PORTUGAL TELECOM SGPS SA
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 October 2007

Commission File Number 1-13758

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 x Form 40-F o

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 o No x

Consolidated report

First half 2007

Public Company- Avenida Fontes Pereira de Melo, 40 1069-300 Lisboa - Share capital: Euro 33,865,695

Registered in the Conservatory of the Commercial Registry of Lisbon and Collective Person under no. 503 215 058

Consolidated report

First half 2007

The terms PT , Portugal Telecom Group , PT Group , Group and Company
refer to Portugal Telecom and its subsidiaries or any of them as the context.

Portugal Telecom

Portugal

Wireline Euro 993 million (revenues)	Retail [PT Comunicações 100%] Large corporates voice and data [PT Corporate 100%] SMEs voice and data [PT Prime 100%] ISP and broadband services [PT.com 100%]
Mobile Euro 728 million (revenues)	TMN 100%

International

			Revenues (Euro million)
Vivo 31.38%	Brazil	Mobile	1,140
Médi Télécom 32.18%	Morocco	Mobile	212
Unitel 25%	Angola	Mobile	281
CTM 28%	Macao	Wireline, mobile, Internet and data	98
MTC 34%	Namibia	Mobile	57
CVT 40%	Cape Verde	Wireline, mobile, Internet and data	32
CST 51%	São Tomé e Príncipe	Wireline, mobile, Internet and data	4
Timor Telecom 41.12%	East Timor	Wireline, mobile, Internet and data	11
UOL 29%	Brazil	ISP, contents and Internet	91

Support companies

Systems and IT [PT Sistemas de Informação 100%]; Innovation, research and development [PT Inovação 100%];

Backoffice and shared services [PT PRO 100%]; Procurement [PT Compras 100%];

Call centres and telemarketing services [PT Contact 100%]; Pension funds management [Previsão 78.12%]

Financial review

Consolidated income statement

Consolidated income statement (1) Euro million

	1H07	1H06	07/06
Operating revenues	**2,955.8**	**2,805.7**	**5.4%**
Wireline	936.2	991.0	(5.5)%
Domestic mobile TMN	690.1	686.0	0.6%
Brazilian mobile Vivo (1)	1,140.3	1,014.4	12.4%
Other	189.1	114.3	65.5%
Operating costs, excluding D&A	**1,809.0**	**1,810.1**	**(0.1)%**
Wages and salaries	322.6	332.2	(2.9)%
Post retirement benefits	(17.3)	23.9	n.m.
Direct costs	428.1	312.6	36.9%
Cost of products sold	276.4	286.0	(3.4)%
Support services	102.0	104.4	(2.4)%
Marketing and publicity	65.4	65.2	0.2%
Supplies and external services	458.9	453.1	1.3%
Indirect taxes	97.3	89.9	8.2%
Provision and adjustments	75.6	142.6	(47.0)%
EBITDA (2)	**1,146.8**	**995.6**	**15.2%**
Depreciation and amortisation	540.6	557.2	(3.0)%
Income from operations (3)	**606.2**	**438.4**	**38.3%**
Other expenses (income)	**111.1**	**44.8**	**148.1%**
Work force reduction programme costs	84.4	25.0	237.1%
Losses (gains) on disposal of fixed assets, net	11.7	(0.4)	n.m.
Other costs, net	14.9	20.2	(25.9)%
Income before financial results and taxes	**495.1**	**393.6**	**25.8%**
Financial expenses (income)	**(89.1)**	**105.9**	**n.m.**
Net interest expenses	90.9	110.7	(17.9)%
Net foreign currency exchange gains	(2.6)	(1.6)	61.9%
Losses (gains) on financial assets, net	(142.4)	12.8	n.m.
Equity in earnings of associated companies, net	(52.9)	(45.6)	15.9%
Net other financial expenses	17.9	29.7	(39.7)%
Income before income taxes	**584.3**	**287.7**	**103.1%**
Provision for income taxes	(141.1)	65.4	n.m.
Income from continued operations	**443.2**	**353.1**	**25.5%**
Net income from discontinued operations	28.6	45.2	(36.6)%
Losses (income) attributable to minority interests	(42.7)	3.2	n.m.
Consolidated net income	**429.1**	**401.5**	**6.9%**

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

(2) EBITDA = income from operations + depreciation and amortisation.

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

Consolidated operating revenues

Consolidated operating revenues increased by 5.4% y.o.y in the first half of 2007 to Euro 2,956 million, reflecting the higher contribution from: (1) Vivo (Euro 126 million), due to the positive impact of the change in the interconnection regime (July 2006) as well as customer and ARPU growth; (2) TMN (Euro 4 million) on the back of the 8.4% y.o.y. increase in the number of customers and despite the negative impact of Euro 12 million due to the reduction in mobile interconnection rates; and (3) other businesses (Euro 75 million) primarily explained by the consolidation of MTC (Euro 57 million). These effects were partially offset by the reduction in the contribution from the wireline business (Euro 55 million), mainly as a result of lower voice revenues due to line loss, notwithstanding the increase in revenues from ADSL, wholesale and data & corporate.

Consolidated operating revenues - standalone revenues by segment (1) Euro million

	1H07	1H06	07/06
Wireline	992.9	1,053.5	(5.7)%
Domestic mobile TMN	728.1	719.9	1.1%
Brazilian mobile Vivo (1)	1,140.3	1,014.4	12.4%
Other and eliminations	94.4	17.9	n.m.
Total operating revenues	**2,955.8**	**2,805.7**	**5.4%**

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

Consolidated operating costs

Consolidated operating costs amounted to Euro 2,350 million in the first half of 2007, a decrease of 0.7% y.o.y. On a constant currency basis, operating costs would have decreased by 0.2% y.o.y. in the first half of 2007.

Consolidated operating costs (1) Euro million

	1H07	1H06	07/06	% Rev.
Wages and salaries	322.6	332.2	(2.9)%	10.9%
Post retirement benefits	(17.3)	23.9	n.m.	(0.6)%
Direct costs	428.1	312.6	36.9%	14.5%
Telecommunications costs	344.5	231.9	48.6%	11.7%
Directories	34.6	38.5	(10.0)%	1.2%
Other	49.0	42.3	15.8%	1.7%
Costs of products sold	276.4	286.0	(3.4)%	9.3%
Support services	102.0	104.4	(2.4)%	3.4%
Marketing and publicity	65.4	65.2	0.2%	2.2%
Supplies and external services	458.9	453.1	1.3%	15.5%
Indirect taxes	97.3	89.9	8.2%	3.3%
Provisions and adjustments	75.6	142.6	(47.0)%	2.6%
Operating costs, excluding D&A	**1,809.0**	**1,810.1**	**(0.1)%**	**61.2%**
Depreciation and amortisation	540.6	557.2	(3.0)%	18.3%
Total operating costs	**2,349.6**	**2,367.3**	**(0.7)%**	**79.5%**

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

Wages and salaries Wages and salaries decreased by 2.9% y.o.y. in the first half of 2007 to Euro 323 million, primarily as a result of the 8.8% y.o.y decrease in the wireline business as a result of the ongoing redundancy programme and the focus on containing wage increases. Wages and salaries accounted for 10.9% of consolidated operating revenues.

Post retirement benefit costs Post retirement benefit costs (PRBs) were Euro 17 million negative (gain) in the first half of 2007, mainly as a result of prior years service gains related to vested rights in the amount of Euro 37 million, related to changes in the Social Security Rules and to the formulas used by Portugal Telecom to calculate pension complements. The decrease in post retirement benefit costs is also explained by the reduction in service costs primarily due to the decrease in healthcare obligations that occurred at the end of 2006.

Direct costs Direct costs increased by 36.9% y.o.y to Euro 428 million in the first half of 2007 and accounted for 14.5% of consolidated operating revenues. Telecommunications costs, which are the main component of direct costs, increased by 48.6% to Euro 344 million in the first half of 2007, with the reduction in telecommunication costs at the wireline business (Euro 5 million) and domestic mobile business (Euro 8 million), primarily due to lower wireline traffic volumes and lower fixed-to-mobile and mobile-to-mobile interconnection rates in Portugal, being more than offset by the increase in telecommunications costs at Vivo (Euro 113 million), mainly due to the end of the partial Bill & Keep interconnection regime (Euro 128 million).

Cost of products sold Cost of products sold decreased by 3.4% y.o.y in the first half of 2007 to Euro 276 million, primarily as a result of lower handset prices at Vivo (benefiting also from the appreciation of the Real against the Dollar), notwithstanding the increase in its commercial activity.

Support services Support services decreased by 2.4% y.o.y in the first half of 2007 to Euro 102 million and represented 3.4% of consolidated operating revenues. The increase in support services at TMN (Euro 4 million), mainly due to the growth in call centre expenses, related to an increase in commercial activity, was more than offset by a reduction of these expenses at the wireline business.

Marketing and publicity Marketing and publicity remained stable at Euro 65 million in the first half of 2007, with the reduction at Vivo (Euro 4 million) being offset by the marketing expenses from MTC (Euro 3 million) and the increase at TMN (Euro 1 million). Marketing and publicity expenses accounted for 2.2% of consolidated operating revenues.

Supplies and external services Supplies and external expenses increased by 1.3% y.o.y in the first half of 2007 to Euro 459 million, with the reduction in commissions (Euro 10 million) mainly at Vivo, being more than offset by the increase in other supplies and external services (Euro 15 million), mainly due to the increase in the contribution of Vivo (Euro 6 million), primarily as a result of the growth of electricity expenses related to the GSM network and legal fees, and the consolidation of MTC (Euro 5 million). Supplies and external services accounted for 15.5% of consolidated operating revenues.

Indirect taxes Indirect taxes, which mainly include spectrum fees (TMN and Vivo) and other taxes, increased from Euro 90 million in the first half of 2006 to Euro 97 million in the first half of 2007, mainly due to the increase in spectrum fees at Vivo and TMN in line with the growth in the customer base of both businesses.

Provisions and adjustments Provisions and adjustments decreased from Euro 143 million in the first half of 2006 to Euro 76 million in the first half of 2007. The decrease in this cost item is primarily related to the decreases of Euro 56 million and Euro 13 million at Vivo and the wireline business, respectively, mainly due to a reduction in doubtful accounts receivable at each of these businesses and also due to a one-off provision recorded by Vivo in the first half of 2006 (Euro 30 million) resulting from billing problems associated with the system migration to a unified platform. In the first half of 2007, provisions accounted for 2.6% of consolidated operating revenues.

Depreciation and amortisation Depreciation and amortisation costs decreased by 3.0% y.o.y. in the first half of 2007 to Euro 541 million, due to a reduction across all businesses: Vivo (Euro 12 million), Wireline (Euro 8 million) and TMN (Euro 2 million). The decrease at Vivo is primarily explained by the appreciation of the Euro against the Real (Euro 3 million) and by the reduction in the amortization of intangible assets (Euro 10 million), primarily related to the amortization of certain intangible assets identified in the purchase price allocation of the October 2004 tender offer, which were being amortised over a 2 years period ended in September 2006. These effects were partially offset by the full consolidation of MTC (Euro 6 million). This cost item accounted for 18.3% of consolidated operating revenues.

EBITDA

EBITDA increased by 15.2% y.o.y in the first half of 2007 to Euro 1,147 million, equivalent to an EBITDA margin of 38.8%, an improvement of 3.3% y.o.y. EBITDA growth in the period was driven by all business segments, with the highest contribution coming from Vivo, which increased EBITDA by 39.0% y.o.y. Although part of the improvement in Vivo s EBITDA is explained by the impact of a one-off provision recorded in the first half of 2006 (Euro 30 million), underlying EBITDA increased by 22.0% y.o.y, in local currency. The improvement in TMN s EBITDA margin was achieved on the back of service revenue growth and strict cost control, despite continued customer growth and mobile termination rates cuts that occurred in previous years. In the Wireline business, EBITDA increased by 3.9% y.o.y, as a result of higher prior years service gains booked in the first half of 2007, related to a reduction in post retirement benefits. Excluding prior years service gains, Wireline EBITDA would have remained broadly flat in the first half of 2007, highlighting the improvement in operating efficiency against a backdrop of top line pressure. Other EBITDA increased to Euro 39 million in the first half of 2007, mainly as a result of the consolidation of MTC (Euro 30 million) and the increase in EBITDA of other fully consolidated subsidiaries.

EBITDA by business segment (1) (2) Euro million

	1H07	1H06	07/06
Wireline	506.0	486.9	3.9%
Domestic mobile TMN	327.4	318.8	2.7%
Brazilian mobile Vivo (1)	274.7	197.6	39.0%
Other	38.7	(7.7)	n.m.
Total EBITDA (2)	**1,146.8**	**995.6**	**15.2%**
EBITDA margin (%)	38.8	35.5	3.3pp

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

(2) EBITDA = income from operations + depreciation and amortisation.

Net income

Work force reduction programme costs Work force reduction programme costs amounted to Euro 84 million in the first half of 2007, as compared to Euro 25 million in the previous year. Work force reduction programme costs in the first half of 2007 were related to the reduction in headcount of 253 employees.

Net interest expenses Net interest expenses decreased by 17.9% y.o.y to Euro 91 million in the first half of 2007, mainly as a result of the reduction in the average cost of debt in Portugal and Brazil, as well as the decrease in Vivo s average net debt in the period. Excluding Brazil and the interest cost associated with the PTM equity swap, PT s average cost of debt was 3.2% in the first half of 2007, as compared to 3.7% in the first half of 2006.

Net foreign currency exchange gains Net foreign currency exchange gains amounted to Euro 3 million in the first half of 2007, as compared to Euro 2 million in the first half of 2006. This item included mainly foreign currency gains related to Vivo s US Dollar debt not swapped to Reais, in connection with the appreciation of the Real against the Dollar in both periods, which were primarily offset by foreign currency losses related to dividends receivable from Unitel (denominated in US Dollars), following the devaluation of the US Dollar against the Euro in both periods.

Net losses (gains) on financial assets Net gains on financial assets amounted to Euro 142 million in the first half of 2007, as compared to net losses of Euro 13 million in the first half of 2006. This caption includes mainly the following: (1) equity swap contracts on PT Multimedia shares (gains of Euro 77 million in the first half of 2007, as compared to losses of Euro 7 million in the first half of 2006); (2) financial settlement of equity swaps over PT s own shares (gain of Euro 31 million in the first half of 2007); and (3) the disposal of the investment in Banco Espírito Santo (gain of Euro 36 million in the first half of 2007).

Equity in earnings of associated companies Equity in earnings of associated companies in the first half of 2007 amounted to Euro 53 million, as compared to Euro 46 million in the first half of 2006. This item included mainly PT s share in the earnings of Unitel in Angola (Euro 42 million in the first half of 2007, as compared to Euro 36 million in the same period of last year) and CTM in Macao (Euro 9 million in the first half of 2007, as compared to Euro 8 million in the same period of last year).

Net other financial expenses Net other financial expenses amounted to Euro 18 million in the first half of 2007, as compared to Euro 30 million in the first half of 2006, and included mainly banking services, commissions, financial discounts and other financing costs. The reduction of Euro 12 million is mainly related to the financial taxes paid by Vivo in the first half of 2006, in connection with its debt restructuring occurred in that period, and to a decrease of Euro 4 million in net financial discounts granted.

Provision for income taxes Provision for income taxes amounted to Euro 141 million in the first half of 2007, as compared to a gain of Euro 65 million in the first half of 2006. The evolution in this caption is mainly explained by the recognition in the first half of 2006 of: (1) a tax credit amounting to Euro 53 million, following the liquidation of a holding company, and (2) a Euro 142 million gain related to the reduction of deferred tax liabilities resulting from the voluntary taxation of certain capital gains. Adjusting for these one-off effects, the provision for income taxes would have been Euro 130 million in the first half of 2006, corresponding to an effective tax rate of 45%, which compares to an effective tax rate of 24% in the first half of 2007. This decrease is mainly related to: (1) the reduction in net losses at certain Vivo subsidiaries that did not generate the recognition of related deferred tax assets, following the corporate restructuring completed at the end of 2006; (2) the change in the statutory tax rate in Portugal from 27.5% in 2006 to 26.5% in 2007; and (3) the booking of certain non-taxable capital gains in the first half of 2007.

Net income from discontinued operations Net income from discontinued operations includes the results of companies that have been or will be disposed of, and the after-tax gains obtained with the sale of these investments. Following the approval of the spin-off of PT Multimedia in PT s Annual General Meeting held on 27 April 2007, this business was reported as a discontinued operation in all reportable periods, in accordance with IFRS rules. As a result, the earnings of PT Multimedia before minority interest were included in this caption. In the first half of 2007, this caption also includes a provision, net of taxes, of Euro 13 million related to the spin-off of PT Multimedia.

Minority interests Income attributable to minority interests amounted to Euro 43 million in the first half of 2007, as compared to net losses of Euro 3 million in the same period of last year. The change in this item is primarily explained by: (1) the increase in the income attributable to minority interests of Vivo (from losses attributable to minority interests of Euro 29 million in the first half of 2006 to income attributable to minority interests of Euro 5 million in the first half of 2007), and (2) the income attributable to the minority interests of MTC (Euro 11 million), which was fully consolidated for the first time in September 2006.

Net income Net income increased by 6.9% y.o.y in the first half of 2007 to Euro 429 million, primarily as a result of an increase in EBITDA and higher net financial gains, more than offsetting the increase in work force reduction programme costs in the first half of 2007 and lower provision for income taxes in the first half of 2006.

Capex

Capex by business segment (1) Euro million

		1H07	1H06	07/06
Wireline		104.7	99.6	5.1%
Domestic mobile	TMN	71.0	51.5	37.8%
Brazilian mobile	Vivo (1)	105.2	114.6	(8.2)%
Other		26.0	15.3	69.8%
Total capex		**306.8**	**281.0**	**9.2%**
Capex as % of revenues (%)		10.4	10.0	0.4pp

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

Capex increased by 9.2% y.o.y in the first half of 2007 to Euro 307 million, with the decrease in Vivo capex being more than offset by the capex increase in the remaining reportable business segments. Other Capex increased to Euro 26 million in the first half of 2007, as compared to Euro 15 million in the same period last year, mainly as a result of the consolidation of MTC (Euro 15 million). Total capex was equivalent to 10.4% of consolidated operating revenues.

Cash flow

EBITDA minus Capex by business segment (1) Euro million

		1H07	1H06	y.o.y
Wireline		401.3	387.3	3.6%
Domestic mobile	TMN	256.5	267.3	(4.0)%
Brazilian mobile	Vivo (1)	169.5	83.0	104.1%
Other		12.7	(23.0)	n.m.
Total EBITDA minus Capex		**840.0**	**714.6**	**17.6%**

(1) Considering a Euro/Real average exchange rate of 2.7218 in 1H07 and 2.6925 in 1H06.

EBITDA minus Capex EBITDA minus Capex increased by 17.6% y.o.y to Euro 840 million in the first half of 2007. On a combined basis, the domestic businesses accounted for approximately 78% of total EBITDA minus Capex.

Free cash flow Euro million

	1H07	1H06	y.o.y
EBITDA minus Capex	840.0	714.6	17.6%
EBITDA	1,146.8	995.6	15.2%
Capex	(306.8)	(281.0)	9.2%
Non-cash items included in EBITDA	56.0	166.2	(66.3)%
Change in working capital	(274.7)	(247.1)	11.2%
Operating free cash flow	**621.4**	**633.8**	**(2.0)%**
Net disposal (acquisition) of financial investments	114.0	(34.3)	n.m.
Interest paid	(189.7)	(247.7)	(23.4)%
Contributions and payments related to PRBs	(46.8)	(147.2)	(68.2)%
Financial settlement of PTM equity swap	94.5	0.0	n.m.
Income taxes paid	(109.1)	(19.7)	n.m.
Other cash movements (1)	51.8	43.0	20.6%
Free cash flow	**536.0**	**227.9**	**135.2%**

(1) In 1H07, other cash movements included Euro 92 million related to dividends received, mainly from PTM (Euro 54 million) and Unitel (Euro 27 million).

Operating free cash flow In the first half of 2007, operating free cash flow decreased by 2.0% y.o.y to Euro 621 million, primarily as a result of a Euro 28 million increase in working capital investment.

Free cash flow Free cash flow increased from Euro 228 million in The first half of 2006 to Euro 536 million in the first half of 2007, primarily as a result of: (1) the cash settlement of the PTM equity swap in the first half of 2007 (Euro 94 million); (2) the disposal of the investment in Banco Espírito Santo (Euro 110 million); (3) lower interest paid, and (4) lower contributions and payments related to post retirement benefits, as a result of the Euro 75 million reimbursement made in the first half of 2007 by PT Prestações, the fund created to cover healthcare responsibilities, on account of healthcare expenses paid by PT Comunicações in previous years. These effects were only partially offset by higher income taxes paid, as PT s tax losses carried forward were fully utilised in 2006. The reduction in interest paid from Euro 248 million in the first half of 2006 to Euro 190 million in the first half of 2007, is primarily explained by the fact that in the first half of 2006 PT paid the last annual interest installment (Euro 52 million) on the Eurobond repaid in 2006.

