

PORTUGAL TELECOM SGPS SA  
Form 6-K  
May 06, 2010

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 6-K

**Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934**

**For the month of May 2010**

**Commission File Number 1-13758**

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## **PORTUGAL TELECOM, SGPS, S.A.**

(Exact name of registrant as specified in its charter)

**Av. Fontes Pereira de Melo, 40  
1069 - 300 Lisboa, Portugal**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F            Form 40-F

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes            No       

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## 01 Earnings Release

31 March 2010

Lisbon, Portugal, 6 May 2010

In 1Q10, consolidated operating revenues amounted to Euro 1,773 million, up by 10.5% y.o.y, while EBITDA reached Euro 633 million, up by 5.1% y.o.y. Consolidated EBITDA margin stood at 35.7%. Income from operations reached Euro 238 million. In 1Q10, the contribution of fully and proportionally consolidated international assets to operating revenues and EBITDA stood at 55.4%, up by 6.6pp y.o.y, and at 46.9%, up by 7.1pp y.o.y, respectively. Net income amounted to Euro 100 million and basic earnings per share reached Euro 0.11. Capex increased by 2.3% to Euro 229 million, equivalent to 12.9% of revenues and was primarily directed to the investment in the rollout of new technologies and services, namely the fibre network and TV service in Portugal and the investments in 3G and 3.5G in Portugal and in Brazil. Despite the continued investments in the rollout of new technologies, in 1Q10, EBITDA minus Capex increased by 6.8% y.o.y to Euro 404 million. Operating cash-flow stood at Euro 66 million, while free cash-flow was seasonally negative at Euro 57 million due to higher working capital investments and interest payments, which are typically much higher in the first quarter of the year, and lower dividend income received which are usually higher in the second half of the year. As at 31 March 2010, net debt amounted to Euro 5,660 million and after-tax unfunded post retirement benefit obligations totalled Euro 1,122 million. Liquidity, in domestic operations, including cash, undrawn underwritten commercial paper and standby facilities stood at Euro 2,937 million. The next bond maturity (Euro 1,300 million) is on 26 March 2012.

Table 1 \_ Consolidated financial highlights

Euro million

	1Q10	1Q09	y.o.y
Operating revenues	1,773.4	1,604.5	10.5%
Operating costs, excluding PRBs and D&A	1,140.1	1,001.9	13.8%
EBITDA (1)	633.4	602.6	5.1%
Income from operations (2)	237.8	254.0	(6.4)%
Net income	100.3	166.4	(39.7)%
Capex (3)	229.0	223.8	2.3%
Capex as % of revenues (%)	12.9	13.9	(1.0pp)
EBITDA minus Capex	404.4	378.8	6.8%
Free cash flow	(57.0)	(91.8)	37.9%
Net debt	5,659.8	5,740.6	(1.4)%
After-tax unfunded PRB obligations	1,121.8	1,367.7	(18.0)%
EBITDA margin (%) (4)	35.7	37.6	(1.8pp)
Net debt / EBITDA (x)	2.2	2.4	(0.1x)
EBITDA / net interest (x)	8.7	8.3	0.4x
Basic earnings per share	0.11	0.19	(39.7)%
Diluted earnings per share (5)	0.11	0.18	(38.2)%

(1) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (2) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains). (3) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09). (4) EBITDA margin = EBITDA / operating revenues.

(5) Earnings per share computed using net income excluding the costs associated with the convertible bonds divided by the diluted number of shares.

**02 Financial Review**

## Income Statement

In 1Q10, consolidated operating revenues increased by 10.5% y.o.y to Euro 1,773 million, as a result of revenue growth in international operations, namely Vivo, MTC in Namibia and Dedic, PT's contact centre and outsourcing business in Brazil, which more than offset the performance of domestic businesses.

Table 2 \_ Consolidated income statement (1)

Euro million

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>1,773.4</b>	<b>1,604.5</b>	<b>10.5%</b>
Wireline (2)	488.2	492.1	(0.8)%
Domestic mobile • TMN (2)	345.9	370.1	(6.5)%
Brazilian mobile • Vivo (1)	883.4	703.7	25.5%
Other and eliminations	56.0	38.7	44.8%
<b>Operating costs, excluding PRBs and D&amp;A</b>	<b>1,140.1</b>	<b>1,001.9</b>	<b>13.8%</b>
Wages and salaries	198.6	161.6	22.9%
Direct costs	324.2	261.3	24.0%
Commercial costs	277.0	262.5	5.5%
Other operating costs	340.2	316.5	7.5%
<b>EBITDA (3)</b>	<b>633.4</b>	<b>602.6</b>	<b>5.1%</b>
Post retirement benefits	17.8	22.4	(20.5)%
Depreciation and amortisation	377.8	326.2	15.8%
<b>Income from operations (4)</b>	<b>237.8</b>	<b>254.0</b>	<b>(6.4)%</b>
<b>Other expenses (income)</b>	<b>10.7</b>	<b>2.7</b>	<b>292.0%</b>
Curtailement costs, net	5.2	1.8	180.7%
Net losses (gains) on disposal of fixed assets	0.0	0.5	(94.7)%
Net other costs (gains)	5.5	0.4	n.m.
<b>Income before financ. &amp; inc. taxes</b>	<b>227.0</b>	<b>251.2</b>	<b>(9.6)%</b>
<b>Financial expenses (income)</b>	<b>35.2</b>	<b>18.4</b>	<b>90.7%</b>
Net interest expenses	72.8	72.4	0.7%
Equity in earnings of affiliates, net	(38.8)	(48.7)	(20.4)%
Net other financial losses (gains)	1.1	(5.2)	n.m.
<b>Income before income taxes</b>	<b>191.9</b>	<b>232.8</b>	<b>(17.6)%</b>
Provision for income taxes	(62.7)	(55.5)	13.0%
<b>Income from continued operations</b>	<b>129.1</b>	<b>177.3</b>	<b>(27.2)%</b>
Losses (income) attributable to minority interests	(28.8)	(10.9)	164.4%
<b>Consolidated net income</b>	<b>100.3</b>	<b>166.4</b>	<b>(39.7)%</b>

(1) Considering a Euro/Real average exchange rate of 2.4917 in 1Q10 and 3.0168 in 1Q09. (2) Wireline and domestic mobile operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN, this impact amounted to Euro 2.3 million in 1Q10. Wireline revenues include the impact of the change in the recognition of contract penalties as from 3Q09. (3) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (4) Income from operations = income before financials and income taxes + curtailement costs + losses (gains) on disposal of fixed assets + other costs (gains).

In 1Q10, revenues from domestic operations decreased by 3.6% y.o.y. The revenue performance of domestic operations was negatively impacted by lower equipment sales (Euro 8 million), lower MTRs (Euro 3 million), a change in the recognition of contract penalties in the



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wireline segment (Euro 4 million) and lower customer revenues at TMN. Nevertheless the sequential performance of the wireline business when compared to 4Q09 improved.

In 1Q10, wireline operating revenues decreased by 0.8% y.o.y, from Euro 492 million to Euro 488 million. Adjusting for the change in revenue recognition referred to above, wireline revenues would have been flat

y.o.y, underpinned by retail revenues and despite lower wholesale and data and corporate revenues. Retail revenues were broadly flat at Euro 244 million, in 1Q10. Adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 1.2% y.o.y, on the back of the continued strong performance of the Meo triple-play offer (voice, data and pay-TV), which continues to mitigate significantly fixed line net disconnections, which stood at 14 thousand in 1Q10 compared to 30 thousand in 1Q09 and 59 thousand in 1Q08. Moreover, net disconnections of traffic generating lines stood at 2 thousand in 1Q10, compared to 19 thousand in 1Q09, an improvement of almost 90% y.o.y.

In the wireline, retail net additions reached 87 thousand in 1Q10, up by 22.4% y.o.y, driven by the success of PT's Meo triple-play offer, which is allowing for deceleration of fixed line disconnections and gains in broadband market share. ADSL retail customers increased by 19.8% y.o.y in 1Q10, reaching 901 thousand customers. Broadband retail net additions reached 39 thousand in 1Q10, in line with the improving trend posted during 2009 (38 thousand average net adds per quarter). PT's Meo offer continues to see strong demand in the market. Pay-TV net additions reached 65 thousand in 1Q10 and total pay-TV customers stood at 646 thousand, equivalent to 71.7% penetration of the ADSL retail customer base, up by 20.6pp y.o.y and by 4.3pp q.o.q. Retail RGU per access increased by 11.5% y.o.y in 1Q10 to 1.57.

In 1Q10, TMN's operating revenues decreased by Euro 24 million (-6.5% y.o.y) to Euro 346 million, mainly due to: (1) lower customer revenues (Euro 6 million), as a result of lower roaming-out revenues and lower pre-paid revenues, reflecting the economic conditions and improving the sequential performance; (2) lower interconnection revenues (Euro 6 million), partially as a result of the negative impact of lower MTRs (Euro 2 million), and (3) lower equipment sales (Euro 7 million). Post-paid customer revenues increased by Euro 2 million, notwithstanding the adverse economic environment. Non-SMS data revenues continued to be an important source of growth, on the back of increasing penetration of smartphones and wireless data cards. Non-SMS data revenues increased by 10.0% y.o.y in 1Q10, now representing 63.4% of total data revenues. Data revenues reached 23.3% of service revenues, up by 0.8pp y.o.y.

