n.m.
EBITDA	**571**	**543**	5%
Wireline	240	247	(3%)
TMN	161	156	3%
Vivo	151	140	8%
Other	19	1	n.m.
Income from operations	**305**	**264**	**16%**
Net income	**177**	**211**	**(16%)**
Capex	**129**	**129**	**(0%)**
EBITDA - Capex	**442**	**414**	**7%**
Net debt	**3,646**	**3,678**	**(1%)**
EBITDA margin (%)	39.1	38.1	1.0 pp
Capex as % revenues	8.8	9.0	(0.2 pp)
Net debt / EBITDA (x)	1.6	1.7	(0.1x)

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

		1Q07	1Q06	y.o.y
Wireline	Main accesses ('000)	4,357	4,447	(2%)
	Retail accesses	3,913	4,283	(9%)
	Wholesale accesses	444	164	171%
	Traffic-generating lines net adds	(39)	(121)	(68%)
	ADSL retail	701	613	14%
	ADSL retail net adds	16	28	(43%)
	ARPU (Euro)	30	30	0%
	Retail Traffic	1,339	1,459	(8%)
	Retail MOU	160	160	0%
TMN	Customers (k)	5,714	5,318	7%
	Net Adds (k)	10	6	72%
	MOU	116	117	(1%)
	ARPU (Euro)	19	20	(7%)
	Customer	16	17	(5%)
	Interconnection	3	4	(13%)
	Data as % Service Revenues (%)	14	13	9%
Vivo	Customers (k)	29,030	30,138	(4%)
	Net Adds (k)	(23)	333	n.m.
	MOU	75	69	10%
	ARPU (R$)	30	25	18%
	Data as % Service Revenues (%)	8	7	9%

Portugal Telecom

Nuno Prego

Investor Relations Director

+351 21 500 1701

nuno.prego@telecom.pt

www.telecom.pt