Consolidated balance sheet

Consolidated balance sheet (1) Euro million

	30 June 2007	31 December 2006
Cash and equivalents	1,351.4	2,083.7
Accounts receivable, net	1,406.8	1,417.0
Inventories, net	152.1	130.3
Financial investments	520.0	631.5
Intangible assets, net	3,165.3	3,490.9
Tangible assets, net	3,566.3	3,942.0
Post retirement benefits	123.4	134.1
Other assets	963.9	1,050.5
Deferred tax assets and prepaid expenses	1,113.8	1,291.4
Assets of discontinued operations (PTM)	1,105.9	0.0
Total assets	**13,468.9**	**14,171.2**
Accounts payable	889.4	1,115.1
Gross debt	5,631.9	5,840.3
Post retirement benefits	1,378.6	1,807.6
Other liabilities	1,830.6	1,995.7
Deferred tax liabilities and deferred income	300.1	306.5
Liabilities of discontinued operations (PTM)	549.7	0.0
Total liabilities	**10,580.2**	**11,065.2**
Equity before minority interests	2,003.0	2,255.2
Minority interests	885.7	850.8
Total shareholders equity	**2,888.7**	**3,106.0**
Total liabilities and shareholders equity	**13,468.9**	**14,171.2**

(1) Considering the Euro/Real exchange rate of 2.6024 at the end of june of 2007 and 2.8118 at the end of 2006.

Assets and liabilities The decrease in assets and liabilities in the first half of 2007 is primarily explained by the reduction in cash, resulting from the dividends paid by PT and subsidiaries during the first half of 2007, amounting to Euro 530 million, and contributions and payments related to post retirement benefits, amounting to Euro 164 million. Following the approval of the PT Multimedia spin-off by PT shareholders, PTM has been considered as a discontinued operation for reporting purposes since 1 January 2007. The book value of PT Multimedia in PT s accounts (assets minus liabilities, net minority interests) amounted to Euro 394 million as at 30 June 2007.

The net exposure to Brazil The net exposure (assets minus liabilities) to Brazil amounted to R$ 7,538 million as at 30 June 2007 (Euro 2,896 million at the Euro/Real exchange rate prevailing as at 30 June 2007). The assets denominated in Brazilian Reais in the balance sheet as at 30 June 2007 amounted to Euro 5,141 million, equivalent to approximately 38% of total assets.

Gearing ratio The gearing ratio [net debt / (net debt + shareholders equity)] increased to 59.7% as at 30 June 2007, which compares to 54.7% as at 31 December

2006, while the ratio shareholders equity plus long-term debt to total assets decreased from 53.4% to 53.1%. As at 30 June 2007, the net debt to EBITDA ratio was 2.3 times and EBITDA cover was 12.6 times.

Consolidated net debt

Change in net debt Euro million

	1H07	1H06
Net debt (initial balance)	**3,756.6**	**3,672.5**
Less: PTM Net debt as at 31 December 2006	178.9	0.0
Less: Free cash flow	536.0	227.9
PTM free cash flow	0.0	80.3
Translation effect on foreign currency debt	34.9	(8.4)
Dividends paid (1)	529.0	530.4
Acquisitions of treasury shares (2)	557.9	62.1
Extraordinary contribution to pension fund	117.0	300.0
Other	0.0	(28.5)
Net debt (final balance)	**4,280.4**	**4,380.5**
Change in net debt	**523.9**	**708.0**
Change in net debt (%)	**13.9%**	**19.3%**

(1) In 1H07, this item included dividends paid by PT (Euro 517 million) and certain of its associated companies.

(2) In 1H07, this item corresponds to the notional amount of equity swaps contracted over 54.8 million PT shares, in connection with the share buyback programmeme announced by the Board of Directors on 20 February 2007 and approved at the AGM of 27 April 2007.

Net debt Consolidated net debt as at 30 June 2007 increased to Euro 4,280 million, as compared to Euro 3,757 million as at 31 December 2006. The increase in net debt over the period is primarily explained by the share buyback, currently under execution, and the dividends paid in May 2007, which were partially offset by the free cash flow generated in the period.

Consolidated net debt Euro million

	30 June 2007	31 December 2006	Change	Change (%)
Short-term	**1,372.6**	**1,372.7**	**(0.1)**	**(0.0)%**
Bank loans	337.9	406.9	(69.0)	(17.0)%
Other loans	240.3	749.9	(509.6)	(68.0)%
Liability with equity swaps on own shares	776.8	187.6	589.2	314.0%
Financial leases	17.6	28.4	(10.8)	(38.0)%
Medium and long-term	**4,259.2**	**4,467.5**	**(208.2)**	**(4.7)%**

Bank loans	1,011.8	1,103.4	(91.6)	(8.3)%
Bonds	3,156.2	3,133.6	22.6	0.7%
Other loans	0.0	0.3	(0.2)	(84.7)%
Financial leases	91.2	230.2	(139.0)	(60.4)%
Gross debt	**5,631.9**	**5,840.3**	**(208.4)**	**(3.6)%**
Cash and equivalents	1,351.4	2,083.7	(732.3)	(35.1)%
Net debt	**4,280.4**	**3,756.6**	**523.9**	**13.9%**

Gross debt As at 30 June 2007, 75.6% of gross debt was medium and long-term, while 59.9% of gross debt was at fixed rates. As at 30 June 2007, 86.4% of gross debt was denominated in Euros, 0.4% in US Dollars and 13.2% in Brazilian Reais. As at 30 June 2007, the only loans with rating triggers were four EIB loans totalling Euro 364 million. PT s rating was confirmed as Baa2 by Moody s and BBB- by S&P, both with stable outlook, on 5 March 2007 and 16 March 2007, respectively. The total undrawn amount of PT s commercial paper lines and standby facilities stood at Euro 1,350 million as at 30 June 2007. The amount of available cash from the domestic operations plus the undrawn amount of PT s commercial paper lines and standby facilities totalled Euro 2,358 million at the end of June 2007.

The 50% share of Vivo s net debt, proportionally consolidated by PT, amounted to Euro 506 million as at 30 June 2007. Approximately 95% of Vivo s net debt is either Real-denominated or has been swapped into Reais.

Net debt maturity profile Euro million

Maturity	**Net debt**	**Notes**
2007	(94.5)	Net cash position
2008	480.9	
2009	1,120.9	Includes a Euro 880 million Eurobond issued in April 1999
2010	244.0	
2011	108.9	
2012	1,119.9	Includes a Euro 1,000 million Eurobond issued in March 2005
2013	61.7	
2014	35.7	
2015	207.6	
2015 and following	995.3	Includes a Euro 500 million Eurobond issued in March 2005 (matures in 2017) and a Euro 500 million Eurobond issued in June 2005 (matures in 2025)
Total	**4,280.4**	

Cost of debt and maturity PT s average cost of net debt and maturity in the first half of 2007 was 4.8% and 6.0 years, respectively, including loans obtained in Brazil and denominated in Reais. Excluding Vivo s debt and the interest cost associated with the equity swap over PT Multimedia shares, PT s average cost of debt was 3.2% in the first half of 2007. The maturity of the debt excluding Brazil was 6.3 years as at 30 June 2007.

Debt ratings

	Current	Outlook	Last change
Standard & Poor s	BBB-	Stable	16 March 2007
Moody s	Baa2	Stable	5 March 2007
Fitch Ratings	BBB	Negative	5 March 2007

Ratings Following the failure of the tender offer, rating agencies confirmed PT s rating of BBB- (S&P), Baa2 (Moody s) and BBB (Fitch).

Post retirement benefits

PBO As at 30 June 2007, the projected benefit obligations (PBO) of PT s post retirement benefits, including pensions, healthcare obligations and salaries to pre-retired and suspended employees, amounted to Euro 4,279 million. The PBO was computed based on a discount rate of 5.25% for pension and healthcare obligations, and 4.75% for the obligations related to the payment of salaries to pre-retired and suspended employees. PT s post retirement benefits plans are closed to new participants since 1994 for pensions and since 2000 for healthcare.

Funds As at 30 June 2007, the market value of the funds amounted to Euro 3,048 million, resulting in a gross unfunded obligation of Euro 1,232 million. The asset allocation as at 30 June 2007 was 47.0% equity, 33.9% bonds, 5.9% real estate and 13.2% cash and others.

Post retirement benefits obligations Euro million

	1H07	2006
Pension obligations	2,825.5	3,073.8
Salaries to suspended and pre-retired employees	991.5	997.7
Healthcare obligations	462.4	491.1
Projected benefit obligation (PBO)	**4,279.4**	**4,562.6**
Market value of funds	(3,047.7)	(2,908.1)
Gross unfunded obligation	**1,231.7**	**1,654.4**
Unrecognised prior years service gains	23.5	19.1
Net liability for post retirement benefits	**1,255.2**	**1,673.5**
After-tax unfunded obligations	**905.3**	**1,216.0**

Pensions During the first half of 2007 Dec-Law 187/2007 was published, which introduced some changes to pension formulas in order to guarantee the sustainability

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of the Portuguese social security system. These changes are also applied to some of PT Comunicações plans, which led to a reduction in the total pension liability. In addition, PT Comunicações reduced the benefits granted under the same pension plans. The impact of the above mentioned changes to benefits, reduced PT s pension liability by Euro 43 million, of which Euro 37 million was recognised as a prior year service gain since it was related to vested rights, and the remaining Euro 6 million was related to unvested rights and therefore was deferred up to the retirement date.

Change in gross unfunded obligations Euro million

	1H07
Gross unfunded obligations (initial balance)	**1,654.4**
Post retirement benefit cost / (gain)	(17.3)
Work force reduction program costs	82.0
Contributions and payments (1)	(161.3)
Net actuarial gains	(321.6)
Prior years service gains related to unvested rights	(4.4)
Gross unfunded obligations (final balance)	**1,231.7**
Change in gross unfunded obligations	**(422.7)**
Change in gross unfunded obligations (%)	**(25.6)%**

(1) In 1H07 this caption included: (i) Euro 32 million of regular contributions; (ii) Euro 76 million of payments of salaries to pre-retired and suspended employees and other; (iii) Euro 64 million of net refunds related to healthcare, and (iv) Euro 117 million of an extraordinary contributions related to pensions.

Gross unfunded obligations The reduction in the gross unfunded obligations is primarily related to the net actuarial gains booked in the first half of 2007 (Euro 322 million) and the extraordinary contributions made during the same period (Euro 117 million).

Net actuarial gains Net actuarial gains in the first half of 2007 include the impacts of the changes in actuarial assumptions (Euro 242 million) and of the differences between those actuarial assumptions and real data (Euro 80 million). The change in actuarial assumptions corresponds to the effect of the increase in the discount rate from 4.75% to 5.25% for pension and healthcare liabilities and from 4.25% to 4.75% for salary liabilities, reflecting the evolution of market yields.

Shareholders equity (excluding minority interests)

Shareholders equity As at 30 June 2007, shareholders equity excluding minority interests amounted to Euro 2,003 million, a decrease of Euro 252 million in the first half of 2007.

Change in shareholders equity (excluding minority interests) Euro million

	1H07
Equity before minority interests (initial balance)	**2,255.2**
Net income	429.1
Currency translation adjustments (1)	207.8
Net actuarial gains, net of tax effect	236.4
Dividends paid	(516.5)
Acquisition of treasury stock (2)	(589.2)
Hedge accounting of financial instruments and change in the fair value of available for sale investments	(18.0)
Other	(1.9)
Equity before minority interests (final balance)	**2,003.0**
Change in equity before minority interests	**(252.3)**
Change in equity before minority interests (%)	**(11.2)%**

(1) This item is primarily related to the appreciation of the Real against the Euro from 2.8118 as at 31 December 2006 to 2.6024 as at 30 June 2007.

(2) In 1H07, this item includes Euro 1,061 million related to the notional value of the equity swaps contracted during the period over 103.6 million own shares and Euro 472 million recorded in connection with the cancellation of the liability related to equity swaps over 48.8 million own shares, as a result of the cash settlement of those equity swaps during the period.

Distributable reserves Pursuant to Portuguese legislation, the amount of distributable reserves is determined according to the standalone financial statements of the company prepared in accordance with Portuguese GAAP. Distributable reserves increased from Euro 2,728 million in 2006 to Euro 3,017 million in the first half of 2007, with the impact of the share capital restructuring (Euro 440 million), as approved by shareholders on 27 April 2007, and the net income generated in the first half of 2007 under Portuguese GAAP (Euro 366 million) more than offsetting the impact of the dividends paid in May 2007 (Euro 517 million).

Change in distributable reserves Euro million

	1H07
Distributable reserves (initial balance)	**2,727.8**
Dividends paid	(516.5)

Net income under Portuguese GAAP	365.8
Share capital restructuring	440.3
Other	(0.2)
Distributable reserves (final balance)	**3,017.1**
Change in distributable reserves in the period	**289.3**
Change in distributable reserves in the period (%)	**10.6%**

Business performance

Domestic market

Wireline

Operating revenues Wireline operating revenues decreased by 5.7% y.o.y in the first half of 2007 to Euro 993 million, with the reduction in retail revenues more than offsetting the increase in wholesale and data and corporate revenues.

Wireline income statement (1) Euro million

	1H07	1H06	y.o.y
Operating revenues	**992.9**	**1,053.5**	**(5.7)%**
Retail	525.9	607.1	(13.4)%
Voice	433.1	517.4	(16.3)%
Data	92.8	89.7	3.4%
Wholesale	235.2	230.7	1.9%
Data & corporate	133.7	124.5	7.4%
Other wireline revenues	98.1	91.1	7.7%
Operating costs, excluding D&A	**486.9**	**566.6**	**(14.1)%**
Wages and salaries	126.8	139.0	(8.8)%
Post retirement benefits (PRBs)	(17.4)	23.8	n.m.
Direct costs	172.4	176.9	(2.6)%
Commercial costs	41.2	41.3	(0.1)%
Other operating costs	163.9	185.6	(11.7)%
EBITDA (2)	**506.0**	**486.9**	**3.9%**
EBITDA, excluding exceptional items (3)	**469.8**	**472.2**	**(0.5)%**
Depreciation and amortisation	162.7	170.9	(4.8)%
Income from operations (4)	**343.4**	**316.0**	**8.7%**
EBITDA margin	51.0%	46.2%	4.7pp
EBITDA margin, excluding exceptional items	47.3%	44.8%	2.5pp
Capex	104.7	99.6	5.1%
Capex as % of revenues	10.5%	9.5%	1.1pp
EBITDA minus Capex	401.3	387.3	3.6%

(1) Includes intragroup transactions.

(2) EBITDA = income from operations + depreciation and amortisation.

(3) Adjusts for prior years service gains related to vested rights in the amount of Euro 36 million in 1H07 and Euro 15 million in 1H06.

(4) Income from operations = income before financials and income taxes + work force reduction programme costs + losses (gains) on disposal of fixed assets + net other costs.

Retail revenues Retail revenues fell by 13.4% y.o.y in first half of 2007, as a result of continued competition from other fixed and mobile operators, which has resulted in continued line loss and pricing pressure. As a result, the growth in retail data revenues, which increased by 3.4% y.o.y, was only partially offset the 16.3% y.o.y reduction in voice revenues. The introduction of wholesale line rental

(WLR) in the second quarter of 2006 has resulted in the migration of carrier pre-selection lines (CPS) to WLR, resulting in a transfer of retail revenues to wholesale revenues amounting to Euro 12 million in the first half of 2007. The reduction in revenues is also partially explained by the Euro 8 million negative impact related to discounts to pensioners that are no longer covered by the Portuguese State.

Wholesale revenues Wholesale revenues have benefited from the growth in unbundled local loop (ULL) and WLR, which more than offset the reduction in leased lines revenues. Wholesale revenues increased by 1.9% y.o.y in the first half of 2007.

Data and corporate revenues Data and corporate revenues increased by 7.4% y.o.y in the first half of 2007, as a result of continued focus on providing increasingly more advanced and customised solutions to corporate customers. The growth in the first half was underpinned by the increase in revenues from VPN and circuits and from outsourcing, network management and IT/IS.

Other revenues Other revenues increased by 7.7% y.o.y in the first half of 2007, with the increase in equipment sales, mainly in the corporate segment, and the growth in portal revenues (+65.6% y.o.y), making up for the reduction in revenues from directories.

EBITDA EBITDA amounted to Euro 506 million in the first half of 2007, an increase of 3.9% y.o.y, explained by the continued focus on optimising operating costs, including those related to post retirement benefit (PRB) obligations. As a result of the recent changes introduced by the Social Security System to calculate pensions upon retirement, PT adapted the methodology used to determine pension complements, with the view of maintaining the long-term sustainability and financing of the plans. Accordingly, PRB costs amounted to a negative Euro 17 million (gain), as a result of prior years service gains booked in the first half of 2007 in the amount of Euro 36 million. Excluding prior years service gains, EBITDA would have remained broadly flat in the first half of 2007.

Costs EBITDA performance in the first half of 2007 was also underpinned by continued improvements in efficiency, with particular emphasis on personnel and other operating costs. Wages and salaries decreased by 8.8% y.o.y in the first half of 2007, as a result of the ongoing redundancy programme and the focus on containing wage increases. The net reduction in the first half of 2007 in headcount totalled 202 employees, improving the efficiency ratio to 622 lines per employee. Other operating costs decreased by 11.7% y.o.y to Euro 164 million in the first half of 2007, underpinned by cost improvements in support areas, such IT/IS and outsourcing costs, customer care and shared services, as well as the renegotiation of certain network supplier contracts.

Capex Capex amounted to Euro 105 million in the first half of 2007, an increase of 5.1% y.o.y, equivalent to 10.5% of operating revenues. Capex was directed mainly towards: (1) network upgrades to provide greater bandwidth to customers; (2) the preparation of the network and information systems for the launch of IPTV (soft launch in the second quarter of 2007), and (3) client-related capex as a result of investments in terminal equipments for corporate clients. EBITDA minus Capex amounted to Euro 401 million in the first half of 2007.

Wireline operating data

	1H07	1H06	y.o.y
Main accesses (000)	4,342	4,433	(2.0)%
Retail accesses	3,861	4,209	(8.3)%
PSTN/ISDN	3,146	3,573	(12.0)%
Traffic-generating lines	2,833	2,992	(5.3)%
Carrier pre-selection	313	581	(46.1)%
ADSL retail	715	636	12.5%
Wholesale accesses	481	224	114.9%
Unbundled local loops	244	146	67.7%
Wholesale line rental	173	20	n.m.
ADSL wholesale	64	59	8.8%
Net additions (000)	(62)	(45)	36.8%
Retail accesses	(141)	(146)	(3.6)%
PSTN/ISDN	(171)	(196)	(13.2)%
Traffic-generating lines	(76)	(202)	(62.5)%
Carrier pre-selection	(95)	6	n.m.
ADSL retail	30	51	(40.6)%
Wholesale accesses	79	101	(21.8)%
Unbundled local loops	48	74	(34.2)%
Wholesale line rental	31	20	57.1%
ADSL wholesale	(1)	7	n.m.
Pricing plans (000)	4,220	2,283	84.9%
ARPU (Euro)	30.2	30.0	0.7%
Voice	24.3	25.0	(2.8)%
Data	5.8	4.9	18.5%
Total traffic (million of minutes)	6,364	6,884	(7.6)%
Retail traffic	2,659	2,872	(7.4)%
Wholesale traffic	3,705	4,012	(7.7)%
Retail MOU (minutes / month)	160	159	0.3%
Employees	6,979	7,723	(9.6)%

Broadband Notwithstanding intensifying competition in broadband, from both fixed and mobile competitors, ADSL accesses continued to grow in the first half of 2007, mitigating partially the disconnection of traditional voice lines. Retail ADSL accesses increased to 715 thousand at the end of the first half of 2007, helped by the summer campaign launched in June, with net additions totalling 30 thousand in the first half. PT continued to focus on promoting customer retention through the migration to higher speeds using ADSL 2+. In the first half of 2007, net disconnections of PT s traffic generating lines reached 76 thousand, which represents a clear improvement on the level registered in the first half of 2006. ULL net additions fell by 34.2% y.o.y in the first half of 2007 to 48 thousand, with total ULL accesses reaching 244 thousand. In terms of competitor voice lines, the net effect of the migration of CPS lines to WLR resulted in a net reduction of 64 thousand competitor voice-only lines in the first half of 2007.

Pricing plans With the view of promoting customer retention through a better perception of value-for-money, PT has aggressively rollout pricing plan offers over the past three years. PT customers have an extensive offer of flat-rate pricing plans available, which can be combined to provide a more tailored solution for customers. Additionally, at the end of the first quarter of 2007, and in line with PT s long-standing objective, the regulator allowed PT to bundle unlimited fixed-to-fixed off-peak minutes, during the week, with the line rental. Currently, 51% of PT s residential customers have a flat-rate pricing plan.

IPTV At the end of the first half of 2007, PT announced the soft launch of IPTV services. The triple-play offer, branded meo , includes 42 pay-TV channels (of which 10 are a la carte), a broadband access of up to 8MB and unlimited fixed-to-fixed calls for a total of Euro 54.90 per month. Additionally, customers can buy premium channels, such as SportTV (premium sports) and the Lusomundo movie channels. The service is provided using ADSL 2+ and is available for up to two televisions per home. PT was the first operator in Portugal to introduce HDTV and has the most extensive VoD offer in the market. The service is being initially rolled out in Lisbon and Oporto.