In 1Q10, Vivo's operating revenues increased by 25.5% y.o.y in Euros and 3.7% y.o.y in Reais, improving the revenue trend seen in 4Q09, on the back of continued customer growth (18.2% increase y.o.y in the customer base) and data revenues growth.

Other revenues, including intra-group eliminations, increased by 44.8% y.o.y in 1Q10, mainly due to the improved revenue performance of Dedic, PT's contact centre and outsourcing business in Brazil, MTC, in Namibia, and Timor Telecom, which more than offset the revenue contraction at CVT in Cape Verde, primarily due to adverse regulatory and economic conditions.

**Table 3 \_ Revenues by region (1)**

**Euro million**

	<b>1Q10</b>	<b>1Q09</b>	<b>y.o.y</b>
Domestic operations (2)	797.2	827.3	(3.6)%
Brazil (1)(3)	916.5	724.6	26.5%
Other and eliminations (4)	59.8	52.6	13.8%
<b>Total operating revenues</b>	<b>1,773.4</b>	<b>1,604.5</b>	<b>10.5%</b>

(1) Considering a Euro/Real average exchange rate of 2.4917 in 1Q10 and 3.0168 in 1Q09. (2) Domestic operations include the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. (3) Includes mainly Vivo and Dedic, PT's contact centre business. (4) Includes fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.



In 1Q10, the contribution from fully and proportionally consolidated international assets to operating revenues stood at 55.4%, up by 6.6pp y.o.y, and Brazil accounted for 51.7% of consolidated operating revenues, an increase of 6.6pp y.o.y.

EBITDA increased by 5.1% y.o.y in 1Q10 to Euro 633 million, equivalent to a margin of 35.7%. EBITDA performance in the period was underpinned by growth at Vivo and other international assets, which was partially offset by the decrease in the domestic businesses, as a result of revenue decline at TMN, notwithstanding the strong cost control and efficiency improvement, and investment in the roll-out of triple-play offers.

**Table 4 \_ EBITDA by business segment (1)(2)**

**Euro million**

	1Q10	1Q09	y.o.y
Wireline	188.5	208.1	(9.4)%
Domestic mobile • TMN	164.1	169.7	(3.3)%
Brazilian mobile • Vivo (1)	256.3	203.6	25.8%
Other and eliminations	24.4	21.0	16.2%
<b>EBITDA (2)</b>	<b>633.4</b>	<b>602.6</b>	<b>5.1%</b>
EBITDA margin (%)	35.7	37.6	(1.8pp)
Domestic operations (3)	351.5	376.2	(6.6)%
Brazil (1)(4)	259.3	205.2	26.4%
Other (5)	22.6	21.1	6.7%

(1) Considering a Euro/Real average exchange rate of 2.4917 in 1Q10 and 3.0168 in 1Q09. (2) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (3) Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. (4) Includes mainly Vivo and Dedic. (5) Includes only fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

Wireline EBITDA amounted to Euro 189 million in 1Q10, equivalent to a 38.6% margin. EBITDA margin continued to be impacted primarily by higher programming costs, customer acquisition costs and support service costs in connection with the roll-out of the triple play offers. In 1Q10, wages and salaries in the wireline segment declined by 1.3% y.o.y. As a result of the halting of the redundancy programme, the projected benefit obligations related to salaries payable to pre-retired and suspended employees fell by 2.6% y.o.y (Euro 21 million), and the corresponding cash outflow was 7.9% lower in the period (Euro 3 million).

In 1Q10, TMN's EBITDA decreased by 3.3% y.o.y to Euro 164 million, mainly as a result of lower customer revenues, notwithstanding the sequential improvement when compared to 4Q09. Due to a strong focus on cost cutting to increase efficiency, EBITDA margin reached 47.4%, an increase of 1.6pp compared to 1Q09.

In 1Q10, Vivo's EBITDA increased by 25.8% y.o.y, underpinned by customer growth and by the appreciation of the Brazilian real. Vivo's EBITDA, in reais, increased by 3.9% y.o.y in the period. Vivo's EBITDA margin reached 29.0% in 1Q10, an improvement of 0.1pp compared to 1Q09, against a backdrop of strong customer growth. In 1Q10, net adds were up by 216.6% to 2,205 thousand, whilst the share of net adds in the quarter stood at 42.8%.

Other EBITDA increased by 16.2% y.o.y to Euro 24 million in 1Q10, mainly as a result of the improved performance of MTC, in Namibia, and Dedic, PT's contact centre and outsourcing business in Brazil.

Fully and proportionally consolidated international assets contributed to 46.9% of PT's consolidated EBITDA in 1Q10. Brazilian businesses accounted for 40.9% of EBITDA in the period. Fully consolidated African businesses accounted for 4.8% of EBITDA in the quarter.

Post retirement benefit costs amounted to Euro 18 million in 1Q10, compared to Euro 22 million in 1Q09. The decline of 20.5% y.o.y is primarily due to: (1) the reduction of Euro 105 million in post retirement liabilities, that occurred during 2009, following the halting of the redundancy work force programme; (2) the increase in fair value of plan assets, from Euro 2,132 million to Euro 2,370 million, that occurred in 2009 as a result of the performance of the plan assets and the contributions to the pension fund, and (3) the reduction of the discount rate from 5.75% to 5.50%.

Depreciation and amortisation costs increased by 15.8% y.o.y to Euro 378 million, reflecting higher contributions from: (1) Vivo, which accounted for 77.4% of the increase in D&A, mainly as a result of the appreciation of the Brazilian real, and (2) wireline in Portugal, as a result of the investments in the rollout of pay-TV service. In 1Q10, D&A included the depreciation of Vivo's CDMA network, which is due to be fully depreciated by the end of 1H10.

Curtailement costs amounted to Euro 5 million in 1Q10 as compared to Euro 2 million in 1Q09. The low level of curtailment costs in both 1Q10 and 1Q09 is explained by the decision to halt the curtailment programme, which is continuously reflected in both lower payments and lower present benefit obligations related to pre-retired and suspended employees.

Net interest expenses, in 1Q10, were stable at Euro 73 million, notwithstanding the decrease in Vivo's cost of debt, following restructuring of the debt related with the acquisition of 3G licenses that occurred during 2009. Consolidated cost of net debt was flat y.o.y at 5.2%.

Equity in earnings of affiliates in 1Q10 amounted to Euro 39 million. In 1Q09, this caption included PT's share in the earnings of Médi Télécom, which was disposed of in 4Q09. Adjusting for the contribution of Médi Télécom in 1Q09 and for the depreciation of the Kwanza against the Euro occurred between both periods, equity accounting in earnings of affiliated companies would have remained broadly flat at Euro 46 million.

Net other financial losses, which include net foreign currency gains, net gains on financial assets and net other financial expenses, amounted to Euro 1 million in 1Q10, as compared to net gains of Euro 5 million in 1Q09. Net foreign currency gains, which are primarily related to the positive impact of the appreciation of the US Dollar against the Euro on net assets denominated in US Dollars, amounted to Euro 3 million in 1Q10 (net gains of Euro 6 million in 1Q09). Net gains on financial assets amounted to Euro 0.4 million in 1Q10, which compares to Euro 5 million in 1Q09. Other financial expenses, which include banking services, financial discounts and other financing costs, decreased to Euro 4 million in 1Q10 from Euro 7 million in the same period of last year.

Provision for income taxes increased to Euro 63 million in 1Q10 from Euro 56 million in 1Q09, corresponding to an effective tax rate of 32.7% and 23.8%, respectively. The increase in the effective tax rate is primarily explained by certain gains recorded in 1Q09 related to the recognition of tax losses from previous periods (Euro 4 million) and the adjustment to the provision for income taxes of the year 2008 (Euro 6 million).

Income attributable to minority interests increased by Euro 18 million to Euro 29 million in 1Q10, reflecting primarily the increase in minority interests from Vivo (Euro 8 million) and from the African businesses (Euro 11 million). The increase in minority interests from Vivo is basically related to the improvement in its earnings during the period and to the appreciation of the Brazilian Real, while the increase in minority interests from



Africatel is primarily explained by a one-off gain amounting to Euro 14 million, that was recognised in 1Q09, related to the legal transfer of PT Ventures to Africatel.

Net income decreased by 39.7% y.o.y in 1Q10 to Euro 100 million, as compared to Euro 166 million in 1Q09, with the improvement in EBITDA being more than offset by higher depreciation and amortisation, income taxes and minority interests and by a reduction in equity in earnings of affiliated.

## Capex

Capex increased by 2.3% y.o.y (Euro 5 million) in 1Q10 to Euro 229 million, equivalent to 12.9% of revenues, as a result of continued investments in future proof technologies, customer growth in the wireline business and in PT's call center operation in Brasil, which more than offset a capex reduction at Vivo and at TMN.

Wireline capex increased from Euro 101 million in 1Q09 to Euro 112 million in 1Q10, primarily as a result of the FTTH rollout, which is a future proof technology and allows for increased bandwidth for both residential and corporate customers, and investment in IPTV services namely in relation to customer growth. At the end of 1Q10, PT reached 1 million homes available or under construction with fibre to the home.