ARPU Blended ARPU increased by 0.7% y.o.y in the first half of 2007 to Euro 30.2, driven by the growth in data ARPU, which increased by 18.5% y.o.y. The increased penetration of ADSL and the growth in IP-based services, including corporate VoIP, more than offset the negative impact derived from the fact that discounts to pensioners are no longer covered by the Portuguese State. Excluding this impact, voice ARPU would have remained stable in the period.

Traffic Although retail traffic fell by 7.4% y.o.y. in the first half of 2007, as a result of line loss, retail MOU increased by 0.3% y.o.y to 160 minutes, reflecting the positive impact of the rollout of flat-rate pricing plans. The reduction in wholesale traffic of 7.7% y.o.y in the first half of 2007 is explained primarily by the 58.6% y.o.y decrease in dial-up Internet traffic, as a result of the continued migration to broadband.

Domestic mobile - TMN

Operating revenues Operating revenues amounted to Euro 728 million in the first half of 2007, up by 1.1% y.o.y, as a result of the increase in billing revenues (+1.9% y.o.y) that were underpinned by strong customer growth. The positive performance of billing revenues more than offset the impact of lower mobile termination rates, as well as the decrease of sales and other operating revenues. As a result, service revenues increased by 0.7% y.o.y in the first half of 2007 to Euro 667 million.

Mobile termination rates The reduction in mobile termination rates throughout 2006 led to the decline in interconnection revenues, which fell by 4.3% y.o.y in the first half of 2007. Fixed-to-mobile and mobile-to-mobile termination rates were cut to Euro 0.11 per minute in the beginning of October 2006, resulting in an average annual decline of 10.2% in termination rates in the first half of 2007. Excluding the Euro 12 million negative impact of lower mobile termination rates, service revenues would have increased by 2.5% y.o.y in the first half of 2007.

Domestic mobile income statement (1) Euro million

	1H07	1H06	y.o.y
Operating revenues	**728.1**	**719.9**	**1.1%**
Services rendered	666.5	661.7	0.7%
Billing	548.0	537.7	1.9%
Interconnection	118.6	124.0	(4.3)%
Sales	57.1	53.9	6.1%
Other operating revenues	4.5	4.4	2.0%
Operating costs, excluding D&A	**400.7**	**401.2**	**(0.1)%**
Wages and salaries	25.4	29.2	(13.0)%
Direct costs	137.3	144.9	(5.3)%
Commercial costs	141.3	133.5	5.8%
Other operating costs	96.7	93.5	3.4%
EBITDA (2)	**327.4**	**318.8**	**2.7%**
Depreciation and amortisation	106.1	108.2	(2.0)%
Income from operations (3)	**221.4**	**210.5**	**5.1%**
EBITDA margin	45.0%	44.3%	0.7pp
Capex	71.0	51.5	37.8%
Capex as % of revenues	9.7%	7.2%	2.6pp
EBITDA minus Capex	256.5	267.3	(4.0)%

(1) Includes intragroup transactions.

(2) EBITDA = income from operations + depreciation and amortisation.

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

EBITDA EBITDA increased by 2.7% y.o.y to Euro 327 million in the first half of 2007, notwithstanding significantly higher commercial activity, particularly in postpaid and wireless broadband, and the negative impact of the mobile termination rate cuts (Euro 6 million in the first half of 2007). Excluding the impact of lower mobile termination rates, EBITDA would have increased by 4.5% y.o.y in the first half of 2007. In spite of the increase in commercial activity during the first half of 2007, the decrease in unitary SARC (-9.8% y.o.y) and the focus on the reduction of addressable costs, namely staff, resulted in an EBITDA margin improvement of 0.7pp y.o.y to 45.0% in the first half of 2007. Pre-SARC EBITDA margin also continued to improve, increasing by 1.3pp y.o.y to 56.0% in the first half of 2007.

Capex Capex amounted to Euro 71 million in the first half of 2007, equivalent to 9.7% of operating revenues. Capex was directed primarily towards network capacity and 3G/3.5G coverage (approximately 76% of network capex). Additionally, as part of the UMTS licence obligations, capex in the first half of 2007 included a contribution (Euro 8 million) to a fund aimed at promoting the development of the information society in Portugal. At the end of June

2007, TMN s 3G network covered around 85% of the population. EBITDA minus Capex totalled Euro 256 million in the first half of 2007, equivalent to 35.2% of operating revenues.

Customers Customer net additions more than doubled in the first half of 2007 to 110 thousand, reflecting the success of TMN s campaigns. As a result, total customers increased by 8.4% y.o.y to 5.8 million. During the first half, TMN continued to focus on postpaid customers, particularly in the corporate segment and the migration of prepaid, and therefore total net additions in the period were postpaid. As a result, 21% of total customers were postpaid at the end of June 2007.

Domestic mobile operating data

	1H07	1H06	y.o.y
Customers (000)	5,814	5,362	8.4%
Net additions (000)	110	50	121.3%
MOU (minutes)	118	119	(0.6)%
ARPU (Euro)	19.4	20.7	(6.3)%
Customer	15.5	16.3	(4.9)%
Interconnection	3.5	3.9	(11.0)%
Roamers	0.4	0.5	(15.7)%
ARPM (Euro cents)	16.5	17.5	(5.8)%
Data as % of service revenues (%)	14.1	12.6	1.6pp
SARC (Euro)	51.7	57.4	(9.8)%
Employees	1,126	1,165	(3.3)%

TMN brand Several initiatives were implemented during the first half of 2007 in key areas such as handset portfolio differentiation, mobile broadband, roaming pricing plans and repositioning of the TMN brand to focus on the corporate and youth segments.

Handset portfolio In terms of handsets, TMN continued to differentiate its portfolio by emphasising the offer of exclusive handsets, with the launch of 28 new exclusive handsets in the first half of 2007, bringing the total number of exclusive handsets in offer to 38. For the summer campaign, TMN launched 25 new handsets, of which 8 were exclusive. Exclusive handsets provide greater pricing flexibility, thus allowing for a better control of SARC.

Broadband In terms of mobile broadband, TMN launched promotional pricing campaigns for data cards with speeds of up to 3.6 Mbps (HSDPA), as well as special offers aimed at increasing the penetration of wireless Internet access through the PC.

Additionally, the new mobile Internet service, internetnotelemóvel , offers a flat rate for unlimited usage of Internet and e-mail access on mobile handsets.

Roaming In terms of roaming, and with the view of progressively adapting roaming pricing plans to customer needs, TMN launched special campaigns focused around key dates such as Easter and Carnival. In addition, TMN launched in the period new roaming pricing packages targeting customers with high roaming usage patterns.

Corporate segment In the corporate segment, TMN launched a new voice and data offer targeting the SME/SoHo segment, Office Box PME , that includes mobile and fixed voice services, broadband, as well as Internet and e-mail services.

Youth segment The development of the youth segment continued to be a key area of focus and this was done by revamping and repositioning the brand, which enjoys at present the highest notoriety ever achieved. TMN launched an innovate set of pricing plans, called kitados , that allow customers to make unlimited on-net calls after the first minute, at night (kit noite) or the weekend (kit fim-de-semana) or to a selected number (kit par). Additionally, TMN sponsored several youth-related events, namely the main surfing championships in Portugal, contests for new musical bands (garage sessions) and a successful summer music festival. Finally, TMN launched in Music Box, on an exclusive basis, the new single of Da Weasel (one of the music bands with greatest notoriety in Portugal at the moment). Music Box is a TMN service that allows customers to search and download up to 600 thousand songs.

ARPU ARPU decreased by 6.3% y.o.y in the first half of 2007 to Euro 19.4, as a result of the reduction in customer, interconnection and roamers ARPU. The decline in interconnection ARPU of 11.0% y.o.y in the first half of 2007 resulted from the reduction in mobile termination rates that occurred throughout 2006, while the decrease in customer ARPU is explained by the increasing penetration in lower-consumption segments of the market. Notwithstanding, the growth in average number of customers and increased penetration of data services more than offset the decrease in customer ARPU, thus allowing billing revenues to increase by 1.9% y.o.y in the first half of 2007. Roamers ARPU decreased by 15.7% y.o.y in the first half of 2007, reflecting the adjustments TMN has been making to its roaming tariffs, ahead of EU-imposed changes at wholesale level. Blended MOU registered a slight decrease of 0.6% y.o.y, reaching 118 minutes in the first half of 2007, notwithstanding the customer base having grown by 8.4% y.o.y.

Data services Data services continued to have a positive performance, with data revenues already accounting for 14.1% of service revenues in the first half of 2007, up from 12.6% in the same period of last year. The increase in data service revenues is primarily based on non-SMS data revenues, which increased by 55.0% y.o.y and already accounting for 30.7% of total data revenues in the first half of 2007. This growth was driven by a strong performance in terms of mobile Internet and wireless broadband. The number of SMS in the first half of 2007 reached approximately 168 messages per month per active SMS user, reflecting the successful launch of a number of tariff plans targeting the youth segment. The number of active SMS users reached 45% of total customers at the end of the period.

Information society As part of TMN s commitment to the development of the information society, under the terms of the UMTS licence, TMN will coinvest with the Portuguese State in the provision of laptop computers with wireless broadband connectivity, at certain discounts, to schools, teachers, students and info-excluded individuals. These initiatives will be developed up until 2015, with the total investment, at market value, amounting up to Euro 260 million. TMN expects these initiatives to increase PC and broadband penetration in Portugal, stregthening TMN s positioning in this key segment of the market.

International market

Brazilian mobile - Vivo

Operating revenues Vivo s operating revenues, as stated in Brazilian Reais and in accordance with IFRS, increased by 13.6% y.o.y in the first half of 2007 to R$ 6,207 million, supported by the strong growth in service revenues (+22.1% y.o.y). Although the change in interconnection regime in July 2006 had a positive impact on revenues (R$ 699 million), service revenues were underpinned by customer growth and customer ARPU expansion. Excluding the impact of the end of the bill & keep interconnection regime, operating revenues would have increased by 0.8% y.o.y in the first half of 2007.

Brazilian mobile income statement (1) R$ million

	1H07	1H06	y.o.y
Operating revenues	**6,207.4**	**5,462.3**	**13.6%**
Services rendered	5,623.1	4,605.7	22.1%
Sales	479.1	732.0	(34.6)%
Other operating revenues	105.3	124.6	(15.5)%
Operating costs, excluding D&A	**4,712.0**	**4,398.1**	**7.1%**
Wages and salaries	346.0	315.6	9.6%
Direct costs	1,061.8	426.3	149.1%
Commercial costs	1,547.3	1,705.6	(9.3)%
Other operating costs	1,757.0	1,950.5	(9.9)%
EBITDA (2)	**1,495.4**	**1,064.3**	**40.5%**
EBITDA, excluding exceptional items (3)	**1,495.4**	**1,225.8**	**22.0%**
Depreciation and amortisation	1,323.2	1,374.9	(3.8)%
Income from operations (4)	**172.2**	**(310.6)**	**n.m.**
EBITDA margin	24.1%	19.5%	4.6pp
EBITDA margin, excluding exceptional items	24.1%	22.4%	1.7pp
Capex	572.7	617.1	(7.2)%
Capex as % of revenues	9.2%	11.3%	(2.1pp)
EBITDA minus Capex	922.7	447.2	106.3%

(1) Information prepared in accordance with IFRS.

(2) EBITDA = income from operations + depreciation and amortisation.

(3) Adjusts for the one-off provision related to bad debts in the amount of R$ 162 million.

(4) Income from operations = income before financials and income taxes + work force reduction programme costs + losses (gains) on disposal of fixed assets + net other costs.

EBITDA EBITDA increased by 40.5% y.o.y to R$ 1,495 million in the first half of 2007. Part of this improvement is explained by an extraordinary provision for bad debts booked in the first half of 2006 (R$ 162 million). Nevertheless, the strong underlying performance in terms of top line, combined with a strict management of costs, resulted in an EBITDA (excluding exceptionals) increase of 22.0% y.o.y. In spite of a significantly higher level of commercial activity, total subscriber and retention costs remained broadly stable over the previous year, highlighting the benefits of the GSM rollout that has improved Vivo s competitiveness in the market. In effect, unitary SARC fell by 20.6% y.o.y to R$ 109 in the first half of 2007. The reduction in other operating costs (-9.9% y.o.y) also contributed to the margin improvement in the first half. This performance was in part explained by the strict measures implemented to control bad debts (down more than 80% y.o.y) and the efficiency gains that resulted from the integration of the various operating companies, including the IT/IS platforms.

Capex Capex decreased by 7.2% y.o.y in the first half of 2007 to R$ 573 million, equivalent to 9.2% of operating revenues. Capex in the first half of 2007 was directed towards: (1) the implementation of the GSM/EDGE overlay, and (2) network coverage and quality. The GSM/EDGE network overlay was implemented in record time and already covers 96% of the municipalities with CDMA coverage. Approximately 76% of the capex related to the initial GSM/EDGE rollout, as announced in July 2006, has been already invested.

Brazilian mobile operating data (1)

	1H07	**1H06**	**y.o.y**
Customers (000) (2)	30,241	28,525	6.0%
Net additions (000)	1,187	(1,280)	n.m.
MOU (minutes)	76	68	12.2%
ARPU (R$)	29.9	24.7	21.0%
Customer	16.8	15.1	10.8%
Interconnection	13.2	9.6	37.2%
Data as % of service revenues (%)	7.5	7.4	0.1pp
SARC (R$)	109.5	137.9	(20.6)%
Employees	5,494	5,768	(4.8)%

(1) Operating data calculated using Brazilian GAAP.

(2) Includes the database adjustment, undertaken in 2Q06, of 1,823 thousand customers.

Net additions Vivo s net additions reached 1,187 thousand in the first half of 2007, underpinned by the strong level of GSM net additions, following the launch of GSM services in the the first half of 2007. As a result, total customers increased by 6.0% y.o.y to 30,241 thousand. GSM accounted for approximately 60% of total gross adds in the first half of 2007, bringing the total number of GSM customers to 3.4 million. Vivo s commercial activity in the period was centred on Mother s Day and

Valentine s Day and leveraged on a broader offer of handsets. The strengthening of Vivo s competitive position in the market allowed for an improvement in the share of net additions, which increased to approximately 35% in the areas of operation. As part of the continued focus on capturing and retaining higher value customers, Vivo also launched a new set of postpaid plans called Vivo Escolha . In terms of the brand, Vivo built on its repositioning as being the operator that provides the best network quality and the best service offering.

Data services The take-up of data services continued to grow strongly, with data revenues increasing by 20.6% y.o.y. Data as a percentage of total service revenues amounted to 7.5% in the first half of 2007. Approximately 50% of data revenues were derived from non-SMS data. Vivo has leveraged on the fact that it is the only operator using two technologies, positioning CDMA/EVDO as the best solution for mobile data. As a result, Vivo has continued to experience strong growth in its WAP and ZAP (EVDO data cards) offers.

MOU Vivo s blended MOU increased by 12.2% y.o.y in the first half of 2007 to 76 minutes, as a result of the strong growth in outgoing MOU (+28.9% y.o.y). The success of the prepaid plans, which offer bonus on-net traffic, and the new postpaid plans has underpinned the performance of outgoing MOU, particularly in terms of on-net traffic.

ARPU Vivo s blended ARPU reached R$ 29.9 in the first half of 2007, an increase of 21.0% y.o.y, primarily as a result of the change in the interconnection regime (R$ 7.9). Nevertheless, the initiatives aimed at stimulating usage had a positive impact not only on traffic but also on customer ARPU. As a result, customer ARPU increased by 10.8% y.o.y, resulting in a 5.2% y.o.y increase in underlying ARPU (excluding the impact of bill & keep).

Other international investments

Highlights of main assets in Africa, Brazil and Asia (1H07) (1) (2) thousand (customers), million (financials)

	Stake	Customers	Rev. local	y.o.y	EBITDA local (5)	y.o.y	Margin	Rev. Euro	EBITDA Euro
Médi Télécom (3)	32.18%	5,800.1	2,367.1	6.2%	980.1	2.0%	41.4%	212.2	87.9
Unitel (3)	25.00%	2,503.3	375.2	29.9%	229.5	15.8%	61.2%	281.2	172.0
CTM (3)	28.00%	494.4	1,052.1	5.6%	448.6	14.0%	42.6%	98.0	41.8
MTC (4)	34.00%	705.2	546.0	21.0%	283.6	3.0%	51.9%	57.0	29.6
CVT (4)	40.00%	193.3	3,543.1	5.9%	2,191.6	4.6%	61.9%	32.1	19.9
CST (4)	51.00%	30.7	71,982	13.5%	24,112	12.6%	33.5%	4.0	1.4
Timor Telecom (4)	41.12%	64.2	14.7	42.5%	7.4	57.0%	50.1%	11.1	5.5
UOL	29.00%	1,701.0	246.5	3.9%	81.6	30.4%	33.1%	90.6	30.0

(1) All information prepared in accordance with local GAAP.

(2) Figures account for 100% of the company. PT has management contracts in Médi Télécom, CVT and Timor Telecom.

(3) Equity consolidation method.

(4) Full consolidation method.

(5) EBITDA = income from operations + depreciation and amortisation.

Morocco - Médi Télécom

Médi Télécom revenues increased by 6.2% y.o.y in the first half of 2007 to MAD 2,367 million, while EBITDA increased by 2.0% y.o.y to MAD 980 million, reflecting the increase of marketing and publicity expenses due to the launch of 3G offer and Forza , the low cost product introduced in the period. The mobile customer base rose by 38.7% y.o.y to 5,800 thousand, with net additions in the first half of 2007 totalling 628 thousand. MOU decreased by 9.2% y.o.y in the first half of 2007 to 47 minutes. ARPU totalled MAD 71 in the first half of 2007, a decrease of 20.6% over the same period of last year, mainly due to the significant growth of the customer base.

Angola - Unitel

Unitel s revenues and EBITDA increased by 29.9% and 15.8% y.o.y respectively in the first half of 2007, underpinned by strong customer growth. Net additions totalled 455 thousand in the first half of 2007, with the total customer base reaching 2,503 thousand at the end of June 2007, an increase of 61.8% over the same period of last year. Unitel s MOU decreased by 12.3% y.o.y in the first half of 2007 to 117 minutes, due to the strong increase in the customer base. ARPU totalled USD 26 in the first half of 2007, a decrease of 23.7%.

Macao - CTM

CTM s revenues increased by 5.6% y.o.y to MOP 1,052 million in the first half of 2007, as a result of the increase in the number of mobile and broadband customers. EBITDA improved by 14.0% y.o.y to MOP 449 million in 1H07. In the mobile division, customers increased by 20.4% y.o.y to 317 thousand at the end of June 2007. CTM s mobile ARPU decreased by 12.9% y.o.y to MOP 213 in the first half of 2007, as a result of the growth in the customer base.

Namibia - MTC

MTC s revenues and EBITDA increased by 21.0% and 3.0% y.o.y respectively in the first half of 2007. Net additions totalled 95 thousand in the first half of 2007, with the total customer base reaching 705 thousand at the end of June 2007, an increase of 39.7% over the same period of last year. ARPU totalled NAD 137 in the first half of 2007, a decrease of 13.5% y.o.y, primarily as a result of the growth in the customer base in the period.

Cape Verde - CVT

CVT s revenues and EBITDA increased by 5.9% and 4.6% y.o.y respectively in the first half of 2007. In the wireline division, main lines increased by 1.8% y.o.y in the first half of 2007 to 74 thousand, as a result of the increase of the ADSL penetration. In the mobile division, customers increased by 36.4% y.o.y to 119 thousand, with net additions of 10 thousands. Mobile MOU reached 78 minutes, a decrease of 0.2% y.o.y in the first half of 2007. Mobile ARPU in the first half of 2007 was CVE 2,798, a decrease of 10.8% y.o.y.

São Tomé e Príncipe - CST

CST s revenues increased by 13.5% y.o.y to STD 71,982 million in the first half of 2007, with EBITDA growing by 12.6% y.o.y to STD 24,112 million. In the mobile division, CST added 5 thousand customers in the first half of 2007, bringing the total number of customers to 23 thousand at the end of June 2007, an increase of 53.4% y.o.y. Mobile MOU decreased by 25.4% y.o.y in the first half of 2007, reaching 60 minutes, as a result of the growth in the customer base. Mobile ARPU was STD 287 thousand in the first half of 2007, a decrease of 24.9% over the same period of last year.

East Timor - Timor Telecom

Timor Telecom s revenues and EBITDA increased by 42.5% and 57.0% y.o.y respectively, mainly as a result of the increase in the number of mobile customers, as well as the growth of roamers revenues. In the mobile division, Timor Telecom had net additions of 13 thousand in the first half of 2007, increasing the total customer base to 62 thousand at the end of June 2007, an increase of 66.0% y.o.y. Mobile MOU decreased by 1.7% y.o.y, reaching 103 minutes. Mobile ARPU was USD 35 in the first half of 2007, a decrease of 1.2% over the same period of last year.

Brazil - UOL

UOL s revenues increased by 3.9% y.o.y to R$ 247 million in the first half of 2007, as a result of the growth in the customer base and in advertising revenues. EBITDA increased by 30.4% y.o.y to R$ 82 million in the first half of 2007, corresponding to an EBITDA margin of 33.1%, underpinned by the strong growth in brand advertising and subscription revenues coupled with a strict cost control. UOL s subscriber base totalled 1,701 thousand at the end of June 2007, including 915 thousand broadband customers, which represented an increase of 31% over the same period of last year. In June 2007, page views and unique visitors increased by 17% and 36% y.o.y respectively.