**Table 5 \_ Capex by business segment (1)**

**Euro million**

	1Q10	1Q09	y.o.y
Wireline	112.4	101.4	10.9%
Domestic mobile • TMN (2)	23.5	24.5	(4.3)%
Brazilian mobile • Vivo (1)	66.0	86.6	(23.8)%
Other	27.1	11.3	139.0%
Total capex	229.0	223.8	2.3%
Capex as % of revenues (%)	12.9	13.9	(1.0pp)

(1) Considering a Euro/Real average exchange rate of 2.4917 in 1Q10 and 3.0168 in 1Q09. (2) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

TMN's capex decreased by 4.3% y.o.y to Euro 23 million in 1Q10. The decrease in TMN's capex is primarily explained by the focus on cash-flow generation against a backdrop of high quality of the network and services offered to customers. In effect, in 1Q10, TMN was deemed by the Portuguese telecoms regulator, ANACOM, as having the best 3G coverage in Portugal and the highest rate of voice and video 3G call termination in the urban centres.

Capex at Vivo decreased by 23.8% y.o.y to Euro 66 million in 1Q10, notwithstanding the appreciation of the Brazilian Real. Vivo's capex in reais decreased by 37.0% to R\$329 million. Capex at Vivo was directed towards: (1) increasing network capacity to support the accelerated growth of voice traffic in the 2G network; (2) expanding coverage of 3G and 3.5G networks, and (3) improving network quality to continue to be the most reliable and best quality network in Brazil. Vivo's 3G and 3.5G network covers 594 municipalities and more than 61% of Brazilian



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population. Additionally, Vivo continues to lead in overall quality metrics measured by the Brazilian telecoms regulator, Anatel. Capex at Vivo represented 7.5% of revenues, down 4.8pp when compared to 1Q09.

In 1Q10, other capex increased to Euro 27 million, compared to Euro 11 million in 1Q09, primarily as a result of investments made in 1Q10 in the expansion of Dedic, PT's contact centre and outsourcing operation in Brazil, including the construction of new sites.

**Cash Flow**

Operating cash flow amounted to Euro 66 million in 1Q10, compared to Euro 76 million in 1Q09, with the increase in working capital investment (Euro 33 million) more than offsetting the improvement in EBITDA minus CAPEX (Euro 26 million). The increase in working capital investment is mainly attributable to Vivo, resulting primarily from the increase in the annual payment of Fistel fees (Euro 30 million), which is paid for in the first quarter of the year, in line with the increase in Vivo's customer base. This effect was partially offset by a reduction in working capital investment related to capex, as capex in 4Q09 was lower than in 4Q08, resulting in lower payments to fixed assets suppliers in 1Q10.

Free cash flow was seasonally negative, amounting of Euro 57 million in 1Q10 as compared to negative Euro 92 million in the same period of last year, as PT typically has higher of working capital investments and interests payment in the first quarter of the year, while dividend income higher in the second half. This improvement is primarily explained by: (1) reimbursement in 1Q10 of Euro 75 million, related to the excessive funding of the healthcare plan; (2) lower payments of salaries to pre-retired, suspended employees and other (Euro 3 million), and (3) lower interest payments in Portugal (Euro 8 million). These effects were partially offset by: (1) the reduction in operating cash flow described above, and (2) the increase in income taxes paid (Euro 23 million), primarily at Vivo, following the improvement in its earnings and appreciation of the Brazilian real.

**Table 6 \_ Free cash flow****Euro million**

	1Q10	1Q09	y.o.y
EBITDA minus Capex	404.4	378.8	6.8%
Non-cash items	27.9	31.5	(11.6)%
Change in working capital	(366.5)	(333.8)	9.8%
<b>Operating cash flow</b>	<b>65.7</b>	<b>76.5</b>	<b>(14.1)%</b>
Interests	(120.1)	(127.7)	(6.0)%
Payments and contributions related to PRBs, net of reimbursements	68.5	(8.2)	n.m.
Payments to pre-retired, suspended employees and other	(35.6)	(38.6)	(7.9)%
Income taxes	(32.7)	(9.2)	254.1%
Dividends received	8.4	7.9	6.4%
Other cash movements	(11.3)	7.5	n.m.
<b>Free cash flow</b>	<b>(57.0)</b>	<b>(91.8)</b>	<b>37.9%</b>

**Consolidated Net Debt**

Consolidated net debt amounted to Euro 5,660 million as at 31 March 2010, compared to Euro 5,528 million as at 31 December 2009, an increase of Euro 132 million, reflecting primarily: (1) the negative free cash flow generated in the period (Euro 57 million); (2) the impact of the appreciation of the Brazilian Real (Euro 30 million), and (3) the consolidation of GPTI's net debt, which amounted to Euro 31 million.

**Table 7 \_ Change in net debt****Euro million**

	1Q10	1Q09
Net debt (initial balance)	5,528.0	5,571.3
Less: free cash flow	(57.0)	(91.8)
Changes in consolidation perimeter	30.8	0.0
Commitments related to fixed assets (1)	0.0	11.5
Other (2)	14.2	10.3
Net debt (final balance ex. translations effect)	5,630.0	5,684.8
Translation effect on foreign currency debt	29.7	55.8
Net debt (final balance)	5,659.8	5,740.6
Change in net debt	131.8	169.4
Change in net debt (%)	2.4%	3.0%

(1) In 1Q09, this caption was related to the commitments under the terms of TMN's UMTS licenses. (2) This caption includes mainly: (i) Euro 13 million related to dividends paid by PT's fully consolidated subsidiaries to minority shareholders (Euro 20 million in 1Q09), and (ii) in 1Q09, Euro 13 million related to the cash contribution of minority shareholders to a share capital increase at Vivo Participações.

As at 31 March 2010, total consolidated gross debt amounted to Euro 7,797 million, of which 89.8% was medium and long-term. As at the end of March 2010, 87.4% of total debt was denominated in Euros and 12.6% in Brazilian Reais. Vivo's debt is either Real-denominated or has been hedged into Reais. Also as at the end of 1Q10, 72.2% of gross debt and 99.4% of net debt was set at fixed rates.

The amount of cash available in PT's domestic operations plus the undrawn amount of PT's committed commercial paper lines and standby facilities totalled Euro 2,937 million at the end of March 2010, of which Euro 1,134 million was undrawn committed commercial paper and standby facilities.

In 1Q10, PT's average cost of debt was flat y.o.y at 5.2%. Excluding Brazil, PT's average cost of debt was 4.8% in 1Q10. As at 31 March 2010, PT's consolidated net debt had a maturity of 6.4 years, while the maturity of PT's net debt excluding Vivo was 6.5 years. The next bond maturity (Euro 1,300 million) is on 26 March 2012. In 1Q10, the net debt to EBITDA ratio was 2.2x and EBITDA cover stood at 8.7x.

### **Post Retirement Benefits Obligations**

As at 31 March 2009, the projected post retirement benefits obligations (PBO) related to pensions and healthcare amounted to Euro 3,049 million and the market value of assets under management amounted to Euro 2,293 million. In addition, PT had liabilities in the form of salaries due to suspended and pre-retired employees amounting to Euro 771 million and these are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, gross unfunded total obligations amounted to Euro 1,526 million. After-tax unfunded obligations amounted to Euro 1,122 million. PT's post retirement benefits plans for pensions and healthcare are closed to new participants.

Table 8 \_ Post retirement benefits obligations

Euro million

	31 March 2010	31 December 2009
Pensions obligations	2,714.0	2,710.2
Healthcare obligations	334.8	335.3
<b>PBO of pension and healthcare obligations</b>	<b>3,048.8</b>	<b>3,045.5</b>
Market value of funds (1)	(2,293.2)	(2,369.5)
<b>Unfunded pensions and healthcare obligations</b>	<b>755.6</b>	<b>675.9</b>
Salaries to suspended and pre-retired employees	770.7	791.4
<b>Total gross unfunded obligation</b>	<b>1,526.3</b>	<b>1,467.4</b>
<b>After-tax unfunded obligations</b>	<b>1,121.8</b>	<b>1,078.5</b>
Unrecognised prior years service gains	22.9	23.4
Accrued post retirement benefits	1,549.2	1,490.8

(1) The change in the market value of funds resulted mainly from the positive performance of assets under management amounting to Euro 31.8 million (equivalent to 1.4% in 1Q10), which was partially offset by the payments of pensions and supplements of Euro 34.7 million and the reimbursement of excess funding of the healthcare plan amounting to Euro 75 million.

Total gross unfunded obligations increased by Euro 59 million to Euro 1,526 million as at 31 March 2010, as a result of the reimbursement of Euro 75 million, related to the excessive funding of the healthcare plan, which more than offset the reduction of liabilities related to salaries payable to suspended and pre-retired employees (Euro 21 million), mainly due to the payments to suspended and pre-retired employees made during the quarter and to the halting of the redundancy programme.