Employees

Number of employees and productivity ratios

	30 June 2007	30 June 2006	y.o.y	y.o.y
Domestic employees	**11,084**	**11,853**	**(769)**	**(6.5)%**
Wireline	6,979	7,723	(744)	(9.6)%
Domestic mobile TMN	1,126	1,165	(39)	(3.3)%
Other	2,979	2,965	14	0.5%
International employees	**20,140**	**18,330**	**1,810**	**9.9%**
Brazilian mobile Vivo (1)	2,747	2,884	(137)	(4.8)%
Other	17,393	15,446	1,947	12.6%
Total group employees	**31,224**	**30,183**	**1,041**	**3.4%**
Fixed lines per employee	**622**	**574**	**48**	**8.4%**
Mobile cards per employee				
TMN	5,163	4,603	561	12.2%
Vivo	5,504	4,945	559	11.3%

(1) The number of employees in the Brazilian mobile business corresponds to 50% of the employees of Vivo.

At the end of June 2007, the number of staff employed by PT totalled 31,224 employees, of which 35.5% were based in Portugal. In the wireline business, the ratio of fixed lines per employee improved by 8.4% y.o.y in the first half of 2007 to 622 lines, reflecting the ongoing workforce rationalisation programme, while in TMN the ratio of mobile cards per employee rose by 12.2% to 5,163 cards. At the end of June 2007, the total number of staff employed by Vivo decreased by 4.8% y.o.y to 5,494 employees, with the ratio of mobile cards per employee increasing by 11.3% to 5,504 cards.

As part of the cost rationalisation programme, PT continued with its workforce reduction programme, with headcount decreasing by 253 employees in the first half of 2007, of which 202 in Wireline business.

First half key events and recent developments

Shareholder remuneration

27 April PT s shareholders approved at the AGM the following proposals related to the shareholder remuneration package:

The payment of a cash dividend of Euro 0.475 per share for the fiscal year 2006. The dividend was paid on 18 May 2007.

The free attribution (spin-off) of all the ordinary shares of PT Multimedia held by PT to its shareholders. Accordingly, each shareholder will receive a number of shares of PT Multimedia equal to the number of shares of PT held at the time of the spin-off multiplied by a 0.16 ratio, rounded down, which is equivalent to 4 PT Multimedia shares for each 25 PT shares.

The acquisition of own shares, in connection with the share buyback programme announced. Following this approval, as at the date of this report, PT has contracted with several financial institutions equity swap agreements over a total of 101,237,196 shares, representing 8.97% of PT s share capital.

Share capital

27 April PT s shareholders approved at the AGM a share capital increase to Euro 474,119,730, to be carried out by means of incorporation of legal reserve in the amount of Euro 79,019,955. At the same meeting, the shareholders approved a share capital reduction in the amount of Euro 440,254,035 to Euro 33,865,695, to be carried out through a reduction in the par value of PT shares to 3 cents.

22 May PT executed the public deed for the referred share capital increase and reduction operations, with the resulting share capital amounting to Euro 33,865,695, comprised by 1,128,856,500 shares with a par value of 3 cents each.

Acquisition of Telemig Participações and Tele Norte Participações

3 August Vivo announced the signature of a stock purchase agreement with Telpart Participações to acquire control of Telemig Celular Participações and Tele Norte Celular Participações, corresponding to 22.72% and 19.34% of total share capital respectively, for an aggregate amount of R$ 1.2 billion. Assuming full acceptance of all mandatory and voluntary offers, Vivo will have acquired a beneficial interest of 58.2% in Telemig Celular and 54.6% in Amazônia Celular, for an aggregate consideration of circa R$ 2.9 billion (including the value of the subscription rights of R$ 87 million to be acquired from Telpart). With this transaction Vivo adds two attractive assets to its portfolio reaffirming its leadership in the wireless market with 35 million subscribers and a 33% national market share.

Debt

5 March Moody s confirmed its rating for PT at Baa2, with stable outlook, following the failure of the tender offer. Fitch Ratings also confirmed its rating for PT at BBB, with negative outlook.

16 March Standard & Poor s confirmed its rating for PT at BBB-, with stable outlook, following the failure of the tender offer.

3 July PT successfully issued a Euro 750 million exchangeable bond with a maturity of 7 years. The coupon was fixed at 4.125% and the exchange price at Euro 13.9859.

Corporate bodies

2 March Approval at the Shareholders Meeting of the election of the Vice-Chairman of the General Meeting of Shareholders, Daniel Proença de Carvalho, and of the Secretary of the General Meeting of Shareholders, Francisco Leal Barona, following the termination of the term of office of the former holders of these positions, as well as the ratification of the appointment of the Director, Nuno Rocha dos Santos de Almeida, to complete the 2006/2008 term of office in both cases.

22 June Approval at the Shareholders Meeting of the following proposals:

Amendment to the articles of association of PT in light of the amendments to the Portuguese Companies Code, which, notably, aims at the implementation of the Anglo-Saxon governance model in PT, with the Company s supervision to be carried out by an Audit Committee composed of members of the Board of Directors and by a statutory auditor.

Change in the composition of the Board of Directors from 21 to 23 members and election of Rafael Mora Funes and José Xavier de Basto as members of the Board of Directors to complete the 2006-2008 term-of-office.

Election of the directors João Mello Franco (Chairman), Thomaz Paes de Vasconcellos and José Xavier de Basto as members of the Audit Committee for the 2006-2008 term of office.

Election of the company P. Matos Silva, Garcia Jr., P. Caiado & Associados, SROC, represented by Pedro Matos Silva as Statutory Auditor, and of the company Ascenção, Gomes, Cruz & Associado - SROC, represented by Mário Gomes as alternate Statutory Auditor, for the 2006-2008 term of office.

Election of Eduardo Vera-Cruz Pinto as the new Vice-Chairman of the General Meeting of Shareholders, following the resignation of the former Vice-Chairman, to complete the 2006-2008 term of office.

Election of Álvaro Pinto Correia, João Mello Franco and Francisco Esteves de Carvalho as members of the Compensation Committee in substitution of the resigning members.

Competition Authority fine

2 August The Portuguese Competition Authority sanctioned PT for alleged abuse of dominant position by refusing to provide access to its ducts and applied a fine of Euro 38 million. Supported by legal opinions, PT has decided not to accrue for this contingency, as it considers that the outcome will be ultimately favourable for PT.

Public tender offer

12 January PT published an update to the report of the Board of Directors regarding the public tender offer announced by Sonaecom. On the same date, PT was notified by the CMVM of its decision to register the offer.

20 February PT published an update to the report of the Board of Directors, following the revision of the offer price announced by Sonaecom on 15 February 2007.

27 February PT issued a clarification on the shareholder remuneration package included in the update to the Board of Directors report on the revision of the offer price published on 20 February 2007.

1 March Following the amendment to the prospectus on the tender offer launched by Sonaecom SGPS and Sonaecom BV, the Board of Directors of PT considered that the offerors amendments to the prospectus did not change the consideration and terms of the revised offer that has been announced, only clarified the conditions of the financing of the offer, namely the sale of assets and the allocation of PT s results through dividends to service the debt assumed by the offerors. Therefore, the Board of Directors reiterated the position and the commitments expressed in its report of 20 February 2007.

2 March PT s shareholders rejected, by the majority of the votes cast at the general meeting, the proposal related to the removal of the voting limitation in the bylaws of the Company, whose approval was a condition of the tender offer launched by Sonaecom. Thus, and in accordance with the understanding of the

Portuguese Securities Commission (CMVM), the tender offer launched by Sonaecom for PT and PT Multimedia shares, and their effects, have lapsed.

Lisbon, 21 September 2007.

The Board of Directors

PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED INCOME STATEMENT

SIX MONTHS PERIODS ENDED 30 JUNE 2007 AND 2006

(Amounts stated in Euro)

	Notes	2007	2006
CONTINUED OPERATIONS			
REVENUES			
Services rendered	6	2,747,742,700	2,556,794,627
Sales	6	167,468,510	208,284,238
Other revenues	6	40,584,052	40,607,736
		2,955,795,262	**2,805,686,601**
COSTS, EXPENSES, LOSSES AND (INCOME)			
Wages and salaries	8	322,613,187	332,229,740
Post retirement benefits	9	(17,298,216)	23,940,500
Direct costs	10	428,105,234	312,647,921
Costs of products sold	11	276,366,840	285,985,046
Support services		101,953,752	104,418,534
Marketing and publicity		65,381,821	65,242,548
Supplies and external services	12	458,893,356	453,105,204
Indirect taxes	14	97,341,072	89,939,216
Provisions and adjustments	38	75,611,650	142,624,027
Depreciation and amortisation	32 and 33	540,605,368	557,151,050
Work force reduction program costs	9	84,432,992	25,048,991
Losses on disposals of fixed assets, net		11,706,841	(433,158)
Other costs, net	15	14,936,043	20,160,368
		2,460,649,940	**2,412,059,987**
Income before financial results and taxes		**495,145,322**	**393,626,614**
Net interest expense		90,850,738	110,660,509
Net foreign currency exchange gains		(2,635,303)	(1,628,109)
Losses (gains) on financial assets, net	16	(142,384,175)	12,801,863
Equity in earnings of associated companies, net	30	(52,869,542)	(45,611,963)
Net other financial expenses	17	17,897,155	29,662,109
		(89,141,127)	**105,884,409**
Income before taxes		**584,286,449**	**287,742,205**
Minus: Income taxes	18	141,098,400	(65,394,913)
Net income from continued operations		**443,188,049**	**353,137,118**
DISCONTINUED OPERATIONS			

Net income from discontinued operations	19	28,639,541	45,174,093
NET INCOME		**471,827,590**	**398,311,211**
Attributable to minority interests	20	42,742,980	(3,225,416)
Attributable to equity holders of the parent	**22**	**429,084,610**	**401,536,627**
Earnings per share from continued operations			
Basic	22	0.38	0.34
Diluted	22	0.38	0.33
Earnings per share from total operations			
Basic	22	0.39	0.36
Diluted	22	0.39	0.35

The accompanying notes form an integral part of these financial statements.

PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED BALANCE SHEET

30 JUNE 2007 AND 31 DECEMBER 2006

(Amounts stated in Euro)

	Notes	30 Jun 07	31 Dec 06
ASSETS			
Current Assets			
Cash and cash equivalents		462,982,493	548,464,617
Short-term investments	23	888,426,845	1,535,233,729
Accounts receivable - trade	24	1,195,594,867	1,181,912,412
Accounts receivable - other	25	192,056,226	218,912,177
Inventories	26	152,133,928	130,280,564
Taxes receivable	27	175,099,938	211,747,572
Prepaid expenses	28	126,599,888	121,714,749
Other current assets	29	89,858,639	50,405,004
Total current assets		**3,282,752,824**	**3,998,670,824**
Non-Current Assets			
Accounts receivable - trade	24	13,402,844	916,813
Accounts receivable - other	25	5,777,362	15,237,939
Taxes receivable	27	131,952,465	124,531,128
Prepaid expenses		3,859,574	2,628,424
Investments in group companies	30	485,209,936	499,098,279
Other investments	31	34,805,831	132,391,079
Intangible assets	7.d and 32	3,165,277,091	3,490,881,263
Tangible assets	7.d and 33	3,566,292,220	3,942,033,190
Post retirement benefits	9	123,363,052	134,060,519
Deferred taxes	18	983,297,937	1,167,007,154
Other non-current assets	29	566,963,551	663,792,688
Assets related to discontinued operations	7.d and 19	1,105,918,714	
Total non-current assets		**10,186,120,577**	**10,172,578,476**
Total assets		**13,468,873,401**	**14,171,249,300**
LIABILITIES			
Current Liabilities			
Short-term debt	34	1,372,617,103	1,372,724,030
Accounts payable	35	889,351,668	1,115,089,223
Accrued expenses	36	533,582,348	680,217,532
Deferred income	37	216,509,040	215,738,311
Taxes payable	27	302,962,039	316,962,828
Provisions	38	130,325,371	105,151,491
Other current liabilities	39	125,869,815	82,495,889
Total current liabilities		**3,571,217,384**	**3,888,379,304**
Non-Current Liabilities			
Medium and long-term debt	34	4,259,239,452	4,467,537,132
Taxes payable	27	39,472,776	25,787,484
Deferred income	37	14,024,974	380,097
Provisions	38	105,020,955	102,633,567

Post retirement benefits	9	1,378,597,016	1,807,570,587
Deferred taxes	18	69,541,104	90,377,817
Other non-current liabilities	39	593,372,578	682,545,374
Liabilities related to discontinued operations	7.d and 19	549,665,191	
Total non-current liabilities		**7,008,934,046**	**7,176,832,058**
Total liabilities		**10,580,151,430**	**11,065,211,362**
SHAREHOLDERS EQUITY			
Share capital	40	33,865,695	395,099,775
Treasury shares	40	(776,772,019)	(187,612,393)
Legal reserve	40	6,773,139	82,706,881
Accumulated earnings	40	2,739,107,187	1,965,055,467
Equity excluding minority interests		**2,002,974,002**	**2,255,249,730**
Minority interests	20	885,747,969	850,788,208
Total equity		**2,888,721,971**	**3,106,037,938**
Total liabilities and shareholders equity		**13,468,873,401**	**14,171,249,300**

The accompanying notes form an integral part of these financial statements.

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PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

SIX MONTHS PERIODS ENDED 30 JUNE 2007 AND 2006

(Amounts stated in Euro)

	Notes	2007	2006
Income and expenses recognised directly in shareholders equity			
Post-retirement benefits			
Net actuarial gains	9.6	321,609,170	247,232,776
Tax effect	18	(85,226,430)	(67,556,356)
Financial instruments and investments			
Hedge accounting (i)	41	(4,766,775)	17,902,619
Investments available for sale:			
Changes in fair value	31	15,093,348	(2,575,305)
Transferred to profit and loss on sale	16	(35,698,600)	
Tax effect	18	7,349,740	(4,215,011)
Foreign currency translation adjustments (ii)		207,838,465	(40,137,433)
Other expenses recognised directly in shareholders equity, net (iii)		(1,892,814)	(3,688,099)
		424,306,104	**146,963,191**
Income recognised in the consolidated income statement		**471,827,590**	**398,311,211**
Total income recognised		**896,133,694**	**545,274,402**
Attributable to minority interests		42,742,980	(3,225,416)
Attributable to equity holders of the parent		**853,390,714**	**548,499,818**

(i) In the first half of 2007 and 2006, this item includes a cost of Euro 9 million and a gain of Euro 2 million, respectively, which were transferred to the income statement due to its receivable and payment. In addition to these amounts, this caption includes gains of Euro 4 million and Euro 16 million in the first half of 2007 and 2006, respectively, related to the changes in the fair value of these derivatives, in connection with the increase in market interest rates.

(ii) The gain recorded in the first half of 2007 is mainly related to the appreciation of the Real against the Euro from 2.8118 as at 31 December 2006 to 2.6024 as at 30 June 2007, while losses recorded in the first half of 2006 are basically related with the devaluation of the Real against the Euro from 2.744 as at 31 December 2005 to 2.7829 as at 30 June 2006.

(iii) This caption includes mainly other gains or losses recognised directly in shareholders equity, as well as current income tax related to those and other gains or losses recognised directly in shareholders equity. In the first half of 2007 and 2006, current income taxes recognised directly in shareholders equity amounted to Euro 4,437,430 and Euro 2,667,726, respectively (Note 27), and are related to the tax effect on the dividends received from the equity swaps over PT s own shares.

The accompanying notes form an integral part of these financial statements.

PORTUGAL TELECOM, SGPS, SA

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTHS PERIODS ENDED 30 JUNE 2007 AND 2006

(Amounts stated in Euro)

	Notes	2007	2006
OPERATING ACTIVITIES			
Collections from clients		3,398,921,350	3,289,356,537
Payments to suppliers		(1,752,863,314)	(1,687,127,370)
Payments to employees		(355,859,645)	(380,282,560)
Payments relating to indirect taxes and other	43.a	(304,473,149)	(276,887,441)
Payments relating to post retirement benefits	9	(161,344,169)	(434,611,066)
Payments relating to income taxes	43.b	(107,762,732)	(20,853,879)
Cash flow from operating activities from continued operations		716,618,341	489,594,221
Cash flow from operating activities from discontinued operations	19	126,527,500	106,115,849
Cash flow from operating activities (1)		**843,145,841**	**595,710,070**
INVESTING ACTIVITIES			
Cash receipts resulting from			
Short-term financial applications	43.c	8,768,489,704	12,250,416,140
Financial investments	43.d	115,298,232	
Tangible and intangible assets		4,862,109	4,398,230
Interest and related income		99,677,026	136,829,625
Dividends	43.e	38,026,820	13,246,119
Other investing activities	43.f	127,003,463	27,902,978
		9,153,357,354	12,432,793,092
Payments resulting from			
Short-term financial applications	43.c	(8,121,682,820)	(10,172,017,196)
Financial investments	43.g	(1,196,622)	(34,491,057)
Tangible fixed assets		(400,270,030)	(337,359,253)
Other investing activities		(12,988,885)	(21,699,682)
		(8,536,138,357)	(10,565,567,188)
Cash flow from investing activities related to continued operations		617,218,997	1,867,225,904
Cash flow from investing activities related to discontinued operations	19	(46,364,829)	(72,524,912)
Cash flow from investing activities (2)		**570,854,168**	**1,794,700,992**
FINANCING ACTIVITIES			
Cash receipts resulting from			
Loans obtained	43.h	6,447,022,308	5,493,662,944
Subsidies		984,420	1,379,363
Other financing activities		430,649	92,069
		6,448,437,377	5,495,134,376
Payments resulting from			
Loans repaid	43.h	(7,088,053,295)	(7,202,751,303)
Lease rentals (principal)		(7,554,596)	(5,639,327)
Interest and related expenses		(290,388,184)	(384,603,373)
Dividends	43.i	(529,015,031)	(530,382,158)
Other financing activities	43.j	(23,344,540)	(64,574,270)
		(7,938,355,646)	(8,187,950,431)

Cash flow from financing activities related to continued operations		(1,489,918,269)	(2,692,816,055)
Cash flow from financing activities related to discontinued operations	19	5,994,601	(41,024,316)
Cash flow from financing activities (3)		**(1,483,923,668)**	**(2,733,840,371)**
Change in cash and cash equivalents (4)=(1)+(2)+(3)		**(69,923,659)**	**(343,429,309)**
Effect of exchange differences		**21,107,165**	**2,216,941**
Cash and cash equivalents at the beginning of the period		**548,464,617**	**612,158,485**
Cash and cash equivalentes from continued operations		462,982,493	270,946,117
Cash and cash equivalentes from discontinued operations		36,665,630	
Cash and cash equivalents at the end of the period		**499,648,123**	**270,946,117**

The accompanying notes form an integral part of these financial statements.

Portugal Telecom, SGPS, SA

Notes to the Consolidated Financial Statements

As at 30 June 2007

(Amounts stated in Euros, except where otherwise stated)

1. Introduction

a) Parent company

Portugal Telecom, SGPS, SA (formerly Portugal Telecom, SA, Portugal Telecom) and subsidiaries (Group , Portugal Telecom Group , or the Company), are engaged in rendering a comprehensive range of telecommunications and multimedia services in Portugal and other countries, including Brazil.

Portugal Telecom was incorporated on 23 June 1994, under Decree-Law 122/94, as a result of the merger, effective 1 January 1994, of Telecom Portugal, SA (Telecom Portugal), Telefones de Lisboa e Porto (TLP), SA (TLP) and Teledifusora de Portugal, SA (TDP). On 12 December 2000, Portugal Telecom, SA changed its name to Portugal Telecom, SGPS, SA, and became the holding company of the Group.

As a result of the privatization process, between 1 June 1995 and 4 December 2000, Portugal Telecom s share capital is mainly owned by private shareholders. On 30 June 2007, the Portuguese State owned, directly or indirectly, 7.75% of the total ordinary shares and all of the A Shares (Note 40.1) of Portugal Telecom.

The shares of Portugal Telecom are traded on the Euronext Lisbon Stock Exchange and on the New York Stock Exchange.

b) Corporate purpose

Continued operations

Portugal Telecom Group is engaged in rendering a comprehensive range of telecommunications services in Portugal and abroad, including Brazil.

In Portugal, fixed line services are rendered by PT Comunicações, SA (PT Comunicações), under the provisions of the Concession Agreement entered into with the Portuguese State on 20 March 1995 in accordance with Decree-Law 40/95, for an initial period of thirty years, subject to renewal for subsequent periods of fifteen years. On 11 December 2002, according to the terms of the Modifying

Agreement to the Concession Contract, PT Comunicações acquired the property of the Basic Network of Telecommunications and Telex (Basic Network).

Data transmission services are rendered through PT Prime - Soluções Empresariais de Telecomunicações e Sistemas, SA (PT Prime), which is also an Internet Service Provider (ISP) for large clients.

ISP services for residential clients are rendered through PT.com - Comunicações Interactivas, SA (PT.com), which also provides services relating to the conception, design and exhibit of publicity and information space on Internet portals.

Mobile services in Portugal are rendered by TMN - Telecomunicações Móveis Nacionais, SA (TMN), under a GSM license granted by the Portuguese State in 1992 (period of 15 years), renewed in 2006 until 16 March 2022, and a UMTS license obtained in 19 December 2000 (period of 15 years).

In Brazil, the Group renders mobile telecommunications services through Brasilcel NV (Brasilcel or Vivo), a joint venture incorporated in 2002 by Portugal Telecom (through PT Móveis, SGPS, SA - PT Móveis) and Telefónica (through Telefónica Móviles, SA) to join the mobile operations of each group. Currently, Brasilcel, through its company Vivo, SA, provides mobile services in the Brazilian states of São Paulo, Paraná, Santa Catarina, Rio de Janeiro, Espírito Santo, Bahia, Sergipe, Rio Grande do Sul, and eleven states in the Midwestern and Northern regions of Brazil. On July 2007, Vivo has signed a stock purchase agreement with Telpart Participações S.A. (Telpart) to acquire control of Telemig Celular Participações S.A. (Telemig Participações) and Tele Norte Celular Participações S.A. (Tele Norte Participações), mobile operators in the Brazilian State of Minas Gerais and in the region of Amazónia.

Discontinued operations

PT Multimédia - Serviços de Telecomunicações e Multimédia, SGPS, SA (PT Multimedia) is the Group s subsidiary for multimedia operations. Through its subsidiary TV Cabo Portugal, SA (TV Cabo), PT Multimedia renders cable and satellite television services and voice and internet access services in mainland Portugal, Madeira and Azores. PT Multimedia also renders other multimedia services in Portugal, namely the editing and selling of DVD and movies through Lusomundo Audiovisuais, SA (Lusomundo Audiovisuais) and the distribution and exhibition of movies through Lusomundo Cinemas, SA (Lusomundo Cinemas). At the last Annual General Meeting of Portugal Telecom held on 27 April 2007, it was approved the free allotment (spin-off) of all ordinary shares of PT Multimedia held by Portugal Telecom to its shareholders. Pursuant to this decision, the assets, liabilities and results of this business were presented in the consolidated financial statements under the caption Discontinued operations (Note 19).

The consolidated financial statements for the six months period ended 30 June 2007 were approved by the Board of Directors and authorized for issue on 21 September 2007.

2. Basis of presentation

Consolidated financial statements are presented in Euros, which is the currency of the majority of the Portugal Telecom s operations. Financial statements of foreign subsidiaries are translated to Euros according to the accounting principles described in Note 3.q).

The consolidated financial statements of Portugal Telecom are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and include all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as at 30 June 2007. For Portugal Telecom, there are no differences between IFRS as adopted by the EU and IFRS published by the International Accounting Standards Board.

Consolidated financial statements have been prepared assuming the continuity of operations, based on the accounting records of all subsidiaries (Exhibit I).

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported periods (Note 3).

a) Consolidation principles

Controlled entities

Portugal Telecom has fully consolidated the financial statements of all controlled entities. Control is achieved where the Group has the majority of the voting rights or has the power to govern the financial and operating policies of an entity. In any case, where the Group does not have the majority of the voting rights but in substance controls the entity, the financial statements of the entity are fully consolidated (See Exhibit I).

The interest of any third party in the equity and net income of fully consolidated companies is presented separately in the consolidated balance sheet and consolidated income statement, under the caption Minority interests (Note 20).

Losses applicable to the minorities in excess of the minority s interest in the subsidiary s equity are allocated against the interest of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Any future gains reported by the subsidiary are allocated against the interest of the Group, until the excess losses recognised by the Group are covered.

From 1 January 2004, assets, liabilities and contingent liabilities of an acquired subsidiary are measured at fair value at acquisition date. Any excess amount to the identifiable net assets is recognised as goodwill. If the acquisition cost is lower than the fair value of identifiable net assets acquired, the difference is recognised as a gain in the net income for the period the

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acquisition occurs. Minority interests are presented proportionally to the fair value of identifiable net assets.

The results of subsidiaries acquired or disposed during the period are included in the consolidated income statement from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in the consolidation process. Gains obtained in intra-group transactions are also eliminated in the consolidation process.

Where necessary, adjustments are made to the financial statements of subsidiaries to adjust their accounting policies in line with those adopted by the Group.

Interests in joint ventures

Portugal Telecom has proportionally consolidated the financial statements of jointly controlled entities beginning on the date the joint control is effective. Under this method, assets, liabilities, income and expenses of the entity are added, on a proportional basis, to the corresponding consolidated caption. Financial investments are classified as jointly controlled entities if the joint control agreement clearly demonstrates the existence of joint control.

All transactions and balances with jointly controlled entities are eliminated to the extent of the Group s interest in the joint venture.

Jointly controlled entities are presented in Exhibit III.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the entity but not to control or jointly control those policies.

Financial investments in associated companies are accounted for under the equity method (Exhibit II). Under this method, investments in associated companies are carried in the consolidated balance sheet at cost, adjusted periodically for the Group s share in the results of the associated company, recorded as part of financial results under the caption Equity in earnings and losses of associated companies (Note 30). In addition, financial investments are adjusted for any impairment losses that may occur.

Losses in associated companies in excess of the cost of acquisition are not recognised, except where the Group has assumed any commitment to cover those losses.

Any excess of the cost of acquisition over the Group s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of

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acquisition is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed annually for impairment as part of the investment. If the acquisition cost is lower than the fair value of identifiable net assets, the difference is recorded as a gain in the net income for the period the acquisition occurs.

Dividends received from associated companies are recorded as a reduction in the value of financial investments.

Profits and losses occurring in transactions with associated companies are eliminated to the extent of the Group s interest in the associate, and recorded against the corresponding financial investment.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale or as discontinued operation when the asset or the group of assets will be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets will be transferred in the transaction. This condition is regarded as met, only when: (i) the subject transaction is highly probable and the asset or group of assets are available for immediate sale or to be transferred in its present condition; (ii) the Group has assumed a commitment to the subject of transaction; and (iii) the transaction is expected to be completed within one year. Non-current assets classified as held for sale are measured at the lower of the assets previous carrying amount or the fair value less costs to sell.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, jointly controlled or associated entity recognised at the date of acquisition, in accordance with IFRS 3. Considering the exception of IFRS 1, the Group used the provisions of IFRS 3 only for acquisitions that occurred after 1 January 2004. Goodwill related to acquisitions made up to 1 January 2004 was recorded at the carrying amount of those acquisitions as of that date, and is subject to annual impairment tests thereafter.

Goodwill related to foreign investments is carried at the reporting currency of the investment, being translated to Euros at the exchange rate prevailing at the balance sheet date. Exchange gains or losses are recognised in the Statement of Recognised Income and Expenses under the caption Cumulative foreign currency translation adjustments .

Goodwill related to associated companies is recognised under the caption Investments in group companies (Note 30) and goodwill related to subsidiaries and jointly controlled entities is recognized under the caption Intangible assets (Note 32). Goodwill is not amortised, but tested, on an annual basis, for impairment losses, which are recognised in net income in the period they occur, and cannot be reversed in a subsequent period.

On disposal of a subsidiary, jointly controlled entity or associate, the goodwill allocated to that investment is included in the determination of the gain or loss on disposal.

b) Changes in the consolidated Group

During 2006 the main change in the consolidation Group was the inclusion of Mobile Telecommunications Limited (MTC), following the acquisition of a 34% stake in the share capital of this company in September 2006. In connection with this transaction, Portugal Telecom entered into an agreement with the remaining shareholders of MTC, under which Portugal Teleocm has the power to set and control the financial and operating policies of this company. Accordingly, Portugal Telecom consolidated MTC s assets, liabilities and results as from the date the control has been transferred. PT s consolidated financial statements include MTC s assets and liabilities as at 30 June 2007 and 31 December 2006 and its results in the six months period ended 30 June 2007.

During the first half of 2007, there were no significant changes in the consolidated Group.

3. Summary of significant accounting policies, judgments and estimates

a) Current classification

Assets to be realized and liabilities to be settled within one year from the date of the balance sheet are classified as current.

b) Inventories

Inventories are stated at average acquisition cost. An adjustment to the carrying value of inventories is recognised when the net realizable value is lower than the average cost, recorded in net income of the period the loss occurs under the caption Cost of products sold . Usually these losses are related to technological obsolescence and lower rotation.

c) Tangible assets

Tangible assets are stated at acquisition cost, net of accumulated depreciation, accumulated impairment losses, if any, and investment subsidies. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets (Notes 3.g and 38). Under the exception of IFRS 1, revaluation of tangible assets made in accordance with Portuguese legislation applying monetary indices, prior to 1 January 2004, was not adjusted and was included as the deemed cost of the asset for IFRS purposes.

Tangible assets are depreciated on a straight-line basis from the month they are available for use, during its expected useful life. The amount of the asset to be depreciated is reduced by any residual estimated value. The depreciation rates correspond to the following estimated average economic useful lives:

	Years
Buildings and other constructions	3 - 50
Basic equipment:	
Network installations and equipment	4 - 20
Switching equipment	5 - 10
Telephones, switchboards and other	5 - 10
Submarine cables	15 - 20
Satellite stations	15
Other telecommunications equipment	3 - 10
Other basic equipment	4 - 20
Transportation equipment	4 - 8
Tools and dies	4 - 10
Administrative equipment	3 - 10
Other tangible fixed assets	3 - 10

Estimated losses resulting from the replacement of equipments before the end of their economic useful lives are recognised as a deduction to the corresponding asset s carrying value, against results of the period, as well as any impairment of these assets. The cost of recurring maintenance and repairs is charged to net income as incurred. Costs associated with significant renewals and betterments are capitalized if any future economic benefits are expected and those benefits can be reliably measured. Depreciation periods correspond to the period of the expected benefits.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in the income statement under the caption Losses and gains on disposals of fixed assets, net when occurred.

d) Intangible assets

Intangible assets are stated at acquisition cost, net of accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised only if any future economic benefits are expected and those benefits as well as the cost of the asset can be reliably measured.

Intangible assets include mainly goodwill (Note 2.a), telecommunications licenses and related rights and software licenses.

Internally-generated intangible assets, namely research and development expenditures, are recognised in net income when incurred. Development expenditures can only be recognised initially as an intangible asset if the Company demonstrates the ability to complete the project and put the asset in use or make it available for sale.

Intangible assets, except goodwill, are amortised on a straight-line basis from the month they are available for use, during the following periods:

Telecommunications licenses:

Band A and Band B licenses held by Vivo	Period of the license
Property of the Basic Network held by PT Comunicações	Period of the concession (until 2025)
UMTS license owned by TMN	Period of the license (until 2015)
Software licenses	3 - 6
Other intangible assets	3 - 8

As a result of the application of the purchase price allocation methodology to the acquisition of MTC, undertaken at the end of 2006, Portugal Telecom has identified an intangible asset related to the agreement entered into with the other shareholders of MTC, which allows Portugal Telecom to control

this company. This agreement does not have a definite useful life and therefore this intangible asset is not amortized but is subject to annual impairment tests.

e) Investment property

Investment property includes primarily buildings and land held to earn rentals and/or capital appreciation, and not for use in the normal course of the business (exploration, service render or sale).

Investment property is stated at its acquisition cost plus transaction costs and reduced by accumulated depreciation and accumulated impairment losses, if any. Expenditures incurred (maintenance, repairs, insurance and real estate taxes) and any income obtained are recognised in income statement of the period.

f) Impairment of tangible and intangible assets, excluding goodwill

The Group performs impairment tests for its tangible and intangible assets if any event or change results in an indication of impairment. In case of any such indication, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The primary cash-generating units identified in the Group correspond to the wireline, mobile and multimedia (classified as a discontinued operation) businesses in Portugal and mobile in Brazil. The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing fair value less cost to sell, the amount that could be received from an independent entity is considered, reduced by direct costs related with the sale. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognised immediately in the profit and loss statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in net income.

g) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where any of the above mentioned criteria does not exist, or is not accomplished, the Group discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions for restructuring are only recognised if a detail and formal plan exists and if the plan is communicated to the related parties.

Provisions for dismantling and removal costs are recognised from the day the assets are in use and if a reliable estimate of the obligation is possible (Notes 3.c) and 38). The amount of the provision is discounted, being the corresponding effect of time recognised in net income, under the caption Net interest expense .

Provisions are updated on the balance sheet date, considering the best estimate of the Group s management.

h) Pension benefits

Under several defined benefit plans, PT Comunicações, PT Sistemas de Informação, SA (PT SI) and DCSI Dados, Comunicações e Soluções Informáticas, Lda (DCSI) are responsible to pay to a group of employees a pension or a pension supplement. In order to fund these obligations, various pension funds were incorporated by PT Comunicações (Note 9.1).

The amount of the Group s liabilities with respect to pensions and pension supplements is estimated based on actuarial valuations, using the Projected Unit Credit Method . The Group has elected to apply the option in IAS 19 to recognise actuarial gains and losses directly in shareholders equity.

Prior years service gains or losses related to vested rights are recognised when they occur and those related to unvested rights are recognised on a straight-line basis until they become vested, which usually corresponds to the retirement date.

Pension and pension supplement liabilities stated in the balance sheet correspond to the difference between the Projected Benefit Obligation (PBO) related to pensions deducted by the fair value of pension fund assets and any prior years service gains or losses not yet recognised.

Contributions made by the Group to defined contribution pension plans are recognised in net income when incurred.

i) Post retirement health care benefits

Under a defined benefit plan, PT Comunicações, PT SI and DCSI are responsible to pay, after the retirement date, health care expenses to a group of employees and relatives. This health care plan is managed by Portugal Telecom - Associação de Cuidados de Saúde (PT-ACS). In 2004, the Group established PT Prestações - Mandatária de Aquisições e Gestão de Bens, SA (PT Prestações) to manage an autonomous fund to finance these obligations (Note 9.2).

The amount of the Group s liabilities with respect to these benefits after retirement date is estimated based on actuarial valuations, using the Projected Unit Credit Method . The Group has elected to apply the option in IAS 19 to recognise actuarial gains and losses directly in shareholders equity.

Prior years service gains or losses related to vested rights are recognised when occur. Otherwise they are recognised on a straight-line basis until they become vested, which usually corresponds to the retirement date.

Accrued post retirement health care liabilities stated in the balance sheet correspond to the present value of obligations from defined benefit plans, deducted by the fair value of fund assets and any prior years service gains or losses not yet recognised.

j) Pre-retirement, early retirement and suspended employees

The Group recognizes a liability for the payment of salaries up to the date of retirement and for pensions, pension supplements and health care expenses after that date, in relation to all employees that are under a suspended contract agreement, or that have pre-retired or early retired. This liability is recognised in the net income under the caption Curtailment costs, net when the Group signed the suspended contracts, or allows for pre-retirement or early retirement (Note 9).

k) Grants and subsidies

Grants and subsidies from the Portuguese Government and from the European Union are recognised at fair value when the receivable is probable and the Company can comply with all requirements of the subsidy s program.

Grants and subsidies to training and other operating activities are recognised in net income when the related expenses are recognised.

Grants and subsidies to acquire assets are deducted from the carrying amount of the related assets.

l) Financial assets and liabilities

Financial assets and liabilities are recognised on the Group s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Loans and receivables (Notes 24 and 25)

Trade receivables, loans granted and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables or loans granted.

Trade receivables do not have any implicit interest and are presented at nominal value, net of allowances for estimated non-recoverable amounts, which are computed basically based on (a) the aging of the receivables and (b) the credit profile of specific customers.

(ii) Investments (Note 31)

Financial investments, excluding controlled entities, associated entities and interests in joint ventures, are classified as: held to maturity, available for sale or financial assets carried at fair value through profit and loss.

Held to maturity investments are classified as non-current assets, except for those whose maturity date occurs within the next 12 months from the balance sheet date. This caption includes all investments with a defined maturity if the Group intends and has the ability to hold them until that date. **Available for sale investments** are those related to listed shares held by the Group that are traded in a quoted market and for which the Company does not have a strategic interest. Available for sale investments are classified as non-current assets (Note 31). Portugal Telecom carries **financial assets at fair value through profit and loss** for those investments held specifically for trading purposes.

All acquisitions and disposals of these investments are recognised on the date the agreement or contract is signed, independently of the settlement date. Investments are initially recognised by their acquisition cost, including any expenses related to the transaction.

Subsequent to the initial recognition, available for sale investments are measured at fair value through equity, except for available for sale investments not listed in any active market and where an estimate of fair value is not reliable which are recognised at acquisition cost, net of any impairment losses. On disposal of an impaired or an available for sale investment, accumulated changes in the fair value of the investment previously recognised in equity are transferred to net income.

Held to maturity investments are recognised at acquisition cost, net of any impairment losses.

(iii) Financial liabilities and equity instruments (Note 34)

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Group are recognised based on the proceeds, net of any costs of issuance.

Exchangeable bonds issued by Portugal Telecom are recognised as compound instruments, comprising the following elements: (i) the present value of the debt, estimated using the prevailing market interest rate for similar non-convertible debt and recorded under debt liabilities; and (ii) the fair value of the embedded option for the holder to convert the bond into equity, recorded

directly in shareholders equity. As of the balance sheet date, the debt component is recognised at amortised cost.

(iv) Bank loans (Note 34)

Bank loans are recognised as a liability based on the related proceeds, net of any transaction cost. Interest cost, which is computed based on the effective interest rate and including premiums, is recognised when incurred.

(v) Accounts payable - trade (Note 35)

Trade payables are recognised at nominal value, which is substantially similar to their fair value.

(vi) Derivative financial instruments and hedge accounting (Note 41)

The activities of the Group are primarily exposed to financial risks related with changes in foreign currency exchange rates and changes in interest rates. The Group s policy is to contract derivative financial instruments to hedge those risks, subject to analysis and Board approval.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Hedge accounting

The provisions and requirements of IAS 39 must be met in order to qualify for hedge accounting.

Changes in the fair value of derivative financial instruments classified as fair value hedges are recognised in net income of the period, together with the changes in the value of the covered assets or liabilities related with the hedged risk.

The effective portion of the changes in fair value of derivative financial instruments classified as cash flow hedges is recognised directly in shareholders equity, and the ineffective portion is recognised as financial results. When changes in the value of the covered asset or liability are recognised in net income, the corresponding amount of the derivative financial instrument previously recognised under Hedge accounting is transferred to net income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting under the provisions of IAS 39.

Changes in fair value of derivative financial instruments that, in accordance with internal policies, were contracted to economically hedge an asset or liability but do not comply with the provisions and requirements of IAS 39 to be accounted for as hedges, are classified as derivatives held for trading and recognised in net income.

(vii) Treasury shares (Note 40)

Treasury shares are recognised as a deduction to shareholders equity, under the caption Treasury shares at acquisition cost, and gains or losses obtained in the disposal of those shares are recorded under Accumulated earnings .

Equity swaps on own shares that include an option exercisable by Portugal Telecom for physical settlement are recognised as a financial liability and are accounted for as an acquisition of treasury shares on the inception date of the contract.

(viii) Cash and cash equivalents and short term investments (Note 23)

Cash and cash equivalents comprise cash on hand and demand bank deposits. Short term investments comprise short term highly liquid investments, due within three months or less from the date of acquisition that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

In the consolidated cash flow statement, cash and cash deposits also includes overdrafts recognised under the caption Short-term debt .

(ix) Qualified Technological Equipment transactions

In previous years, the Company entered into certain Qualified Technological Equipment transactions (QTE), whereby some telecommunications equipment was sold to certain foreign entities. Simultaneously, those foreign entities entered into leasing contracts with respect to the equipment with special purpose entities, which entered into conditional sale agreements to resell the related equipment to the Company. The Company maintains the legal possession of this equipment.

These transactions correspond to a sale and lease-back transaction, and the equipment continued to be recorded on the Company s consolidated balance sheet. The Company obtained the majority of the economic benefits of the special purpose entities, and therefore those entities were fully consolidated in the Company s financial statements. Consolidated non-current assets include an amount equivalent to the proceeds of the sale of the equipment (Note 29), and non-current liabilities include the future payments under the leasing contract (Note 39). As at the balance sheet date, those amounts are measured at fair value.

Up-front fees received from this transaction are recognised in net income on a straight-line basis during the period of the contracts.

m) Own work capitalized

Certain internal costs (materials, work force and transportation) incurred to build or produce tangible assets are capitalized only if:

- the tangible assets are identifiable;
- the tangible assets will generate future economic benefits which can be reliably estimated; and
- development expenses can be reliably measured.

The amounts capitalized are deducted from the corresponding operating costs incurred and no internally generated margin is recognised. When any of the above mentioned criteria is not met, the expense is recognised in net income.

Financial costs are not capitalised and expenses incurred during investigation are recognised in net income when incurred.

n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases (Note 12). The classification of leases depends on the substance of the transaction and not on the form of the contract.

Assets acquired under finance leases and the corresponding liability to the lessor, are accounted for using the finance method, in accordance with the lease payment plan (Note 34). Interest included in the rents and the depreciation of the assets are recognised in net income in the period they occur.

Under operating leases, rents are recognised on a straight-line basis during the period of the lease (Note 13).

o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in accordance with IAS 12.