Table 9 \_ Change in gross unfunded obligations

Euro million

	31 March 2010	31 December 2009
Gross unfunded obligations (initial balance)	1,467.4	1,809.9
Post retirement benefits costs (PRB)	18.3	22.9
Curtailement cost	5.2	18
Reimbursements (contributions) to pension funds (1)	68.5	(8.2)
Payments to pre-retired, suspended employees and other	(35.6)	(38.6)
Net actuarial (gains) losses (2)	2.5	(73.0)
Gross unfunded obligations (final balance)	1,526.3	1,860.8
After-tax unfunded obligations	1,121.8	1,367.7

(1) In 1Q10, this caption includes: (i) termination payments amounting to Euro 0.5 million; (ii) reimbursement net of payments of healthcare expenses made by PT amounting to Euro 69.3 million, and (iii) contributions to the pension funds of Euro 0.3 million. (2) In 1Q10, this caption relates primarily to the difference between the actual return on assets (Euro 31.8 million, equivalent to 1.4% in 1Q10), and the expected return on assets (6% on an annual basis).

Table 10 \_ Post retirement benefits costs

Euro million

	1Q10	1Q09
Service cost	2.0	1.7
Interest cost (1)	50.5	54.1

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Expected return on assets (2)	(34.2)	(32.9)
Sub-total	18.3	22.9
Amortisation of prior year service gains	(0.5)	(0.5)
<b>Post retirement benefits costs</b>	<b>17.8</b>	<b>22.4</b>

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(1) The decrease in the interest cost is explained by the reduction of PBO occurred in 2009. (2) The increase in the expected return on assets is explained by the positive performance of plan assets occurred in 2009.

**Equity**

Equity excluding minority interests amounted to Euro 1,551 million as at 31 March 2010. The increase of Euro 234 million in 1Q10 is explained by: (1) the net income generated in the period of Euro 100 million, and (2)

positive currency translation adjustments amounting to Euro 152 million, mainly related to the appreciation of the Real against the Euro.

**Table 11 \_ Change in shareholders' equity (excluding minority interests)**

**Euro million**

	<b>1Q10</b>
Equity before minority interests (initial balance)	<b>1,317.5</b>
Net income	100.3
Currency translation adjustments	152.1
Net actuarial gains (losses), net of taxes	(1.8)
Other	(16.8)
<b>Equity before minority interests (final balance)</b>	<b>1,551.3</b>
<b>Change in equity before minority interests</b>	<b>233.8</b>
<b>Change in equity before minority interests (%)</b>	<b>17.7%</b>

Pursuant to Portuguese legislation, the amount of distributable reserves is determined according to standalone financial statements of the Company prepared in accordance with the accounting principles applicable in Portugal (SNC – Sistema de Normalização Contabilística). As at 31 March 2010, distributable reserves amounted to Euro 718 million.

#### **Consolidated Statement of Financial Position**

As at 31 March 2010, the net exposure (assets minus liabilities) to Brazil amounted to Euro 3,288 million (7,905 Brazilian Reais). The assets denominated in Brazilian Reais in the balance sheet as at 31 March 2010 amounted to Euro 6,630 million (15,940 Brazilian Reais), equivalent to 41.9% of total assets.

The increase in total assets and liabilities in 1Q10 is due to the impact of the appreciation of the Real against the Euro and to certain loans obtained in 1Q10, which led to an increase in both gross debt and cash and cash equivalents.

Table 12 \_ Consolidated statement of financial position (1)

Euro million

	31 March 2010	31 December 2009
Cash and equivalents	2,137.0	1,518.0
Accounts receivable, net	1,676.0	1,538.4
Inventories, net	213.1	239.9
Financial investments	669.7	614.1
Intangible assets, net	4,133.4	4,046.7
Tangible assets, net	4,872.0	4,862.2
Accrued post retirement asset (2)	1.3	67.6
Other assets	836.6	783.7
Deferred tax assets and prepaid expenses	1,283.3	1,160.7
Total assets	15,822.6	14,831.2
Accounts payable	1,199.6	1,338.6
Gross debt	7,796.8	7,046.0
Accrued post retirement liability	1,550.5	1,558.3
Other liabilities	1,667.0	1,597.2
Deferred tax liabilities and deferred income	909.9	906.3
Total liabilities	13,123.8	12,446.4
Equity before minority interests	1,551.3	1,317.5
Minority interests	1,147.5	1,067.3
Total shareholders' equity	2,698.8	2,384.8
Total liabilities and shareholders' equity	15,822.6	14,831.2

(1) Considering a Euro/Real exchange rate of 2.4043 as at 31 March 2010 and 2.5113 as at 31 December 2009. (2) The reduction in accrued post retirement assets is related to the reimbursement of Euro 75 million of the excess funding computed as at 31 December 2009.

### 03 Operational Review

#### Domestic Operations

Revenues from domestic operations, which include wireline and TMN, decreased by 3.6% y.o.y in 1Q10 mainly as a result of lower revenues at TMN due to: (1) lower equipment sales (Euro 7 million), lower interconnection revenues (Euro 6 million), primarily driven by lower MTRs, and (3) lower customer revenues (Euro 6 million), as a result of the economic conditions, notwithstanding a sequential improvement in the trend observed in 4Q09. Revenues in the wireline segment declined by 0.8% y.o.y (Euro 4 million), as a result of the change in the recognition of contract penalties (Euro 4 million) and lower MTRs (Euro 1 million). Adjusting for the change in revenue recognition referred to above, wireline revenues would have been flat y.o.y, underpinned by retail revenues and despite lower wholesale and data and corporate revenues.

**Table 13 \_ Domestic operations income statement (1)**

**Euro million**

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>797.2</b>	<b>827.3</b>	<b>(3.6)%</b>
Wireline	488.2	492.1	(0.8)%
Domestic mobile • TMN	345.9	370.1	(6.5)%
Other and eliminations	(36.9)	(34.8)	6.0%
<b>EBITDA (2)</b>	<b>351.5</b>	<b>376.2</b>	<b>(6.6)%</b>
Post retirement benefits	17.8	22.4	(20.5)%
Depreciation and amortisation	159.7	151.3	5.5%
<b>Income from operations (3)</b>	<b>174.0</b>	<b>202.4</b>	<b>(14.1)%</b>
EBITDA margin	44.1%	45.5%	(1.4pp)
Capex (4)	138.7	127.0	9.2%
Capex as % of revenues	17.4%	15.4%	2.0pp
EBITDA minus Capex	212.8	249.2	(14.6)%

(1) Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. (2) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (3) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. (4) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

EBITDA declined by 6.6% y.o.y in 1Q10 to Euro 351 million, equivalent to a margin of 44.1%. This performance was primarily explained by: (1) continued strong take-up in pay-TV, which resulted in higher programming and commercial costs; (2) increased customer care and support costs, due to the growth in pay-TV; (3) lower MTRs, and (4) the halting of the redundancy programme, in favour of insourcing, with positive impact in payments to pre-retired and suspended employees. Capex in the domestic business increased by 9.2% y.o.y to Euro 139 million. Domestic capex was primarily directed to: (1) the continued investments in pay-TV and in FTTH, future-proof technologies and services paving the way for future growth in wireline, and (2) investments in 3G and 3.5G networks in the domestic mobile business.





## Wireline

In 1Q10 retail net additions reached 89 thousand, up by 5.9% y.o.y, as a result of the significant growth of the pay-TV service, which accounted for 65 thousand net additions, bringing the total pay-TV customers to 646 thousand (up by 68.1% y.o.y). ADSL net additions in the quarter stood at 39 thousand, with ADSL customer base growing 19.8% y.o.y. The robust trend in ADSL continues to be driven by the continued and solid growth in pay-TV. Traffic generating lines declined only by 2 thousand, in 1Q10, reflecting the positive impact of the pay-TV offers in the evolution of line loss. In the quarter, net disconnections of voice lines were only 14 thousand, improving sequentially, including the 12 thousand net disconnections of carrier pre-selection lines. This performance marks a clear improvement in relation to the same period last year (-53.3%), which saw 30 thousand net disconnections, thus consolidating the improvement in key operational performance indicators seen in 2009. Pay-TV customer penetration stands at 24.7% of traffic-generating lines (+10.2pp y.o.y) and 71.7% of the ADSL customer base (+20.6pp y.o.y), a solid performance considering that the pay-TV service was launched, on a nationwide basis, only in April 2008.

**Table 14 \_ Wireline operating data**

	1Q10	1Q09	y.o.y
Main accesses ( 000)	4,674	4,369	7.0%
Retail accesses	4,279	3,949	8.4%
PSTN/ISDN	2,732	2,813	(2.9)%
Traffic-generating lines	2,610	2,649	(1.5)%
Carrier pre-selection	122	163	(25.3)%
ADSL retail	901	752	19.8%
TV customers	646	384	68.1%
Wholesale accesses	395	420	(6.0)%
Unbundled local loops	278	301	(7.4)%
Wholesale line rental	64	69	(7.0)%
ADSL wholesale	53	50	4.2%
Net additions ( 000)	87	71	22.4%
Retail accesses	89	84	5.9%
PSTN/ISDN	(14)	(30)	(53.3)%
Traffic-generating lines	(2)	(19)	(89.1)%
Carrier pre-selection	(12)	(11)	8.4%
ADSL retail	39	42	(8.5)%
TV customers	65	72	(10.2)%
Wholesale accesses	(3)	(14)	(80.3)%
Unbundled local loops	(2)	(4)	(53.7)%
Wholesale line rental	1	(7)	n.m.
ADSL wholesale	(1)	(2)	(46.4)%
Retail RGU per access (1)	1.57	1.40	11.5%
ARPU (Euro)	30.3	29.9	1.1%
Total traffic (million minutes)	2,724	2,846	(4.3)%
Retail traffic	1,166	1,213	(3.8)%
Wholesale traffic	1,557	1,634	(4.7)%
Employees	6,479	6,219	4.2%

(1) Retail accesses per PSTN/ISDN line.