Portugal Telecom and PT Multimedia have adopted the tax consolidation regime in Portugal (currently known as the special regime for the taxation of groups of companies). The provision for income taxes is determined on the basis of the estimated taxable income for all the companies in which they hold at least 90% of the share capital and that are domiciled in Portugal and subject to Corporate Income Tax (IRC). The remaining Group companies not covered by the tax consolidation regimes of Portugal Telecom and PT Multimedia are taxed individually based on their respective taxable income, at the applicable tax rates.

The tax currently payable is based on taxable income for the period, and the deferred tax is based on differences between the carrying amounts of assets and liabilities of the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is reasonably likely that taxable income will be available against which deductible temporary differences can be used, or when there are deferred tax liabilities whose reversal is expected in the same period in which the deferred tax assets are reverse. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow for all or part of the asset to be recovered.

Deferred tax is charged to net income, except when it relates to items charged or credited directly to shareholders equity, in which case the deferred tax is also recognised directly in shareholders equity.

p) Revenue recognition

Revenues from fixed line telecommunications are recognised at their gross amounts when services are rendered. Billings for these services are made on a monthly basis throughout the month. Unbilled revenues or revenues not billed by other operators but accrued or incurred as of the date of the financial statements are recorded based on estimates. Differences between accrued amounts and the actual unbilled revenues, which ordinarily are not significant, are recognised in the following period.

Revenues from international telecommunications services are divided with the operators in the country in which calls are terminated based on traffic records of the country of origin and rates established in agreements with the various telecommunications operators. The operator of the country of origin of the traffic is responsible for crediting the operator of the destination country and, if applicable, the operators of the transit countries.

Revenues from telephone line rentals are recognised as an operating lease in the period to which they apply, under the caption Other revenues .

Revenues from ISP services result essentially from monthly subscription fees and telephone traffic when the service is used by customers. These revenues are recognised when the service is rendered.

Advertising revenues from telephone directories and related costs are recognised in the period in which the directories are effective. PT Comunicações has a contract with Páginas Amarelas whereby the latter is responsible for production, publishing and distribution of PT Comunicações s telephone directories, as well as for selling advertising space in the directories. The total cost to be paid by PT Comunicações for such services is set at a fixed 64% of its gross revenues from the sale of advertising space in telephone directories. Revenues from the sale of advertising space are invoiced directly by PT Comunicações to its corporate clients during the one-year advertising period. These revenues are recognized in earnings on a monthly basis during the period for the respective directory.

Revenues from mobile telephony services result essentially from the use of the wireless network, by customers or other operators. The moment in which revenues are recognised and the corresponding caption are as follows:

Nature of the revenue	Caption	Moment of recognition
Use of the network	Services rendered	In the month the service is rendered
Interconnection fees	Services rendered	In the month the service is rendered
Roaming	Services rendered	In the month the service is rendered
Pre-paid cards	Services rendered	When the service is rendered
Terminal equipment and accessories	Sales	When the sale occurs

Revenues from bundling services or products are allocated to each of its components based on its fair value and are recognised separately in accordance with the methodology adopted to each component.

Revenues from the Pay-TV, Broadband and Telephony business segment of PT Multimedia result essentially from and are recognised as follows: (i) monthly subscription fees for the use of the service are recognised in the period the service is rendered; (ii) advertising placed on the cable television channels are recognised in the period the advertising is placed; (iii) rental of equipment is recognised in the period it is rented; and (iv) sale of equipment is recognised at the moment of sale.

Revenues from the exhibition of films result from the sale of cinema tickets, and revenues from the distribution of films result from the sale to other cinema operators of distribution rights acquired by Lusomundo Audiovisuais from film producers and distributors. These revenues are recognised in the period of the exhibition or in the period of the sale of the rights.

q) Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated to Euros at the exchange rates prevailing at the time the transactions are made. At the balance sheet date, assets and liabilities denominated in foreign currencies are adjusted to reflect the exchange rates prevailing at such date. The resulting gains or losses on foreign exchange transactions are recognised in net income. Exchange differences on non-monetary items, including goodwill, and on monetary items representing an extension of the related investment and where settlement is not expected in the foreseeable future, are recognized directly in shareholders equity under the caption Foreign currency translation adjustments , and included in the Statement of Recognised Income and Expenses.

The financial statements of subsidiaries operating in other countries are translated to Euros, using the following exchange rates:

Assets and liabilities at exchange rates prevailing at the balance sheet date;

Profit and loss items at average exchange rates for the reported period;

Cash flow items at average exchange rates for the reported period, where these rates approximate the effective exchange rates (and in the remaining cases, at the rate effective on the day the transaction occurred); and

Share capital, reserves and retained earnings at historical exchange rates.

The effect of translation differences is recognised in shareholders equity under the caption Foreign currency translation adjustments and included in the Statement of Recognised Income and Expenses.

The Group adopted the exception under IFRS 1 relating to cumulative translation adjustments as of 1 January 2004 and transferred this amount from Foreign currency translation adjustments to Accumulated earnings . As from 1 January 2004, the Group has been recognizing all translation adjustments directly in shareholders equity and therefore these amounts are transferred to net income only if and when the related investments are disposed of.

r) Borrowing costs

Borrowing costs related to loans are recognised in net income when incurred. The Group does not capitalise any borrowing costs related to loans to finance the acquisition, construction or production of any asset.

s) Cash flow statement

The consolidated statement of cash flows is prepared under IAS 7, using the direct method. The Group classifies all highly liquid investments purchased, with original maturity of three months or less, as cash and cash equivalents. The Cash and cash equivalents item presented in the statement of cash flows also includes overdrafts, classified in the balance sheet under Short-term debt .

Cash flows are classified in the statement of cash flows according to three main categories, depending on their nature: (1) operating activities; (2) investing activities; and (3) financing activities. Cash flows from operating activities include primarily collections from clients, payments to suppliers, payments to employees, payments relating to post retirement benefits and net payments relating to income taxes and indirect taxes. Cash flows from investing activities include primarily the acquisitions and disposals of investments in associated companies, dividends received from associated companies and purchase and sale of property, plant and equipment. Cash flows from financing activities include primarily borrowings and repayments of debt, payments of lease rentals, payments relating to interest and related expenses, acquisition and sale of treasury shares and payments of dividends to shareholders.

t) Subsequent events (Note 47)

Events that occur after the balance sheet date that could influence the value of any asset or liability as of that date are considered when preparing the financial statements for the period. Those events are disclosed in the notes to the financial statements, if material.

Critical judgments and estimates

In preparing the financial statements and accounting estimates herein, management has made use of its best knowledge of past and present events and used certain assumptions in relation to future events. The most significant accounting estimates reflected in the consolidated financial statements, are as follows:

- Useful lives of tangible and intangible assets;
- Recognition of provisions and adjustments;
- Definition of actuarial assumptions for the assessment of post retirement liabilities;
- Goodwill impairment analysis; and
- Assessment of fair value of financial instruments.

Estimates used are based on the best information available during the preparation of consolidated financial statements, although future events, neither controlled by the Company nor foreseeable by the Company, could occur and have an impact on the estimates. Changes to the estimates used by management, that occur after the date of the consolidated financial statements are recognised in net income, in accordance with IAS 8, using a prospective methodology.

The main estimates used by management are included in the corresponding notes to the consolidated financial statements.

4. Changes in accounting policies and estimates

During the first half of 2007, no changes occurred in the accounting policies used by the Group, when compared to those ones used in 2006.

5. Exchange rates used to translate foreign currency financial statements

As at 30 June 2007 and 31 December 2006, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates:

Currency	Code	30 Jun 2007	31 Dec 2006
Argentine peso	ARS	4.1726	4.0474
Australian dollar	AUD	1.5885	1.6691
Botswana pula	BWP	8.3752	7.9313
Brazilian real	BRL	2.6024	2.8118
British pound	GBP	0.674	0.6715
Canadian dollar	CAD	1.4245	1.5281
Cape Verde Escudo	CVE	110.2650	110.2650
CFA franc	XOF	655.9570	655.9570
Chinese Yuan Renmimbi	CNY	10.2816	10.2793
Danish krone	DKK	7.4422	7.456
Hong Kong dollar	HKD	10.5569	10.2409
Hungarian forint	HUF	246.1500	251.7700
Japanese yen	JPY	166.6300	156.9300
Kenyan shilling	KES	90.2134	91.6632
Macao pataca	MOP	10.8736	10.5481
Moroccan dirham	MAD	11.1811	11.1354
Mozambique metical	MZN	35.1900	34.4700
Namibian dollar	NAD	9.5531	9.2124
Norwegian krone	NOK	7.9725	8.2380
São Tomé Dobra	STD	18,178.3	17,222.3
South African rand	ZAR	9.5531	9.2124
Swedisk krone	SEK	9.2525	9.0404
Swiss franc	CHF	1.6553	1.6069
Ugandan shilling	UGX	2,145.9	2,292.2
USDollar	USD	1.3505	1,317

During the first half of 2007 and 2006, income statements of subsidiaries expressed in foreign currencies were translated using the following average exchange rates to the Euro:

Currency	Code	2007	2006
Argentine peso	ARS	4.1295	3.7961
Botswana pula	BWP	8.296	6.8988
Brazilian real	BRL	2.7218	2.6925
Cape Verde Escudo	CVE	110.2650	110.2650
CFA franc	XOF	655.9570	655.9570
Chinese Yuan Renmimbi	CNY	10.2805	9.8721
Hungarian forint	HUF	250.3783	260.5600
Kenyan shilling	KES	91.2021	89.2365
Macao pataca	MOP	10.7391	9.8224
Moroccan dirham	MAD	11.1524	10.989
Mozambique metical	MZN	35.1150	30.8875
Namibian dollar	NAD	9.5768	7.7668
São Tomé Dobra	STD	17,825.7	14,971.4
Swiss franc	CHF	1.6341	1.5613
Ugandan shilling	UGX	2,279.7	1,887.6
USDollar	USD	1.3344	1.2292

6. Revenues

Consolidated revenues by reportable segment in the first half of 2007 and 2006, are as follows:

	2007	2006
Wireline (Note 7.a)	**936,211,293**	**991,049,705**
Services rendered (Note 3.p)	901,932,468	966,441,864
Sales (i)	20,691,799	14,774,550
Other revenues (ii)	13,587,026	9,833,291
Domestic Mobile - TMN (Note 7.b)	**690,144,062**	**685,959,001**
Services rendered (Note 3.p)	631,745,842	627,879,251
Sales (i)	54,459,699	53,738,418
Other revenues (ii)	3,938,521	4,341,332
Brazilian Mobile - Vivo (Note 7.c)	**1,140,307,875**	**1,014,402,164**
Services rendered (Note 3.p)	1,032,962,270	855,281,771
Sales (i)	88,006,160	135,942,368
Other revenues (ii)	19,339,445	23,178,025
Other businesses (iii)	**189,132,032**	**114,275,731**
Services rendered	181,102,120	107,191,741
Sales	4,310,852	3,828,902
Other revenues	3,719,060	3,255,088
	2,955,795,262	**2,805,686,601**

(i) These captions include mainly the sales of terminal equipment of the wireline business, namely fixed telephones and modems (internet access), and terminal mobile equipments of TMN and Vivo.

(ii) Other revenues include mainly the benefits from contractual penalties imposed to customers, rentals of equipment and of other own infra-structures, and revenues resulting from consultancy projects.

(iii) This caption is related to services rendered and sales of companies not included in reportable segments, including mainly Mobitel (call center operation in Brazil), MTC (mobile operator in Namíbia) and Cabo Verde Telecom (telecommunications operator).

Consolidated revenues in the first half of 2007 and 2006 by geographic area, are as follows:

	2007	2006
Portugal	1,675,159,376	1,712,780,618
Brazil	1,172,873,049	1,045,621,625
Other countries	107,762,837	47,284,358
	2,955,795,262	**2,805,686,601**

7. Segment reporting

Portugal Telecom s primary basis of business segmentation is related to the nature of the services rendered and the type of technology used by its operating companies. This is the manner in which the Board of Directors oversee and control the business and also the manner in which financial information is internally organized and communicated. Accordingly, the business segments from the continuing operations as at 30 June 2007 and 2006 are as follows:

a. Wireline (including Retail, Wholesale and Data and Corporate);

b. Domestic Mobile (TMN); and

c. Brazilian Mobile (Vivo).

The Wireline segment includes PT Comunicações, PT Prime, PT.com and PT Corporate.

In relation to the mobile businesses, Portugal Telecom has identified two different business segments, the Domestic Mobile and Brazilian Mobile , due to the differences between licenses and technologies of both. In terms of technology, GSM/UMTS is the technology used by TMN, while CDMA is the main technology used by Vivo. Also, the telecommunications markets in Portugal and Brazil are substantially different in terms of economic and regulatory environment, classes of customers, suppliers and marketing strategies, which support PT s decision to establish the two different businesses.

Portugal Telecom s secondary basis of segmentation is geographical, under which it distinguishes three segments:

a. Portugal;

b. Brazil; and

c. Other countries.

Segment information for the six-month periods ended 30 June 2007 and 2006 is presented below.

a) Wireline

Income statement of this reportable segment for the six months periods ended 30 June 2007 and 2006 are as follows:

	2007	2006
REVENUES		
Services rendered - external customers (Note 6)	901,932,468	966,441,864
Services rendered - inter-segment	50,825,491	58,998,144
Sales - external customers (Note 6)	20,691,799	14,774,550
Sales - inter-segment	218,157	53,121
Other revenues - external customers (Note 6)	13,587,026	9,833,291
Other revenues - inter-segment	5,672,701	3,362,109
	992,927,642	**1,053,463,079**
COSTS, EXPENSES, LOSSES AND (INCOME)		
Wages and salaries	126,808,645	138,976,823
Post retirement benefits (i)	(17,431,420)	23,798,000
Direct costs	172,366,091	172,447,918
Costs of products sold	18,416,713	15,878,587
Marketing and publicity	15,124,750	20,027,214
Support services	58,389,791	72,404,401
Supplies and external services	107,411,832	105,436,514
Indirect taxes	3,925,001	3,170,801
Provisions and adjustments	1,894,826	14,454,523
Depreciation and amortisation	162,664,049	170,876,102
Work force reduction program costs	83,824,850	13,100,398
Net gains on disposals of fixed assets (ii)	10,784,444	(1,649,857)
Other costs, net	12,083	3,048,633
	744,191,655	**751,970,057**
Income before financial results and taxes	**248,735,987**	**301,493,022**
Net interest income	1,073,613	(2,307,630)
Net foreign currency exchange losses (gains)	322,126	350,021
Net losses/(gains) on financial assets	(808,399)	(491,395)
Net other financial expenses	684,843	341,315
	1,272,183	**(2,107,689)**
Income before taxes	**247,463,804**	**303,600,711**
Minus: Income taxes	69,462,496	85,657,342
Net income	**178,001,308**	**217,943,369**

(i) The change in this caption is primarily related to the recognition of prior years service gains of Euro 37,245,920 in the first half of 2007 and Euro 14,642,000 in the first half of 2006, and to the reduction in the service cost following the reduction in healthcare benefits introduced at the end of 2006 (Note 9).

(ii) In the first half of 2007, this caption includes approximately Euro 11 million related to the write-off of certain fixed assets (Note 33).

Total assets and liabilities of this segment as at 30 June 2007 and 31 December 2006 are as follows:

	30 Jun 2007	**31 Dec 2006**
Assets	3,889,498,555	4,203,333,498
Liabilities	2,743,649,029	3,152,213,639

Capital expenditures in tangible and intangible assets for this reportable segment for the first half of 2007 and 2006 were Euro 105 million and Euro 100 million, respectively.

As at 30 June 2007 and 2006, the total staff in the wireline business was 6,979 and 7,723 employees, respectively.

b) Domestic Mobile - TMN

Income statement of this reportable segment for the six months periods ended 30 June 2007 and 2006 are as follows:

	2007	2006
REVENUES		
Services rendered - external customers (Note 6)	631,745,842	627,879,251
Services rendered - inter-segment	34,796,609	33,823,374
Sales - external customers (Note 6)	54,459,699	53,738,418
Sales - inter-segment	2,677,103	137,249
Other revenues - external customers (Note 6)	3,938,521	4,341,332
Other revenues - inter-segment	519,451	29,553
	728,137,225	**719,949,177**
COSTS, EXPENSES, LOSSES AND (INCOME)		
Wages and salaries	25,425,663	29,213,826
Direct costs	137,278,831	144,947,347
Costs of products sold	72,112,191	72,691,825
Marketing and publicity	12,707,316	11,560,365
Support services	20,244,058	15,880,520
Supplies and external services	113,582,589	109,889,061
Indirect taxes	14,206,783	13,726,481
Provisions and adjustments	5,165,082	3,267,757
Depreciation and amortisation	106,057,175	108,244,796
Work force reduction costs	608,143	
Net losses on disposals of fixed assets	669,233	794,946
Other costs	1,165,819	410,061
	509,222,883	**510,626,985**
Income before financial results and taxes	**218,914,342**	**209,322,192**
Net interest income (i)	(6,429,767)	(1,624,931)
Net foreign currency exchange losses (gains)	74,779	477,936
Equity in losses of affiliated companies, net	825	6,979
Net other financial expenses	444,170	417,634
	(5,909,993)	**(722,382)**
Income before taxes	**224,824,335**	**210,044,574**
Minus: Income taxes	59,778,910	57,291,556
Net income	**165,045,425**	**152,753,018**

(i) The increase in net interest income is related to the increase in cash flow generated by TMN in the last two years.

Total assets and liabilities of this segment as at 30 June 2007 and 31 December 2006 are as follows:

	30 Jun 2007	31 Dec 2006
Assets	2,443,799,020	2,496,628,387
Liabilities	1,209,065,940	1,205,928,371

Capital expenditures in tangible and intangible assets for this reportable segment for the first half of 2007 and 2006 were Euro 71 million and Euro 51 million, respectively.

As at 30 June 2007 and 2006, the total staff in this segment was 1,126 and 1,165 employees, respectively.

c) Brazilian Mobile

Income statement of this reportable segment for the six months periods ended 30 June 2007 and 2006 are as follows:

	2007	2006
REVENUES		
Services rendered - external customers (Note 6) (i)	1,032,962,270	855,281,771
Sales - external customers (Note 6)	88,006,160	135,942,368
Other revenues - external customers (Note 6)	19,339,445	23,178,025
Other operating revenues - inter-segment	7,161	(41,158)
	1,140,315,036	**1,014,361,006**
COSTS, EXPENSES, LOSSES AND (INCOME)		
Wages and salaries	63,552,168	58,613,111
Direct costs (i)	195,047,393	79,164,207
Costs of products sold	190,753,812	200,662,711
Marketing and publicity	32,101,304	36,165,310
Support services	83,755,833	82,123,483
Supplies and external services	161,639,361	174,329,807
Indirect taxes	71,795,969	62,825,901
Provisions and adjustments (ii)	66,960,585	122,840,131
Depreciation and amortisation	243,074,432	255,317,965
Net losses (gains) on disposals of fixed assets	1,203,319	264,108
Other costs	1,404,096	3,406,715
	1,111,288,272	**1,075,713,449**
Income before financial results and taxes	**29,026,764**	**(61,352,443)**

Net interest expense (iii)	34,767,271	49,351,405
Net foreign currency exchange gains	(3,729,277)	(8,170,513)
Net losses (gains) on financial assets	2,591,368	(776,760)
Net other financial expenses (iv)	9,859,898	17,361,589
	43,489,260	**57,765,721**
Income before taxes	**(14,462,496)**	**(119,118,164)**
Minus: Income taxes	105,731	(422,307)
Net income	**(14,568,227)**	**(118,695,857)**

(i) The increase in services rendered and in direct costs is primarily explained by the termination of the partial Bill & Keep interconnection regime in Brazil, which led to the gross recognition of interconnection revenues and costs (Note 10).

(ii) The reduction in this caption is mainly explained by (1) the impact of a one-off provision recorded in the first half of 2006 (Euro 30 million) related to billing problems following the migration to a unified platform, and also (2) a lower level of provisions related to subscription fraud and premature insolvency.

(iii) The reduction in net interest expenses is primarily related to the decrease in the average net debt of Vivo in the first half of 2007, as compared with the same period of last year.

(iv) The reduction in this caption is primarily explained by financial taxes incurred in the first half of 2006 related to Vivo s debt restructuring occurred in that period.

Capital expenditures in tangible and intangible assets for this reportable segment for the first half of 2007 and 2006 were Euro 105 million and Euro 115 million, respectively.

A summarized balance sheet of 50% of the assets and liabilities of Vivo as at 30 June 2007 and 31 December 2006 is presented below:

	30 Jun 2007	**31 Dec 2006**
Current assets	901,633,264	902,752,315
Intangible assets	2,342,948,980	2,245,254,964
Tangible assets	1,159,993,903	1,131,810,840
Deferred taxes	384,794,302	351,507,323
Other non-current assets	155,420,624	142,454,925
Total assets	**4,944,791,073**	**4,773,780,367**
Current liabilities	997,810,831	1,059,188,211
Medium and long-term debt	494,198,334	517,255,183
Other non-current liabilities	106,197,539	87,071,963
Total liabilities	**1,598,206,704**	**1,663,515,357**

As at 30 June 2007 and 2006, the total staff in this segment (50% of Vivo) was 2,747 and 2,884 employees, respectively.

d) Reconciliation of revenues, net income and assets

In the first half of 2007 and 2006, the reconciliation between revenues of reportable segments and consolidated revenues is as follows:

	2007	2006
Total relating to reportable segments	2,861,379,903	2,787,773,262
Total relating to other businesses (i)	326,761,626	234,087,923
Elimination of intragroup revenues	(232,346,267)	(216,174,584)
Total consolidated revenues	**2,955,795,262**	**2,805,686,601**

(i) The increase in this caption is mainly related to the consolidation of MTC from September 2006, which contributed with Euro 57 million to PT s consolidated operating revenues in the first half of 2007, and to the improvement in operating revenues from Cabo Verde Telecom of Euro 10 million.

In the first half of 2007 and 2006, the reconciliation between net income of reportable segments and consolidated net income, is as follows:

	2007	2006
Total relating to reportable segments	328,478,506	252,000,530
Total relating to other businesses (i)	20,199,526	(22,203,635)
Other items not included in reportable segments:		
Net interest expense related with loans obtained at group level	(61,439,621)	(65,241,665)
Net foreign currency exchange gains (losses)	(697,069)	(5,714,447)
Net gains (losses) on financial assets (ii)	144,167,144	(14,070,018)
Equity accounting in earnings of affiliated companies	52,870,367	45,618,942
Income tax not included in reportable segments (iii)	(11,751,263)	207,921,504
Consolidated net income	**471,827,590**	**398,311,211**

(i) The improvement in this caption is mainly related to the income before financial results and taxes of MTC in the first half of 2007 amounting to Euro 24 million, a company that was only acquired in September 2006.

(ii) In the first half of 2007, this caption includes primarily (a) the gain of Euro 35,698,600 (Note 16) related to the disposal of the investment in Banco Espírito Santo, (b) the gain of Euro 77,428,725 (Note 41) related to the change in the fair value of the equity swaps over PT Multimedia shares up to its settlement date, and (c) the gain of Euro 31,247,010 (Note 16) related to the financial settlement of equity swaps over own shares.

(iii) In the first half of 2006, this caption includes mainly (a) the recognition of a tax credit amounting to Euro 53 million (Note 18) related to the liquidation of a subsidiary, and (b) a gain of Euro 142 million (Note 18) resulting from the reduction of deferred tax liabilities following the adoption by the Company of the voluntary taxation regime for certain gains on the disposals of investments made in previous years, whose taxation was deferred at that time in accordance with the tax legislation.

As at 30 June 2007 and 31 December 2006, the reconciliation between assets of reportable segments and consolidated assets is as follows:

	30 Jun 2007	31 Dec 2006
Total assets relating to reportable segments (i)	11,278,088,648	12,625,567,751
Total assets relating to discontinued operations (Note 19)	1,105,918,714	
Total assets relating to other businesses and eliminations (ii)	529,758,144	894,074,388
Other items not included in reportable segments:		
Investments in group companies and other investments (iii)	493,161,176	585,838,311
Goodwill (Note 32)	61,946,719	65,768,850
Total consolidated assets	**13,468,873,401**	**14,171,249,300**

(i) As at 31 December 2006, this caption includes Euro 1,151,825,499 related to PT Multimédia segment, which as at 30 June 2007 was recognized as a discontinued operation.

(ii) The decrease in this caption is primarily related to the reduction on the short-term investments held by the Group, as explained in Note 23.

(iii) The reduction in this caption is primarily explained by the sale of the investment in Banco Espírito Santo, which as at 31 December 2006 amounted to Euro 95,340,000 (Note 31).

As at 30 June 2007 and 31 December 2006, the reconciliation between liabilities of reportable segments and consolidated liabilities is as follows:

	30 Jun 2007	31 Dec 2006
Total liabilities relating to reportable segments (i)	5,550,921,673	6,572,770,085
Total liabilities relating to discontinued operations (Note 19)	549,665,191	
Total liabilities relating to other businesses and eliminations	(309,990,308)	(252,389,174)
Other items not included in reportable segments:		
Gross debt	4,789,554,874	4,744,830,451
Total consolidated liabilities	**10,580,151,430**	**11,065,211,362**

(i) As at 31 December 2006, this caption includes Euro 551,112,718 related to PT Multimédia segment, which as at 30 June 2007 was recognized as a discontinued operation.

Total assets, liabilities, tangible assets and intangible assets by geographic area as at 30 June 2007 and 31 December 2006 and capital expenditures for tangible and intangible assets in the first half of 2007 and 2006 are as follows:

	30 Jun 07				First half of 2007
	Total assets	Total liabilities	Tangible assets	Intangible assets	Capital expenditures for tangible and intangible assets
Portugal	7,892,699,937	5,784,996,080	2,278,477,833	726,610,615	180,613,345
Brazil	5,132,657,134	1,626,736,990	1,174,419,061	2,348,205,216	108,350,343
Other (i)	443,516,330	3,168,418,360	113,395,326	90,461,260	17,866,341
	13,468,873,401	**10,580,151,430**	**3,566,292,220**	**3,165,277,091**	**306,830,029**

	31 Dec 06				First half of 2006
	Total assets	Total liabilities	Tangible assets	Intangible assets	Capital expenditures for tangible and intangible assets
Portugal	8,754,295,771	6,131,463,187	2,685,753,152	1,148,693,900	158,815,282
Brazil	4,866,913,022	1,690,551,545	1,145,651,310	2,249,235,370	117,704,471
Other (i)	550,040,507	3,243,196,630	110,628,728	92,951,993	4,448,032
	14,171,249,300	**11,065,211,362**	**3,942,033,190**	**3,490,881,263**	**280,967,785**

(i) As at 30 June 2007, assets and liabilities of other geographic areas included Euro 98,218,912 and Euro 3,088,702,898 respectively, related to PT Finance, the group finance subsidiary incorporated in the Netherlands. The assets of PT Finance correspond mainly to short-term investments and the liabilities correspond mainly to loans obtained in financial markets, which are then used to finance the Company s businesses primarily in Portugal. As at 31 December 2006, assets and liabilities of other geographic areas include Euro 195,242,342 and Euro 3,158,205,855 respectively, related to PT Finance.

8. Wages and salaries

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Salaries	257,572,543	270,478,520
Employee Benefits	49,903,307	46,182,128
Health care	6,544,743	5,551,374
Social care	2,154,424	2,820,946
Learning	2,952,584	3,943,892
Insurance	2,194,042	2,234,235
Other	1,291,544	1,018,645
	322,613,187	**332,229,740**

9. Post retirement benefits

9.1. Pension benefits

As referred to in Note 3.h, PT Comunicações is responsible for the payment of pensions and pension supplements to retired, suspended and active employees. These liabilities, which are estimated based on actuarial valuations, are as follows:

a) Retirees and employees of Telecom Portugal (Plan CGA) hired prior to 14 May 1992, or who were retired on that date, are entitled to receive a pension benefit from PT Comunicações. Employees hired after that date are covered by the general Portuguese government social security system. Suspended employees are also entitled to receive a benefit payment equal to 90% of salary prior to leaving service (with an annual increase in some cases).

b) Retirees and employees of TLP hired prior to 23 June 1994 are entitled to receive a pension supplement from PT Comunicações, which complements the pension paid by the Portuguese social security system. Pre-retired employees are also entitled to receive benefit payments (equal to 25% to 80% of their base salaries at the time of pre-retirement) until they reach the Portuguese social security retirement age. After that date, these former employees become entitled to the pension supplement. Suspended employees are also entitled to receive a benefit payment normally equal to 90% of salary prior to leaving service (with an annual increase in some cases).

c) Retirees and employees of TDP hired prior to 23 June 1994 are entitled to receive a pension supplement from PT Comunicações, which complements the pension paid by the Portuguese social security system. Pre-retired employees are also entitled to receive benefit payments (equal to 25% to 80% of their base salaries at the time of the pre-retirement) until they reach the Portuguese social security retirement age. After that date, these employees have the right to this pension supplement. Suspended employees are also entitled to receive a benefit payment normally equal to 90% of salary prior to leaving service (with an annual increase in some cases).

d) Retirees and employees of Companhia Portuguesa Rádio Marconi, SA (Marconi , a company merged into PT Comunicações in 2002) hired prior to 1 February 1998 are entitled to a pension benefit from Caixa Marconi and to two different supplemental pension benefits (Marconi Fundo de Melhoria and Marconi Complementary Fund). Employees hired by PT Comunicações or any of its predecessor companies after the dates indicated above are not entitled to these benefits, as they are covered by the general Portuguese government social security system.

e) On retirement, PT Comunicações pays a lump sum gratuity of a fixed amount which depends on the length of service completed by the employee.

PT SI and DCSI employees who were transferred from PT Comunicações and Marconi and were covered by any of the pension plans described above maintain the right to such benefits.

The actuarial valuations for these plans, as at 30 June 2007 and 2006 and as at 31 December 2006, were computed based on the projected unit credit method and considered the following actuarial assumptions and rates:

	30 Jun 07	31 Dec 06	30 Jun 06
Rate of return on long-term fund assets	6.00%	6.00%	6.00%
Pensions liabilities discount rate	5.25%	4.75%	5.00%
Salaries liabilities discount rate	4.75%	4.25%	4.25%
Salary growth rate	2.25%	2.25%	3.00%
Pension growth rate	1.75%	1.75%	2.00%
Inflation rate	1.75%	1.75%	2.00%

The discount rate for pension liabilities was computed based on long-term yield rates of high-rating bonds as of the balance sheet date for maturities comparable to those liabilities.

The rate of return on long-term fund assets was estimated based on historical information on the return of portfolio assets, the expected portfolio in future years (defined in accordance with the expected maturity of the liabilities) and certain financial market performance indicators usually considered in market analysis.

Salary growth rate was established considering a 50 bp yield above inflaction. This assumption is in line with PT Comunicações policy for wages and salaries.

The demographic assumptions considered as at 30 June 2007 and 2006 and 31 December 2006 were as follows:

Mortality table:

Employees (while in active service):	
Males	AM (92)
Females	AF (92)
Pensioners:	
Males	PA (90)m adjusted
Females	PA (90)f adjusted

Disability table: Swiss Reinsurance Company

Turnover of employees: Nil

Demographic assumptions considered by Portugal Telecom are based on mortality tables generally accepted for actuarial valuation purposes, with these tables being periodically adjusted to reflect the mortality experience occurred in the closed universe of the plan participants.

During the first half of 2007 Dec-Law 187/2007 was published, which introduced some changes to pension formulas in order to guarantee the long-term financial sustainability of the Portuguese social security system. These changes are also applied to some of PT Comunicações plans, which led to a reduction in the total pension liability. In addition, PT Comunicações reduced the benefits granted under the same pension plans. The impact of the above mentioned changes to benefits, reduced PT s pension liability by Euro 42,776,920, of which Euro 37,245,920 was recognized as a prior year service gain, since it was related to vested rights, and the remaining Euro 5,531,000 was related to unvested rights and therefore was deferred up to the retiment date (Note 3.h).

Based on the actuarial studies, the benefit obligation and the fair value of the pension funds as at 30 June 2007 and 31 December 2006 are as follows:

	30 Jun 07	31 Dec 06
Projected benefit obligation:		
Pension and pension supplements	2,825,499,466	3,073,825,333
Salaries and gratuities to pre-retired and suspended employees	991,516,038	997,670,254
	3,817,015,504	4,071,495,587
Pension funds assets at fair value	(2,458,206,970)	(2,263,925,000)
Unfunded pension obligations	**1,358,808,534**	**1,807,570,587**
Prior years service gains (i)	5,531,000	
Present value of unfunded pension obligations (Note 9.3)	**1,364,339,534**	**1,807,570,587**

(i) This caption refers to the component of the prior years service gain resulting from the changes in the benefits granted under pension plans introduced during the first half of 2007, related to unvested rights. This amount will be recognized in earnings during the estimated period in which those benefits will be earned by employees (15 years).

As at 30 June 2007 and 31 December 2006, the portfolio of pension funds was as follows:

	30 Jun 07		31 Dec 06	
	Amount	%	Amount	%
Equities (i)	1,183,656,703	48.2%	1,024,536,020	45.3%
Bonds	784,189,484	31.9%	726,262,119	32.1%
Property (ii)	178,842,867	7.3%	264,172,280	11.7%
Cash, treasury bills, short-term stocks and other current assets	311,517,916	12.7%	248,954,581	11.0%
	2,458,206,970	**100.0%**	**2,263,925,000**	**100.0%**

(i) As at 30 June 2007 and 31 December 2006, this caption includes investments in PT shares and in shares of related parties, as follows:

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	30 Jun 2007		31 Dec 2006	
	Number of shares	Amount	Number of shares	Amount
Banco Espírito Santo	11,204,497	184,650,111	13,107,904	178,529,652
Telefónica	7,631,820	126,230,303	8,928,305	143,924,277
Portugal Telecom	3,315,892	33,921,575	3,887,262	38,250,658
		344,801,989		**360,704,587**

(ii) As at 30 June 2007, this caption includes certain properties that have been rented to PT Group companies, which represent approximately 89% of the value of property investments held by the funds.

During the first half of 2007 and 2006, the movement in the plan assets was as follows:

	2007	2006
Opening balance of the plan assets	**2,263,925,000**	**2,200,172,000**
Actual return on assets	112,255,000	26,591,000
Payments of benefits	(71,450,000)	(66,893,000)
Contributions made by the Company	148,919,970	46,795,000
Participants contributions	4,557,000	1,938,000
Closing balance of the plan assets	**2,458,206,970**	**2,208,603,000**

A summary of the components of the net periodic pension cost recorded in the first half of 2007 and 2006 is presented below:

	2007	2006
Service cost	6,963,000	11,268,000
Interest cost	91,907,520	87,533,000
Expected return on plan assets	(72,247,000)	(65,404,000)
Prior years service gains	(37,245,920)	(14,642,000)
Sub total (Note 9.5)	**(10,622,400)**	**18,755,000**
Curtailment costs (Note 9.5)	79,540,451	11,961,800
Pensions cost	**68,918,051**	**30,716,800**

Actuarial gains and losses resulting essentially from changes in actuarial assumptions or differences between those actuarial assumptions and actual data are recognised directly in shareholders equity. During the first half of 2007 and 2006, the movement in accumulated net actuarial losses was as follows:

	2007	2006
Opening balance (Note 40.6)	**1,404,159,583**	**1,653,137,579**
Change in actuarial assumptions (Note 9.6)	(208,920,016)	(247,027,288)
Differences between actual data and actuarial assumptions (Note 9.6):		
Pension benefit obligation related	(38,100,994)	
Asset related	(40,008,000)	38,813,524
Closing balance (Note 40.6)	**1,117,130,573**	**1,444,923,815**

During the first half of 2007, the change in actuarial assumptions corresponds to the effect of the increase in the discount rate from 4.75% to 5.25% for pension liabilities and from 4.25% to 4.75% for salary liabilities, reflecting the evolution of market yields. In the first half of 2006, the change in actuarial assumptions corresponds to the effect of the the increase in the discount rate from 4.5% to 5.0% for pension liabilities and from 3.5% to 4.25% for salary liabilities.

9.2. Health care benefits

As referred to in Note 3.i, PT Comunicações is responsible for the payment of post retirement health care benefits to certain active employees, suspended employees, pre-retired employees, retired employees and their eligible relatives. Health care services are rendered by PT-ACS, which was incorporated with the only purpose of managing the Company s Health Care Plan.

This plan sponsored by PT Comunicações includes all employees hired by PT Comunicações until 31 December 2003 and by Marconi until 1 February 1998. Certain employees of PT SI and DCSI who were transferred from PT Comunicações are also covered by this health care plan.

The financing of the Health Care Plan in assured by defined contributions made by participants to PT-ACS and the remainder by PT Comunicações, which incorporated an autonomous fund in 2004 for this purpose.

In the second half of 2006, PT Comunicações made some changes to the Health Care Plan in order to maintain its long-term sustainability and financing. These changes included mainly a reduction in the amount that PT Comunicações pays for each medical act and an increase in participants contributions (from 1.7% of salary in 2007 until 2.1% of salary in 2009), with these effects leading to a reduction in health care benefit obligations at the end of 2006 and to a reduction in future service costs.

In addition, in December 2006 PT Comunicações and SNS agreed to terminate the Protocol entered into in 2004 related to the Health Care Plan. In connection with this Protocol, SNS paid to PT Comunicações an annual amount per participant, and PT Comunicações paid the health care expenses incurred by its participants in SNS s hospitals network. Historically, this Protocol presented a deficit situation for PT Comunicações, with this trend being included in the unfunded health care benefit obligations.

The actuarial valuations for these plans, as at 30 June 2007 and 2006 and 31 December 2006, were computed based on the projected unit credit method and considered the following actuarial assumptions and rates:

	30 Jun 07	31 Dec 06	30 Jun 06
Rate of return on long-term fund assets	6.00%	6.00%	6.00%
Health care liabilities discount rate	5.25%	4.75%	5.00%
Health care cost trend rate:			
Next four years	3.50%	3.50%	3.50%
Years thereafter	2.75%	2.75%	3.00%
Salary growth rate	2.25%	2.25%	3.00%
Inflation rate	1.75%	1.75%	2.00%

The discount rate for health care liabilities was computed based on long-term yield rates of high-rating bonds as of the balance sheet date for maturities comparable to those liabilities.

The rate of return on long-term fund assets was estimated based on historical information on the return of portfolio assets, the expected portfolio in future years (defined in accordance with the expected maturity of the liabilities) and certain financial market performance indicators usually considered in market analysis.

Health care cost trend rate was estimated based on specific indicators for this sector and historical information, with the long-term rate being computed also based on the inflation rate.

The demographic assumptions considered as at 30 June 2007 and 2006 and 31 December 2006 were as follows:

Mortality table:

Employees (while in active service):	
Males	AM (92)
Females	AF (92)
Pensioners:	
Males	PA (90)m adjusted
Females	PA (90)f adjusted

Disability table: Swiss Reinsurance Company

Turnover of employees: Nil

Demographic assumptions considered by Portugal Telecom are based on mortality tables generally accepted for actuarial valuation purposes, with these tables being periodically adjusted to reflect the mortality experience occurred in the closed universe of the plan participants.

Based on the actuarial studies, the benefit obligation and the fair value of health care funds as at 30 June 2007 and 31 December 2006 are as follows:

	30 Jun 07	**31 Dec 06**
Accumulated health care benefit obligation	462,434,851	491,102,185
Plan assets at fair value	(589,507,421)	(644,224,704)
Excessive funding of pension obligations	**(127,072,570)**	**(153,122,519)**
Prior years service gains (i)	17,967,000	19,062,000
Present value of excessive funding of pension obligations (Note 9.3)	**(109,105,570)**	**134,060,519**

(i) This caption refers to the component of the prior years service gain resulting from the changes in the health care plan occurred at the end of 2006 related to those benefits that are not yet vested. This amount will be recognized in earnings during the estimated period in which those benefits will be earned by employees (18 years).

As at 30 June 2007 and 31 December 2006, the portfolio of the Company s autonomous fund to cover post retirement health care benefit obligations was as follows:

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	30 Jun 07		31 Dec 06	
	Amount	**%**	**Amount**	**%**
Equities	250,080,443	42.4%	289,205,401	44.9%
Bonds	247,638,188	42.0%	260,860,332	40.5%
Cash, treasury bills, short-term stocks and other current assets	91,788,790	15.6%	94,158,971	14.6%
	589,507,421	**100.0%**	**644,224,704**	**100.0%**

During the first half of 2007 and 2006, the movement in the plan assets was as follows:

	2007	2006
Opening balance of the plan assets	**644,224,704**	**315,576,000**
Actual return on assets	20,507,000	(7,588,000)
Refund of expenses paid on account by PT Comunicações	(75,224,283)	
Contributions made by PT Comunicações		300,000,000
Closing balance of the plan assets	**589,507,421**	**607,988,000**

A summary of the components of the net periodic post retirement health care cost in the first half of 2007 and 2006 is presented below:

	2007	2006
Service cost	1,366,184	3,530,500
Interest cost	11,443,000	20,123,000
Expected return on plan assets	(18,971,000)	(18,468,000)
Prior years service gains	(514,000)	
Sub total (Note 9.5)	**(6,675,816)**	**5,185,500**
Curtailment costs (Note 9.5)	2,435,000	483,000
	(4,240,816)	**5,668,500**

Actuarial gains and losses, resulting essentially from changes in actuarial assumptions or differences between those actuarial assumptions and actual data, are computed periodically by the actuary and are recognised directly in shareholders equity. During the first half of 2007 and 2006, the movements in accumulated net actuarial losses were as follows:

	2007	2006
Opening balance (Note 40.6)	**246,438,253**	**316,875,470**
Change in actuarial assumptions (Note 9.6)	(33,044,160)	(65,075,012)
Differences between actual data and actuarial assumptions (Note 9.6):		
Assets related	(1,536,000)	26,056,000
Closing balance (Note 40.6)	**211,858,093**	**277,856,458**

During the first half of 2007, the change in actuarial assumptions corresponds to the effect of the increase in the discount rate from 4.75% to 5.25%. During the first half of 2006, the change in actuarial assumptions corresponds to the effect of the increase in the discount rate from 4.5% to 5.0%.