The number of retail RGU per access, measured by the number of retail accesses per PSTN/ISDN line, continued to increase with the rollout of the pay-TV offer and stood at 1.57 in 1Q10, as compared to 1.53 in 4Q09 and 1.40 in 1Q09.

Competitors' accesses, which include wholesale accesses and carrier pre-selection, fell by 15 thousand in 1Q10, reflecting a decrease in carrier pre-selection (-12 thousand) and unbundled local loop lines (-3 thousand).

During the quarter, Meo deployed a new software version across all its IPTV set-top-boxes, bringing an improved user experience and more features to Meo customers. Following a close and careful analysis of TV usage patterns, Meo upgraded its design and user-interface to promote an even better, easier and more intuitive user-experience. In some of its most widely-used services, such as the PVR, Meo launched new functionalities. Adding to the Remote PVR and Series-link Recording, both exclusive features, Meo now also provides a Multiroom PVR experience. This upgrade was supported by a strong marketing campaign that focused on the new Meo experience and re-emphasised Meo's positioning as the most innovative pay-TV offer in the Portuguese market.

As a result, Meo currently offers various features that significantly differentiate its offer, including: (1) real video-on-demand (VoD) with DVD-like features and a catalogue of more than 2,500 movies including high definition (HD); (2) catch-up TV; (3) electronic programming guide, redesigned during the quarter in order to further improve the user experience; (4) TV channel recording, which can be remotely programmed through the internet or through the mobile phone, allowing easy recording of series and now offering multiroom PVR for those customers with more than one set-top-box; (5) gaming, karaoke and several interactive applications and service areas; (6) access to personal photo folders, and (7) customised contents and features for children. Meo also reinforced in 1Q10 the Meo Photos functionality, in association with Sapo, PT's well known and leading web portal in Portugal and in the Portuguese-speaking countries. This new functionality, available to ADSL and fibre customers, allows customers to upload their photos onto their Meo or Sapo areas and to watch them in slideshow in their TV sets or share these with friends.

During the quarter Meo also launched a selection of new channels, the most relevant of those being FoxLife, on 1 January 2010, and Channel Q, in March 2010, the first interactive channel in Portugal, fully programmed in Portuguese, which represents another innovative experience that continues to contribute towards a new way of consuming TV content in the Portuguese market. The Channel Q was developed in cooperation with Sapo portal, where the channel's web site is hosted.

Meo provides access to a comprehensive content offering with more than 120 TV channels and over 2,500 VoD titles. The VoD offer, which includes blockbusters from five Hollywood studios is a key differentiating feature of the service as more than 50% of Meo's IPTV customers have already used VoD on a paid basis (+5.2pp as compared to 1Q09), consuming on average 2.4 movies per month. In 1Q10, PT continued to market Movie Gift Voucher, launched during the Christmas period, now associated to the Valentine's Day, on 14 February, and to the Easter season.

During 1Q10, PT also launched Meo@PC, in beta version. This service gives online access to Meo's pay-TV service through a PC, strengthening the mobility and convergence value proposition of the Meo service. Customers were invited to join a pilot trial of this service, anticipating final commercial launch planned for later this year.

Meo marketing campaigns continue to enjoy the highest notoriety in the Portuguese pay-TV market. The campaign to market Meo's new user interface was launched with an innovative commercial ad in True 3D, marking MEO's take-off in 3D content trials. This advertisement was also broadcasted in the three main free-to-air channels having reached an audience share of 85.5%, above that of the initial advertising of Meo in 2008 that reached an audience share of 83%. In 1Q10, proved ad recall stood above 60% and spontaneous ad recall was above 40%, well ahead of any other competing brands in the sector. Additionally, in May 2010, Meo announced the live broadcast of the major tennis event in Portugal, Estoril Open, in True 3D. This is the first time an event is broadcasted in True 3D in Portugal and it is also the first time that an ATP event is broadcasted in True 3D.

In 1Q10, wireline operating revenues decreased by 0.8% y.o.y to Euro 488 million, mainly as a result of the change in the recognition of contract penalties (Euro 4 million) and lower MTRs (Euro 1 million). Adjusting for the change in revenue recognition referred to above, wireline revenues would have been flat y.o.y, underpinned by retail revenues and despite lower wholesale revenues (-4.7% y.o.y) and data and corporate revenues (-3.3% y.o.y), due to the economic environment. Retail revenues were broadly flat at Euro 244 million, in 1Q10, while adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 1.2% y.o.y, on the back of the continued strong performance of Meo triple-play offer (voice, data and pay-TV) and notwithstanding increased pricing pressure in the corporate and SME / SOHO segments, resulting from the economic conditions. Despite the continued pressure on the traditional voice business, revenues of pay-TV and ADSL retail have been increasing in line with the stated strategy of increasing market share in the residential market by offering attractive triple-play and double-play services.

Table 15 \_ Wireline income statement (1)

Euro million

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>488.2</b>	<b>492.1</b>	<b>(0.8)%</b>
Retail	243.7	244.6	(0.4)%
Wholesale	119.6	125.6	(4.7)%
Data & corporate	77.3	79.9	(3.3)%
Other wireline revenues	47.6	42.0	13.4%
<b>Operating costs, excluding D&amp;A</b>	<b>299.6</b>	<b>283.9</b>	<b>5.5%</b>
Wages and salaries	58.4	59.2	(1.3)%
Direct costs	106.5	104.9	1.6%
Commercial costs	28.0	25.5	9.9%
Other operating costs	106.7	94.4	13.0%
<b>EBITDA (2)</b>	<b>188.5</b>	<b>208.1</b>	<b>(9.4)%</b>
Post retirement benefits	17.8	22.4	(20.5)%
Depreciation and amortisation	105.9	97.4	8.7%
<b>Income from operations (3)</b>	<b>64.9</b>	<b>88.4</b>	<b>(26.6)%</b>
EBITDA margin	38.6%	42.3%	(3.7pp)
Capex	112.4	101.4	10.9%
Capex as % of revenues	23.0%	20.6%	2.4pp
EBITDA minus Capex	76.2	106.8	(28.7)%

(1) Includes intragroup transactions. (2) EBITDA = income from operations + post retirement benefits + depreciation and amortisation.

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

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The performance of retail revenues, adjusted for the change in the recognition of contract penalties referred to above (+1.2% y.o.y), was underpinned by growth in retail RGUs of 89 thousand, namely pay-TV customers

(+65 thousand net additions in the quarter), high quality broadband customers (+39 thousand post-paid net adds) and resilience of traffic generating lines, which decreased only by 2 thousand in the quarter (the best performance observed since 1Q04). The growth in number of RGUs per customer contributed to the increase in retail ARPU of 1.1% y.o.y, which reached Euro 30.3. The performance of retail revenues, continued to benefit from the relentless implementation of the TV strategy, notwithstanding strong competition from other fixed and cable operators as well as from mobile operators, both in voice and broadband, and against a backdrop of challenging economic conditions.

Wholesale revenues decreased by 4.7% y.o.y in 1Q10 to Euro 120 million, primarily as a result of the decrease in: (1) traffic revenues (-9.0% y.o.y), which were negatively impacted by lower MTRs, and (2) leased lines revenues (-1.6% y.o.y).

Revenues from data and corporate services decreased by 3.3% y.o.y in 1Q10 as a result of the decline in revenues from network management, outsourcing and IT (-3.9% y.o.y) and from VPN and leased lines (-3.4% y.o.y). This performance was primarily related to some lumpiness in relation to the execution of certain large contracts and pricing pressure.

Other revenues increased by 13.4% y.o.y in 1Q10, notwithstanding the decline in directories, which decreased by 9.7% y.o.y.

In 1Q10, EBITDA declined by 9.4% y.o.y and by 3.4% q.o.q (Euro 7 million), as a result of the continued efforts in the deployment of the pay-TV and triple-play offers. In the quarter, operating expenses grew by 5.5% y.o.y, primarily driven by the increase in other operating expenses (+13.0% y.o.y), namely customer care and support costs in connection with the continued growth of pay-TV customers. In 1Q10, wages and salaries decreased by 1.3% y.o.y to Euro 58 million as a result of strong focus on cost reduction and notwithstanding: (1) headcount migration from the domestic mobile due to the reorganisation of the domestic fixed and mobile business along customer segments, and (2) the decision to halt the redundancy programme and focus on insourcing of certain activities that were previously being outsourced, thus further reducing cash costs associated to the wireline segment. Commercial costs, which increased by 9.9% y.o.y to Euro 28 million, reflect the increase in commissions and in marketing and publicity, which results from the continued efforts in the marketing of pay-TV and triple-play offers. Direct costs, which were flat q.o.q, decreased by 1.6% y.o.y to Euro 107 million due to a decline in cost of telecommunications (-10.1% y.o.y), primarily related with lower MTRs, and notwithstanding higher programming costs. In 1Q10, gross profit decreased by 0.5% y.o.y, as a result of the change in the recognition of contract penalties implemented as from the end of 1H09. Adjusting for this impact, gross profit would have grown by 0.5% y.o.y, showing a steady improvement. In effect, this was the best performance in the last twenty quarters, accelerating the trend seen in 3Q09 (-0.1% y.o.y) and in 4Q09 (+0.4% y.o.y) and thus confirming the success of Meo as the key driver for an effective turnaround in the wireline business. EBITDA margin stood at 38.6% in 1Q10.

Capex increased from Euro 101 million in 1Q09 to Euro 112 million in 1Q10 (+10.9% y.o.y). Capex was directed mainly towards investments in: (1) the build out of FTTH network, a future-proof technology that allows for increased bandwidth for both residential and corporate customers, and (2) roll out of IPTV services, as a result of the growth in pay-TV customers, which account for approximately half of total wireline capex in the quarter. At the end of 1Q10, PT reached 1 million homes, available or under construction, with fibre to the home.

## Domestic Mobile

In 1Q10, TMN's total customers increased by 4.5% y.o.y to 7,264 thousand, with quarterly net additions of 11 thousand. Customer growth at TMN continued to be underpinned by high quality post-paid customers (+38 thousand net adds in the quarter), namely wireless broadband net additions. At the end of 1Q10, post-paid customers accounted for 31.3% of total customer base, up by 1.5pp y.o.y.

**Table 16 \_ Domestic mobile operating data (1)**

	1Q10	1Q09	y.o.y
Customers ( '000)	7,264	6,948	4.5%
Net additions ( '000)	11	15	(26.5)%
Total traffic (million minutes)	2,508	2,243	11.8%
MOU (minutes)	115	108	6.6%
ARPU (Euro)	14.7	16.1	(8.3)%
Customer	12.8	13.7	(6.7)%
Interconnection	1.7	2.1	(17.7)%
Data as % of service revenues (%)	23.3	22.7	0.5pp
SARC (Euro)	26.6	38.7	(31.2)%
Employees	1,000	1,116	(10.4)%

(1) Includes MVNO subscribers.

In 1Q10, TMN continued to invest significantly in the differentiation of its portfolio of handsets, introducing new touch-screen phones and smartphones, and in the improvement of the services offered, making available to its customers data and value added services and sophisticated applications and widgets. TMN launched the Sony Ericsson W205 Betty Boop, associated to the most well known fashion event in Portugal, Moda Lisboa. In April 2010, TMN launched a1, the first smartphone based on the Android operating system, which is backed by Google, using TMN's brand. This wide touch screen smartphone offers: (1) premium connectivity through 3.5G broadband access with downloads of up to 7.2Mbps and uploads of up to 5.6Mbps, Wi-Fi and Bluetooth; (2) Push Mail; (3), GPS with a life-time access to NDrive GPS software and maps of Portugal; (4) camera of 3.2 Mpx with video, autofocus and zoom; (5) MP3 player, and (6) 16GB memory card slot. The launch of this new own-label follows the successful launch, of tmn bluebelt I and bluebelt II and tmn silverbelt, smartphones with TMN's brand using the Windows Mobile platform and of the HTC Magic based in the Android platform. TMN smartphones continue to be positioned to allow a unique experience in mobile broadband and interactive services and content. The new a1 has a retail price of Euro 199.9 in PT's Bluestores and of Euro 179.9 in the online shop of TMN, thus bringing down the entry level of smartphones and contributing to expand further the smartphones segment.

Also as part of TMN's strategy of maintaining a leading and innovative edge in its services proposition, TMN and the web portal Sapo, launched a wide set of new widgets and applications. The current portfolio includes more than 1,500 applications and games, allowing easy access through the mobile phone to, for instance, real time generalist, economy and sports news, traffic information and employment opportunities. During 1Q10, TMN and Sapo launched a nationwide contest, the Developers TMN, to promote the development of new widgets, which are then made available to TMN's customers.

In 1Q10, TMN also continued to invest in the differentiation, promotion and marketing of its services. In February, associated to the Valentine Day, TMN launched an innovative marketing campaign allowing customers to send messages with personalised multimedia messages with videos and musics, and to





download or share ringtones, waiting rings and wallpapers. During Easter, TMN launched a promotional campaign aimed at increasing roaming usage, according to which TMN customers can do roaming calls with normal national tariffs with an additional call set-up fee of Euro 0.50. In the quarter, TMN launched new tariff plans and continued to strengthen the promotional efforts in the youth segment. Also in 1Q10, TMN launched, in partnership with the leading football clubs in Portugal, customised tariff plans, access to new applications and content associated with those clubs and customised handsets. TMN also continued to strengthen its mobile broadband offerings, increasing the speed and download capacity to its customers. Also in 1Q10, TMN launched a Car Control service, a security service that, in articulation with local authorities, allows customers to locate, block and recover their car in the event of being stolen.

As a result of the continued investment in innovation and differentiation of the products and services offered, TMN's market share of mobile phones sales, measured by GFK, stood at 48.9% in 1Q10, the best performance in the past 4 years. In the smartphone segment, TMN's market share of handsets sold increased from 51.3% in 1Q09 to 58.4% in 1Q10.

In the quarter, PT also launched a new customer care initiative, the selfcare, aimed at providing TMN's customers with an easier and more agile access to an enlarged set of account and service informations. With this new functionality, customers can access information on their account balances, invoices and services subscribed. This new feature reinforces PT's commitment to an outstanding customer experience, both in voice and data services. As a result of the investment in customer care: (1) the satisfaction of TMN's customers in 2009 stood in line with the average for other European telecom companies; (2) the average cost per call to the customer support centre is within the top quartile, according to the European Telecom Call Center benchmark survey, and (3) the number of calls to the customer support centre per customer declined 27% y.o.y in voice services and 60% y.o.y in data services.

Non-SMS and value added data services continued to contribute to top line growth, increasing by 10.0% in 1Q10 and accounting for 63.4% of total data revenues (+6.8pp y.o.y). This growth in non-SMS data continued to be driven by the steady performance of wireless broadband and increasing data usage, particularly of smartphones and other data-enabled phones. In the quarter, total data revenues accounted for 23.3% of service revenues, increasing by 0.8pp over the same period last year.

TMN's ARPU decreased by 8.3% y.o.y in 1Q10 to Euro 14.7, as a result of: (1) increased penetration of services in lower segments of the market; (2) economic conditions, and (3) declining MTRs. In effect, interconnection ARPU declined by 17.7% y.o.y. In 1Q10, total traffic increased by 11.8% y.o.y to 2,508 million minutes, showing a steady trend when compared with 4Q09 and accelerating when compared with previous quarters. This growth was mainly driven by outgoing traffic, which increased by 14.5%. Growth in customer base (+4.5%, EoP) coupled with an increased penetration of on-net flat-fee tariff plans underpinned traffic growth in the period, with MOU up by 6.6% y.o.y in the quarter, despite continued growth in data cards.

In 1Q10, TMN's operating revenues amounted to Euro 346 million, a decrease of 6.5% y.o.y (Euro 24 million), mainly due to: (1) the 23.4% y.o.y decline in equipment sales (Euro 7 million); (2) the Euro 6 million decline in customer revenues, and (3) the Euro 6 million decline in interconnection revenues, driven also by the negative impact of Euro 2 million as a result of lower MTRs. Service revenues decreased in the quarter by 3.8% y.o.y (- Euro 13 million) due to: (1) the decrease in interconnection revenues (-13.6% y.o.y), as referred to above; (2) a 2.0% decline in customer revenues, against a backdrop of adverse economic conditions, notwithstanding the sequential improvement in this trend, and (3) the decline in roamers revenues of 18.7% y.o.y.

In 1Q10, customer revenues improved the trend shown in 4Q09 and declined by 2.0% y.o.y to Euro 279 million (- Euro 6 million), primarily due to: (1) the decline in roaming-out revenues (- Euro 2 million) as a result of the adverse economic conditions affecting the corporate and SME/SOHO segments, and (2) the decline in national traffic revenues (- Euro 4 million) due to economic and competitive pressures in voice services and despite continued customer growth. Interconnection revenues declined by 13.6% y.o.y in 1Q10 to Euro 37 million (- Euro 6 million), as a result of the decline in MTRs from Euro 7.0 cents per minute in 1Q09 to Euro 6.5 cents in 1Q10. TMN has fully implemented the glide path imposed by the Regulator as from 1 April 2009. Equipment sales declined by 23.4% y.o.y (- Euro 7 million) primarily due to lower handset prices and lower volumes.