9.3. Responsibilities for post retirement benefits

The movements occurred in the responsibilities for post retirement benefits during the year ended 31 December 2006 and the six months period ended 30 June 2007 were as follows:

	Pension benefits (Nota 9.1)	Health care benefits (Nota 9.2)	Total
Balance as at 31 December 2005	**2,038,652,313**	**597,231,431**	**2,635,883,744**
Changes in consolidation perimeter (i)	1,270,982	1,241,684	2,512,666
Net periodic pension cost/(gain)	44,653,706	(116,768,684)	(72,114,978)
Work force reduction program costs	197,304,200	11,609,762	208,913,962
Termination of Protocol with SNS		(220,417,000)	(220,417,000)
Payments and contributions	(225,332,618)	(336,520,495)	(561,853,113)
Net actuarial gains	(248,977,996)	(70,437,217)	(319,415,213)
Balance as at 31 December 2006	**1,807,570,587**	**(134,060,519)**	**1,673,510,068**
Net periodic pension cost/(gain) (Note 9.5)	(10,622,400)	(6,675,816)	(17,298,216)
Work force reduction program costs (Note 9.5)	79,540,451	2,435,000	81,975,451
Payments, contributions and refunds (Note 9.4)	(225,120,094)	63,775,925	(161,344,169)
Net actuarial losses (Note 9.6)	(287,029,010)	(34,580,160)	(321,609,170)
Balance as at 30 June 2007	**1,364,339,534**	**(109,105,570)**	**1,255,233,964**

(i) In 2006, this caption relates to the accrued post retirement liability of DCSI, a company acquired during 2006.

Certain post retirement benefit plans have a surplus position, therefore according to IAS 19 they should be presented in the balance sheet separately from those plans with a deficit position. As at 30 June 2007 and 31 December 2006, net post retirement obligations were recognized in the balance sheet as follows:

	30 Jun 07	31 Dec 06
Plans with a deficit position:		
Pensions	1,376,343,328	1,807,570,587
Healthcare	2,253,688	
	1,378,597,016	**1,807,570,587**
Plans with a surplus position:		
Pensions	(12,003,794)	
Healthcare	(111,359,258)	(134,060,519)
	(123,363,052)	**(134,060,519)**
	1,255,233,964	**1,673,510,068**

9.4. Cash flow relating to pension plans

During the first half of 2007 and 2006, the payments and contributions regarding post retirement benefits were as follows:

	2007	2006
Pension benefits		
Contributions to the funds	148,919,970	46,795,000
Payments of salaries to pre-retired and suspended employees	76,200,124	72,191,222
Sub total (Note 9.3)	**225,120,094**	**118,986,222**
Health care benefits		
Refund of expenses paid on account by PT Comunicações	(75,224,283)	
Payments to PT ACS	11,448,358	15,624,844
Contributions to the fund		300,000,000
Sub total (Note 9.3)	**(63,775,925)**	**315,624,844**
	161,344,169	**434,611,066**

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9.5. Post retirement benefit costs

In the first half of 2007 and 2006, post retirement benefit costs and net work force reduction program costs were as follows:

	2007	2006
Post retirement benefits:		
Pension benefits (Notes 9.1 and 9.3)	(10,622,400)	18,755,000
Health care benefits (Notes 9.2 and 9.3)	(6,675,816)	5,185,500
	(17,298,216)	**23,940,500**
Curtailment costs, net		
Work force reduction program		
Pensions (Notes 9.1 and 9.3)	79,540,451	11,961,800
Health care (Notes 9.2 and 9.3)	2,435,000	483,000
Termination payments	2,457,541	12,604,191
	84,432,992	**25,048,991**

The impact of an increase (decrease) by 1% in the rate of return on long-term fund assets would have led to a decrease (increase) of post retirement benefit costs in the six months period ended 30 June 2007 by approximately Euro 15 million, related to the increase (decrease) in expected return on assets.

9.6. Net actuarial gains

In the first half of 2007 and 2006, the net actuarial gains recorded in the Statement of Recognised Income and Expenses were as follows:

	2007	2006
Changes in actuarial assumptions		
Pension benefits (Notes 9.1 and 9.3)	(208,920,016)	(247,027,288)
Health care benefits (Notes 9.2 and 9.3)	(33,044,160)	(65,075,012)
	(241,964,176)	**(312,102,300)**
Differences between actual data and actuarial assumptions		
Pension benefits (Notes 9.1 and 9.3)	(78,108,994)	38,813,524
Health care benefits (Notes 9.2 and 9.3)	(1,536,000)	26,056,000
	(79,644,994)	**64,869,524**
	(321,609,170)	**(247,232,776)**

10. Direct costs

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Telecommunications costs (i) (ii)	344,483,092	231,866,909
Directories (Note 3.p)	34,597,305	38,455,787
Leasings of sites (ii)	28,020,346	26,674,992
Other	21,004,491	15,650,233
	428,105,234	**312,647,921**

(i) The increase in telecommunications costs is mainly related to the termination of the partial Bill & Keep interconnection regime in Brazil (Note 7.c).

(ii) During the six months periods ended 30 June 2007 and 2006, these captions include costs related to operating leases of capacity totaling Euro 56,918,252 and Euro 51,381,065, respectively (Note 13).

11. Costs of products sold

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Costs of products sold	278,148,006	284,755,630
Increases in adjustments for inventories (Note 38)	160,377	1,229,539
Reductions in adjustments for inventories (Note 38)	(1,941,543)	(123)
	276,366,840	**285,985,046**

12. Supplies and external services

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Commissions	124,433,647	134,211,842
Specialized work	83,741,521	81,192,220
Maintenance and repairs	79,443,110	72,500,309
Operating leases (Note 13)	28,998,192	30,313,018
Electricity	37,974,812	33,432,322
Communications	10,462,792	10,785,243
Installation and removal of terminal equipment	9,040,425	7,955,624
Travelling	6,018,494	6,845,345
Surveillance and security	7,151,484	6,627,357
Fuel, water and other fluids	5,693,670	5,756,388
Office material	4,769,493	4,953,600
Insurance	4,565,765	6,237,138
Transportation	4,908,485	5,087,522
Cleaning expenses	4,327,875	4,135,646
Other	47,363,591	43,071,630
	458,893,356	**453,105,204**

13. Operating leases

During the six months periods ended 30 June 2007 and 2006, operating lease costs were recognised in the following captions:

	2007	2006
Direct costs - capacity (Note 10)	56,918,252	51,381,065
Supplies and external services (Note 12) (i)	28,998,192	30,313,018
	85,916,444	**81,694,083**

(i) This caption is mainly related to rentals of property and leases of transportation equipment.

As at 30 June 2007, the Company s obligations under operating lease contracts mature as follows:

Short-term	121,701,385
Second half of 2008	28,375,291
2009	52,002,085
2010	42,551,962

2011	36,018,636
First half of 2012	17,093,468
Second half of 2012 and following periods	124,004,570
	421,747,397

14. Indirect taxes

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Spectrum fees (i)	61,088,789	55,094,881
Value added tax	11,228,025	15,796,575
Other indirect taxes (ii)	25,024,258	19,047,760
	97,341,072	**89,939,216**

(i) This caption includes primarily spectrum fees from Vivo and TMN, which in the first half of 2007 amounted to Euro 46 million and Euro 14 million, respectively, while in the same period of last year amounted to Euro 41 million and Euro 13 million, respectively.

(ii) This caption includes mainly indirect taxes from Vivo related to Fust (fund to facilitate the general access to telecommunications services) and Funtel (National Telecommunications Fund), as well as other municipal, federal and state taxes in Brazil.

15. Other costs, net

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Donations	3,128,542	4,728,049
Tax fines	505,065	646,676
Other (i)	11,302,436	14,785,643
	14,936,043	**20,160,368**

(i) During the six months periods ended 30 June 2007 and 2006, this caption includes mainly expenses incurred by Portugal Telecom amounting to respectively Euro 7 million and Euro 13 million, related to the tender offer launched against Portugal Telecom by Sonaecom in the first half of 2006.

16. Losses and (gains) on financial assets

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Derivatives (i)	(104,450,608)	11,616,497
Disposal of the investment in Banco Espírito Santo (Notes 7.d, 18 and 31)	(35,698,600)	
Real estate investments (ii)	(403,019)	(161,112)
Other, net (iii)	(1,831,948)	1,346,478
	(142,384,175)	**12,801,863**

(i) In the first half of 2007 and 2006, this caption includes respectively net gains of Euro 73,203,598 and net losses of Euro 20,024,647, related to changes in the fair value of derivative financial instruments classified

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as held for trading (Note 41). In addition, this caption also includes a gain of Euro 31,247,010 (Notes 7.d, 40.3 and 43.f) recorded in the first half of 2007 related to the financial settlement of equity swaps over 48,810,043 own shares (Note 40.3), and a gain of Euro 8,408,150 recorded in the first half of 2006 related to dividends obtained by PT on the equity swap over PT Multimedia s shares.

(ii) This caption includes gains related to rents received from real estate rented to third parties, net of the amortization of these assets (Note 31).

(iii) In the first half of 2007, this caption includes mainly a gain of Euro 2,632,000 related to dividends received from Banco Espirito Santo (Note 43.e). In the first half of 2006, this caption includes primarily a cost of Euro 1,136,737 related to the devaluation of the Iris Capital Fund, and includes also a gain of Euro 1,344,000 related to dividends received from Banco Espirito Santo (Note 43.e).

17. Net other financial expenses

During the six months periods ended 30 June 2007 and 2006, this caption consists of:

	2007	2006
Bank commissions and expenses	12,975,010	15,912,018
Other	4,922,145	13,750,091
	17,897,155	**29,662,109**

18. Income taxes

From 1 January 2007, Portugal Telecom and its subsidiaries located in Portugal are subject to Corporate Income Tax (IRC) at a rate of 25%, which is increased up to a maximum of 1.5% of collectible profit through a municipal tax, leading to an aggregate tax rate of approximately 26.5%. In 2006, the Corporate Income Tax was increased up to 10%, leading to an aggregate tax rate of approximately 27.5%. In calculating taxable income, to which the above tax rate is applied, non-tax-deductible amounts are added to or subtracted from book entries. These differences between book and taxable entries can be temporary or permanent.

Portugal Telecom and PT Multimedia adopted the tax consolidation regime for groups of companies, which apply to all companies in which they hold at least 90% of the capital stock and that comply with Article 63 of the Portuguese Corporate Income Tax Law. Income taxes from the tax consolidation of PT Multimédia is presented in the consolidated income statement under the caption Discontinued operations (Note 19).

In accordance with Portuguese tax legislation, income tax returns are subject to review and adjustment by the tax authorities during the period of four calendar years (five years for social security, and ten years for the contributions made with respect to the years before 2001), except when there are tax losses, tax benefits were granted, or when tax inspections, claims or appeals are in progress, in which case the time periods are extended or suspended. The Board of Directors of Portugal Telecom, based on information from its tax advisors, believes that any adjustment which may result from such reviews or adjustments, as well as other tax contingencies, would not have a material impact on the consolidated financial statements as at 30 June 2007, except for the situations where provisions have been recognised (Note 38).

a) Deferred taxes

During the six months periods ended 30 June 2007 and 2006, the movements in deferred tax assets and liabilities were as follows:

	Balance 31 Dec 2006	Changes in the consolidation perimeter (i)	Net Income (ii)	Accumulated earnings	Foreign currency translation adjustments	Other	Balance 30 Jun 2007
Deferred tax assets							
Accrued post-retirement liability	443,480,168		(25,616,738)	(85,226,430)			332,637,000
Tax losses carryforward (iii)	272,545,978	(73,229,713)	(1,249,472)		15,980,495		214,047,288
Provisions and adjustments	112,663,562	(14,931,534)	(6,154,558)		4,199,365		95,776,835
Additional contribution to pension funds	203,542,091		(4,518,650)				199,023,441
Financial instruments	13,224,001		(911,828)		(64,884)		12,247,289
Other	121,551,354	(956,783)	(862,817)		9,875,258	(40,928)	129,566,084
	1,167,007,154	**(89,118,030)**	**(39,314,063)**	**(85,226,430)**	**29,990,234**	**(40,928)**	**983,297,937**
Deferred tax liabilities							
Revaluation of fixed assets	14,342,405	(29,169)	(726,413)				13,586,823
Gains on disposals of investments	3,176,409		(231,394)				2,945,015
Financial instruments and investments available for sale	11,660,352		(4,310,612)	(7,349,740)			
Other	61,198,651		(7,531,848)		(657,537)		53,009,266
	90,377,817	**(29,169)**	**(12,800,267)**	**(7,349,740)**	**(657,537)**		**69,541,104**
		(89,088,861)	**(26,513,796)**	**(77,876,690)**	**30,647,771**	**(40,928)**	

(i) Changes in the consolidation perimeter are primarily related to deferred tax asssets and liabilities from PT Multimedia, which as at 30 June 2007 are included under the captions Assets related to discontinued operations and Liabilities related to discontinued operations , respectively.

(ii) The movements in deferred tax assets and liabilities recorded through net income include the recognition of a deferred tax asset of Euro 4,823,000 (Note 19) related to the tax effect of a provision recorded by Portugal Telecom for the spin-off of PT Multimedia amounting to Euro 18,200,000 (Note 19).

(iii) As at 30 June 2007, this caption includes the deferred tax assets related to tax losses carryforward recognised by Vivo. Tax losses from Vivo, amounting to Euro 630 million, have no maturity but can only be used up to a limit of 30% of tax gains of each period. The changes in the consolidation perimeter correspond to the deferred tax assets related to tax losses carryforward of PT Multimedia, following the classification of this business as a discontinued operation (Note 19).

	Balance 31 Dec 2005	Changes in the consolidation perimeter	Net Income (i)	Accumulated earnings	Foreign currency translation adjustments	Taxes payable (Note 27)	Other	Balance 30 Jun 2006
Deferred tax assets								
Accrued post-retirement liability	720,255,233		(108,815,191)	(67,556,356)				543,883,686
Tax losses carryforward	286,876,872				(534,582)	(134,584,500)	71,922	151,829,712
Provisions and adjustments	133,288,748	21,038	8,096,392		(912,015)			140,494,163
Additional contribution to pension funds	139,990,269		67,545,048					207,535,317
Financial instruments	18,477,273		(132,797)	(5,402,142)	79,608			13,021,942
Other	88,922,614		1,591,510		(10,874)		913,407	91,416,657
	1,387,811,009	**21,038**	**(31,715,038)**	**(72,958,498)**	**(1,377,863)**	**(134,584,500)**	**985,329**	**1,148,181,477**
Deferred tax liabilities								
Revaluation of fixed assets	16,530,675	17,426	(835,665)					15,712,436
Gains on disposals of investments (ii)	271,627,295		(268,135,502)					3,491,793
Financial instruments	12,418,218		(10,845,772)	(1,187,131)				385,315
Other	34,290,889		1,570,744					35,861,633
	334,867,077	**17,426**	**(278,246,195)**	**(1,187,131)**				**55,451,177**
		3,612	**246,531,157**	**(71,771,367)**	**(1,377,863)**	**(134,584,500)**	**985,329**	

(i) In the first half of 2006, deferred taxes recorded through net income include a cost of Euro 5,437,875 which was now reclassified to the caption Discontinued operations (Note 19), as it is related to PT Multimedia.

(ii) The reduction in this caption is related to the adoption by the Company of the voluntary taxation regime for certain gains obtained in the disposal of investments in prior periods. As a result, the amount excluded from taxation by this regime, of Euro 141,972,529, was recorded as a gain in the income statement in the first half of 2006, as mentioned below in the reconciliation of the provision for income taxes.

b) Reconciliation of income tax provision

During the six months periods ended 30 June 2007 and 2006, the reconciliation between the nominal and effective income tax for the period is as follows:

	2007	2006
Income before taxes	584,286,449	287,742,205
Statutory tax rate	26.5%	27.5%
	154,835,909	79,129,106
Permanent differences (i)	(12,138,956)	19,407,589
Adjustments to the provision for income taxes of the previous year (Note 27)	(8,626,652)	(6,481,032)
Valuation allowance for certain tax losses carryforward (ii)	5,838,717	39,525,825
Difference in tax rates	2,142,667	(6,982,347)
Provisions for income tax contingencies (Notes 27 and 38)	1,414,078	1,851,690
Reversal of deferred tax liabilities related to the taxation of 50% of the gains obtained in the disposal of certain financial investments (Note 7.d)		(141,972,529)
Liquidation of a subsidiary (Note 7.d)		(53,342,681)
Other	(2,367,363)	3,469,466
	141,098,400	**(65,394,913)**
Income tax		
Income tax-current (Note 27)	109,761,604	186,574,119
Deferred taxes (iii)	31,336,796	(251,969,032)
	141,098,400	**(65,394,913)**

(i) In the first half of 2007, this caption includes an amount of Euro 9,460,129 related to the non-taxable gain obtained with the disposal of the investment in Banco Espírito Santo amounting to Euro 35,698,600 (Note 16).

(ii) This caption relates mainly to tax losses from certain holding companies of Brasilcel, which do not expect to obtain taxable profits in the future that will allow for the recovery of these tax losses. The reduction in the first half of 2007, as compared to the same period of last year, is primarily due to the decrease in allowances for tax losses generated by Vivo, following the corporate restructuring completed at the end of 2006.

(iii) The change in this caption is mainly related to the reduction of deferred tax liabilities in the first half of 2006 by Euro 268 million, following the adoption of the voluntary capital gains taxation regime, as mentioned above.

19. Discontinued operations

As at 30 June 2007, PT Multimédia was classified as a discontinued operation, following the approval at the last Annual General Meeting of Portugal Telecom, held on 27 April 2007, of the free allotment (spin-off) of all ordinary shares of PT Multimedia held by Portugal Telecom to its shareholders. The assets and liabilities of this business as at 30 June 2007 and its results in the first half of 2007 and 2006 were presented in the consolidated financial statements under the caption Discontinued operations .

During the six months ended 30 June 2007 and 2006, income from discontinued operations includes the results of PT Multimedia in the related periods and in the first half of 2007 it also includes a provision recorded by Portugal Telecom amounting to Euro 18,200,000 (Notes 18 and 38) related to estimated costs with the spin-off process, net of the related tax effect of Euro 4,823,000 (Note 18). The results of PT Multimedia in the first half of 2007 and 2006 were as follows:

	2007	**2006**
Revenues	**350,692,381**	**324,687,030**
Costs:		
Wages and salaries	19,890,380	21,469,203
Direct costs	108,522,917	102,657,908
Commercial costs	25,003,462	20,759,611
Depreciation and amortization (i)	54,540,978	50,865,706
Other costs (ii)	85,032,047	65,545,337
Total costs	**292,989,784**	**261,297,765**
Income before financial results and taxes	**57,702,597**	**63,389,265**
Interest and other financial expenses, net	337,754	3,659,860
Income before income taxes	**57,364,843**	**59,729,405**
Provision for income taxes (iii)	(15,348,302)	(14,555,312)
Results from discontinued operations	**42,016,541**	**45,174,093**

(i) This caption includes the amortization related to contracts entered into with PT Comunicações for the acquisition of capacity on its fixed network, which in the first half of 2006 amounted to Euro 10,943,424 and were eliminated in PT s consolidation process.

(ii) In the first half of 2006, this caption includes primarily increases and decreases in provisions amounting to Euro 8,816,365 and Euro 10,422,037 (Note 38), respectively. The reductions in provisions are primarily related to the reduction of the provision for estimated costs from the disposal of Lusomundo Media.

(iii) In the first half of 2006, this caption includes deferred taxes amounting to Euro 5,437,875(Note 18) and current income taxes amounting to Euro 9,117,437.

The assets and liabilities related to discontinued operations as at 30 June 2007 are as follows:

Assets of PT Multimedia:	
Current assets	266 337 483
Intangible assets	262 256 574
Tangible assets	306 463 450
Deferred taxes	76 382 310
Other non-current assets	17 830 949
	929 270 766
Goodwill on the acquisition of PT Multimedia shares	176 647 948
Total assets (Note 7.d)	**1,105,918,714**
Liabilities of PT Multimedia:	
Current liabilities	395 738 734
Medium and long-term debt	149 063 567
Other non-current liabilities	4 862 890
Total liabilities (Note 7.d)	**549,665,191**

During the six months periods ended 30 June 2007 and 2006, statements of cash flows from discontinued operations (PT Multimédia) are as follows:

	2007	2006
OPERATING ACTIVITIES		
Collections from clients	423,491,802	373,503,765
Payments to suppliers	(266,505,895)	(235,362,441)
Payments to employees	(19,972,248)	(19,759,409)
Payments relating to income taxes	(1,093,898)	(1,038,541)
Payments relating to indirect taxes and other	(9,392,261)	(11,227,525)
Cash flow from operating activities	**126,527,500**	**106,115,849**
INVESTING ACTIVITIES		
Cash receipts resulting from		
Financial investments	3,340,528	10,204,840
Tangible fixed assets	265,568	319,273
Interest and related income	485,304	1,766,696
Dividends	1,476,409	1,641,167
Other investing activities	2,163,792	1,751,590
	7,731,601	15,683,566
Payments resulting from		
Financial investments	(3,462)	(10,204,840)
Tangible and intangible assets	(54,092,417)	(77,449,611)
Other investing activities	(551)	(554,027)
	(54,096,430)	(88,208,478)
Cash flow from investing activities	**(46,364,829)**	**(72,524,912)**
FINANCING ACTIVITIES		
Cash receipts resulting from		
Loans obtained	80,225,284	693,527