Table 17 \_ Domestic mobile income statement (1)

Euro million

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>345.9</b>	<b>370.1</b>	<b>(6.5)%</b>
Services rendered	320.7	333.4	(3.8)%
Customer	279.2	285.0	(2.0)%
Interconnection	37.3	43.2	(13.6)%
Roamers	4.2	5.2	(18.7)%
Sales	22.9	29.9	(23.4)%
Other operating revenues	2.2	6.7	(66.6)%
<b>Operating costs, excluding D&amp;A</b>	<b>181.8</b>	<b>200.3</b>	<b>(9.2)%</b>
Wages and salaries	11.9	12.8	(7.6)%
Direct costs	61.8	63.2	(2.2)%
Commercial costs	46.3	62.4	(25.9)%
Other operating costs	61.8	61.8	(0.0)%
<b>EBITDA (2)</b>	<b>164.1</b>	<b>169.7</b>	<b>(3.3)%</b>
Depreciation and amortisation	51.4	50.9	1.0%
<b>Income from operations (3)</b>	<b>112.7</b>	<b>118.8</b>	<b>(5.2)%</b>
EBITDA margin	47.4%	45.9%	1.6pp
Capex (4)	23.5	24.5	(4.3)%
Capex as % of revenues	6.8%	6.6%	0.2pp
EBITDA minus Capex	140.6	145.2	(3.2)%

(1) Includes intragroup transactions. (2) EBITDA = income from operations + depreciation and amortisation. (3) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs. (4) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

EBITDA decreased by 3.3% y.o.y to Euro 164 million in 1Q10. EBITDA margin stood at 47.4% in 1Q10, increasing by 1.6pp when compared to 45.4% in 1Q09, as a result of strict cost control and strong focus on the profitability of operations. Operating expenses, excluding D&A, decreased by 9.2% y.o.y in 1Q10 to Euro 182 million, on the back of cost discipline: (1) wages and salaries decreased by 7.6% y.o.y in 1Q10, reflecting efficiency gains as a result of the reorganisation of PT's domestic businesses along customer segments and fixed-mobile integration; (2) other operating expenses were flat in 1Q10 at Euro 62 million, reflecting the 7.2% y.o.y decline in customer support costs, notwithstanding the increased penetration of data services, and (3) commercial costs declined by 25.9% y.o.y to Euro 46 million, as a result of the continued focus on reducing the breadth of TMN's handset portfolio and increasing the number of exclusive handsets and also lower SARC. Unitary SARC, which includes marketing, handset subsidies and commissions, declined by 31.2% y.o.y in 1Q10. Direct costs, which mainly include costs of telecommunications, declined by 2.2% y.o.y to Euro 62 million mainly due to declining termination rates and despite higher costs associated to the provision of data services.



Capex decreased by 4.3% y.o.y in 1Q10 to Euro 23 million, representing 6.8% of revenues. Capex continued to be directed primarily towards expanding network capacity and coverage, as a result of increased voice and data usage, and improving mobile voice and data services to customers. Approximately 70% of network capex is being directed towards 3G and 3.5G networks. EBITDA minus capex at TMN stood at Euro 141 million in 1Q10. The decrease in TMN's capex is primarily explained by the focus on cash-flow generation against the backdrop of the high quality of the network and services offered to customers. In effect, in 1Q10, TMN was deemed by the Portuguese telecoms regulator, ANACOM, as having the best 3G coverage in Portugal and the highest rate of voice and video 3G call termination in the urban centres.

## International Businesses

### Brazilian Mobile

In 1Q10, Vivo's customer base increased by 18.2% y.o.y to 53,949 thousand. GSM, 3G and 3.5G technologies accounted for 46,800 thousand customers as at the end of March 2010, equivalent to 86.7% of total customers (+13.7pp y.o.y). Quarterly net additions reached 2,205 thousand, equivalent to a growth of 216.6% y.o.y. The solid increase in net additions allowed Vivo to reach a 42.8% market share of net adds in the quarter, well ahead of any competitor, thus reinforcing its leadership, for the third consecutive quarter. Vivo's market share as at 31 March 2010 thus reached 30.1%, up by 0.4pp in the quarter. Additionally, Vivo also reinforced its leadership in the post-paid segment, with post-paid customers growing by 19.5% y.o.y. Vivo's share of net adds in the post-paid segment reached 71.5% in 1Q10, while market share stood at 33.5% (+2.4pp y.o.y). The performance of Vivo in 1Q10 was primarily due to: (1) the attractiveness of Vivo's offers in the pre-paid segment, namely Vivo Recarregue e Ganhe; (2) the high acceptance level associated with the post-paid plans Vivo Você, launched in November 2009; (3) the success of Vivo's loyalty campaigns; (4) the marketing efforts and quality of mobile broadband offers, and (5) the depth and breadth of Vivo's portfolio of handsets and smartphones. As a result of its quality and balanced offer, Vivo continues to be the operator that gained more customers from number portability since it was implemented in Brazil, particularly in the post-paid and corporate segments.

**Table 18 \_ Brazilian mobile operating data (1)**

	1Q10	1Q09	y.o.y
Customers ( '000)	53,949	45,641	18.2%
Market share (%)	30.1	29.7	0.4pp
Net additions ( '000)	2,205	696	216.6%
Total traffic (million minutes)	18,399	10,427	76.5%
MOU (minutes)	116	77	51.7%
ARPU (R\$)	24.8	27.3	(9.0)%
Customer	15.4	16.2	(4.8)%
Interconnection	9.2	10.8	(15.1)%
Data as % of service revenues (%)	17.5	12.2	5.3pp
SARC (R\$)	66.0	108.8	(39.3)%
Employees	12,656	8,234	53.7%

(1) Operating data calculated using IFRS. 1Q09 was restated for comparison purposes.

In 1Q10, Vivo continued to allocate significant efforts and resources to the coverage, capacity and quality of its network. Since February 2008, Vivo is consistently, according to Anatel, the operator with the best quality of service in the market.

In 1Q10, Vivo continued to expand the coverage of its 3G and 3.5G network and already covers 594 municipalities, an additional 15 municipalities covered in 1Q10, and 61% of the Brazilian population. The coverage, capacity and quality of Vivo's 3G and 3.5G network and the marketing efforts around mobile broadband continued to underpin growth of data customers. As a result, customers with 3G data plans, using smartphones or wireless broadband data cards, grew by 149% y.o.y, with Vivo's market share estimated of this segment standing at 41% at the end of March 2009.

Total minutes carried by Vivo increased by 76.5% y.o.y in 1Q10, as a result of the success of recent marketing campaigns focused on stimulating usage. Against a backdrop of strong usage growth, incoming traffic increased by only 2.4% y.o.y, as a result of accelerated fixed to mobile migration. Vivo's blended MOU has increased by 51.7% y.o.y in 1Q10 reaching 116 minutes, underpinned by outgoing MOU (+90.6% y.o.y).

Vivo's blended ARPU reached R\$ 24.8 in 1Q10, a decrease of 9.0% y.o.y, as a result of customer growth, higher penetration of mobile services in lower income segments and campaigns aimed at stimulating usage. Customer ARPU declined by 4.8% y.o.y to R\$ 15.4 due to promotions and bonuses offered against a backdrop of intense competition and multiple SIM card penetration. Interconnection ARPU declined by 15.1% y.o.y as a result of fixed to mobile migration. ARPU was positively impacted by data ARPU growth, which was driven by connectivity and data applications.

Vivo's operating revenues, as stated in Brazilian Reais and in accordance with IFRS, increased by 3.7% y.o.y in 1Q10 to R\$ 4,402 million, as a result of growth in service revenues (+5.7% y.o.y) underpinned by strong growth in data services, driven primarily by wireless broadband. Data revenues increased by 51.7% y.o.y in 1Q10 and already account for 17.5% (+5.3pp y.o.y) of service revenues. The growth drivers of data services were: (1) wireless broadband connectivity, due to strong customer growth as referred to above; (2) the increase in the usage of person-to-person SMS/MMS, as a result of higher penetration and usage of messaging services in the pre-paid segments, and (3) new data pricing plans designed to increase customer loyalty, in particular, revenues from mobile broadband grew by 119.8% y.o.y in 1Q10. Service revenues were negatively impacted by the deceleration in interconnection revenues due to promotions focusing on on-net traffic campaigns, which in turn led to a reduction in incoming traffic and substitution of fixed-to-mobile traffic, and by lower voice revenues due to competitive promotions. Equipment sales declined by 10.5% y.o.y in 1Q10 to R\$ 304 million as a result of an increased focus on SIM Card only offers.

EBITDA increased by 3.9% y.o.y to R\$ 1,277 million in 1Q10 on the back of service revenue growth and cost control and notwithstanding the significant increase in net adds in the quarter (+216.6% y.o.y), which allowed for a strong market share of net adds in the quarter. Commercial costs decreased by 7.5% y.o.y, while unitary SARC, which includes marketing, handset subsidies and commissions, decreased by 39.3% y.o.y in 1Q10. This performance of commercial costs is explained by the decline in the cost of products sold due to higher take-up of SIM card only offers and despite the increase of unitary commissions as a result of the significant growth in sales of modems and smartphones enabled with data plans. Wages and salaries increased by 15.2% as a result of the insourcing of certain activities related with marketing and sales, namely stores, that were previously being outsourced. Against a backdrop of intensive competition, aggressive campaigns and

high customer growth and despite pressure on ARPU, Vivo showed good cost control and EBITDA margin in 1Q10 was 29.0%.

**Table 19 \_ Brazilian mobile income statement (1)**

**R\$ million**

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>4,402.2</b>	<b>4,245.8</b>	<b>3.7%</b>
Services rendered	4,003.6	3,788.5	5.7%
Sales	303.9	339.6	(10.5)%
Other operating revenues	94.7	117.7	(19.5)%
<b>Operating costs, excluding D&amp;A</b>	<b>3,125.1</b>	<b>3,017.1</b>	<b>3.6%</b>
Wages and salaries	246.3	213.8	15.2%
Direct costs	950.7	797.9	19.2%
Commercial costs	962.4	1,040.2	(7.5)%
Other operating costs	965.6	965.3	0.0%
<b>EBITDA (2)</b>	<b>1,277.1</b>	<b>1,228.7</b>	<b>3.9%</b>
Depreciation and amortisation	1,023.4	998.0	2.5%
<b>Income from operations (3)</b>	<b>253.7</b>	<b>230.7</b>	<b>10.0%</b>
EBITDA margin	29.0%	28.9%	0.1pp
Capex	328.8	522.2	(37.0)%
Capex as % of revenues	7.5%	12.3%	(4.8pp)
EBITDA minus Capex	948.3	706.5	34.2%

(1) Information prepared in accordance with IFRS. (2) EBITDA = income from operations + depreciation and amortisation. (3) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Capex decreased by 37.0% y.o.y to R\$ 329 million in 1Q10 and was primarily directed towards: (1) increasing network capacity to support the accelerated growth of voice traffic in the 2G network; (2) expanding coverage of 3G and 3.5G networks; (3) improving network quality to continue to be the most reliable and best quality network in Brazil, and (4) investments in customer care and IT systems. At the end of March, the 3G network covered 594 municipalities, reaching more than 61% of total Brazilian population.

#### Other International Assets

In 1Q10, international assets excluding Vivo, on a pro-forma basis, increased their proportional revenues by 7.4% to Euro 129 million, while EBITDA decreased by 6.3% to Euro 51 million, primarily due to the devaluation of the Angolan Kwanza.

**Table 20 \_ Proportional income statement of other international assets (1)**

**Euro million**

	1Q10	1Q09	y.o.y
<b>Operating revenues</b>	<b>128.7</b>	<b>119.8</b>	<b>7.4%</b>

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<b>EBITDA (2)</b>	<b>50.7</b>	<b>54.2</b>	<b>(6.3)%</b>
Depreciation and amortisation	12.6	10.1	24.8%
<b>Income from operations (3)</b>	<b>38.2</b>	<b>44.1</b>	<b>(13.4)%</b>
EBITDA margin	39.4%	45.2%	(5.8pp)

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(1) Proforma consolidation of international assets using the percentage of ownership held by PT. Excludes investments in Vivo. (2) EBITDA = income from operations + depreciation and amortisation. (3) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs.

Table 21 \_ Highlights of main assets in Africa and Asia (2009) (1)

thousand (customers), million (financials)

	Stake	Customers	Rev. local	y.o.y	EBITDA local	y.o.y	Margin	Rev. Eur	EBITDA Eur
Unitel, Angola (2) (4)	25.00%	6,061	353	(2.6)%	217	(8.0)%	61.6%	255	157
MTC, Namibia (3) (4)	34.00%	1,398	344	(0.4)%	185	6.4%	53.6%	33	18
CVT, Cape Verde (3) (4)	40.00%	386	1,852	(6.2)%	1,056	(15.2)%	57.0%	17	10
CTM, Macao (2)	28.00%	831	648	14.9%	286	2.9%	44.2%	59	26
CST, S.Tomé & Principe (3) (4)	51.00%	93	71,283	18.4%	19,503	5.0%	27.4%	3	1
Timor Telecom, East Timor (3)	41.12%	389	13	16.8%	7	2.1%	54.9%	9	5

(1) Figures account for 100% of the company. PT has management contracts in CVT, CST and Timor Telecom. (2) Equity consolidation method. (3) Full consolidation method. (4) These stakes are held by Africatel, which is 75% controlled by PT.

In 1Q10, Unitel's revenues and EBITDA, in Angolan Kwanza, increased by 17.8% and by 9.3%, respectively, and decreased by 2.6% and 8.0% y.o.y, to USD 353 million and USD 217 million respectively, as a result of the 20% devaluation of Angolan Kwanza against the USD. Customer base reached 6,061 thousand as at 31 March 2010, an increase of 22.3% over the same period of last year, with net additions of 361 thousand in 1Q10. In March, Unitel launched an institutional campaign celebrating the achievement of surpassing 6 million customers. In 1Q10, ARPU decreased by 4.7% in local currency, against a backdrop of strong customer growth. ARPU totalled USD 19.3.

In 1Q10, MTC's revenues were flat at NAD 344 million, while EBITDA increased by 6.4% y.o.y. Revenue performance was achieved against a backdrop of significant decline in MTRs and strong traffic stimulation campaigns. In 1Q10, EBITDA margin increased by 3.4pp to 53.6%. Total customer base reached 1,398 thousand as at the 31 March 2010, an increase of 22.6% over the same period of last year, with net additions reaching 35 thousand in the quarter. Post-paid customers increased by 11.5% y.o.y, equivalent to 7.0% of total customer base. In 1Q10, MTC focused its commercial and marketing activity in initiatives to promote usage and in mobile broadband. ARPU totalled NAD 79.2, a decrease of 21.4% y.o.y, as a result of customer growth and decline in MTRs.

In 1Q10, CVT's revenues and EBITDA decreased by 6.2% y.o.y and by 15.2% y.o.y to CVE 1,852 million and CVE 1,056 million, respectively. EBITDA margin reached 57.0% in 1Q10. Revenue performance was negatively impacted by lower roaming revenues and lower mobile outgoing revenues, as well as adverse regulatory impacts in the wireline business. Mobile customers increased by 9.9% to 301 thousand. Mobile MOU reached 78 minutes and ARPU totalled CVE 1,090, declining 24.1% y.o.y. In 1Q10, CVT launched an institutional campaign celebrating the achievement of surpassing 300 thousand mobile customers.

CTM's revenues and EBITDA increased by 14.9% y.o.y and by 2.9% y.o.y to MOP 648 million and MOP 286 million, respectively. EBITDA margin stood at 44.2%. Revenue growth was achieved against a backdrop of a positive evolution of the economy of Macao, which led to an increase in the number of visitors in the quarter. In the mobile division, customers increased by 8.0% y.o.y reaching 523 thousand as at the 31 March 2010. In 1Q10, CTM's mobile ARPU decreased by 2.9% to MOP 106.9, as a result of customer growth in the period.

In 1Q10, CST's revenues and EBITDA increased by 18.4% y.o.y and by 5.0% y.o.y, to STD 71,282 million and STD 19,503 million, respectively. EBITDA margin stood at 27.4%. In the mobile division, CST reached 85 thousand customers as at 31 March 2010, an increase of



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56.2% y.o.y. Mobile MOU decreased by 21.6% y.o.y to 38 minutes, as a result of growth in customer base, while mobile ARPU totalled STD 173 thousand in 1Q10, a decrease of 20.6% over the same period of last year.

In 1Q10, Timor Telecom's revenues and EBITDA increased by 16.8% y.o.y and by 2.1% y.o.y, to USD 12.9 million and USD 7.1 million, respectively, mainly as a result of the strong increase in the number of mobile customers. EBITDA margin stood at 54.9%. Timor Telecom's mobile net additions reached 34 thousand, bringing the total mobile customer base to 385 thousand as at 31 March 2010, an increase of 181.8% y.o.y. Customer growth was achieved against a backdrop of expanding coverage. Mobile MOU decreased by 44.3% y.o.y to 46 minutes, while mobile ARPU stood at USD 10.3 (-56.1% Y.O.Y) as a result of the strong customer growth in the period. In 1Q10, Timor Telecom launched 3G services and relaunched its commercial brand.

**04 Changes in Accounting Policies**

The IFRIC 12 *Service Concession Arrangements* became effective as from 1 January 2010, following the approval by the European Commission as at 25 March 2009, and is applicable to Portugal Telecom in relation with the concession arrangements of certain international operations which render fixed line telecommunication services. Portugal Telecom is under the process of assessing all the impacts of the adoption of this interpretation and, based on its preliminary conclusions, does not expect a material impact on its consolidated financial statements.

Additional Information

This information is also available on PT's IR website <http://ir.telecom.pt>

**Conference Call details**

Date: 6 May 2010

Time: 16:00 (Portugal/UK), 17:00 (CET),

11:00 (US/NY)

Telephone numbers

Outside US: +1 201 689 8261

US and Canada: 877 869 3847

If you are unable to attend the conference call a replay will be available for one week through the following numbers:

Outside US callers: +1 201 612 7415

(Account Number: 3082, Conference ID: 349551)

US and Canada callers: 877 660 6853

(Account Number: 3082, Conference ID: 349551)

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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.

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.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 6, 2010

PORTUGAL TELECOM, SGPS, S.A.

By: */s/ Nuno Vieira*  
**Nuno Vieira**  
**Investor Relations Director**

**FORWARD-LOOKING STATEMENTS**

This document may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words anticipates, believes, estimates, expects, plans and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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