PORTUGAL TELECOM SGPS SA
Form 6-K
September 14, 2006

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 September, 2006

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 _______

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

Yes _______ No ___X____

First Half _ 2006
Earnings Release

Portugal Telecom

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First Half _ 2006
Earnings Release

Lisbon, Portugal, 14 September 2006

Portugal Telecom announced today its results for the first half ended 30 June 2006.

In the first half of 2006, consolidated operating revenues amounted to Euro 3,089 million. EBITDA reached Euro 1,090 million, equivalent to a margin of 35.3% . EBITDA minus Capex reached Euro 734 million. Net income for the period amounted to Euro 402 million, equivalent to an increase of 41.6% over the same period of last year. Net debt reached Euro 4,380 million at the end of June 2006, while the unfunded post retirement benefit obligations decreased to Euro 1,990 million at the end of June 2006.

PT s financial results have been prepared in accordance with International Financial Reporting Standards (IFRS).

Table 1 _ Consolidated Financial Highlights — Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
Operating revenues	1,523.0	1,576.6	(3.4%)	3,088.6	3,028.7	2.0%
Operating costs, excluding D&A	1,020.2	1,018.1	0.2%	1,998.4	1,851.2	8.0%
EBITDA (1)	502.9	558.4	(10.0%)	1,090.2	1,177.5	(7.4%)
Income from operations (2)	203.3	282.4	(28.0%)	493.1	654.2	(24.6%)
Net income	190.7	101.1	88.7%	401.5	283.5	41.6%
Capex	193.8	201.5	(3.8%)	356.3	368.3	(3.3%)
Capex as % of revenues (%)	12.7	12.8	(0.1pp)	11.5	12.2	(0.6pp)
EBITDA minus Capex	309.1	357.0	(13.4%)	734.0	809.2	(9.3%)
Net debt	4,380.5	4,295.6	2.0%	4,380.5	4,295.6	2.0%
EBITDA margin (3) (%)	33.0	35.4	(2.4pp)	35.3	38.9	(3.6pp)
Net debt / EBITDA (x)	2.2	1.9	0.3x	2.0	1.8	0.2x
EBITDA / net interest (x)	7.9	8.9	(0.9x)	9.6	10.1	(0.5x)

(1) EBITDA = income from operations + depreciation and amortisation. (2) Income from operations = income before financials and taxes + goodwill impairment + workforce reduction costs + losses (gains) on disposal of fixed assets + net other costs. (3) EBITDA margin = EBITDA / operating revenues.

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Financial Highlights

Operating revenues increased by 2.0% y.o.y in the first half of 2006 to Euro 3,089 million, underpinned by Vivo, due to the appreciation of the Real during the period, and PTM s contribution to consolidated operating revenues. Wireline and TMN s operating revenues were negatively impacted by the reduction of interconnection rates in the amount of Euro 17 million and Euro 30 million respectively. Excluding this impact, wireline operating revenues would have decreased by 4.1% y.o.y, while TMN operating revenues would have remain flat.

EBITDA reached Euro 1,090 million in the first half of 2006, a decrease of 7.4% y.o.y, equivalent to an EBITDA margin of 35.3% . The Euro 87 million reduction in EBITDA resulted primarily from the negative impact of lower interconnection rates (Euro 18 million) in wireline and TMN, the one-off reversal of a provision relating to a receivable from Angola Telecom (Euro 23 million) booked last year, and the recognition in June 2006 of a provision in Vivo related to billing problems in connection with the systems migration to a unified platform (Euro 30 million).

Income from operations decreased by 24.6% y.o.y in the first half of 2006 to Euro 493 million, impacted by the reduction in EBITDA and the increase in depreciation and amortisation mainly as a result of higher capex in 2005 and the appreciation of the Real against the Euro.

Net income increased by 41.6% y.o.y in the first half of 2006 to Euro 402 million, primarily as a result of the reduction in deferred tax liabilities resulting from the adoption of the voluntary taxation regime on certain capital gains, as part of the ongoing internal corporate restructuring.

Capex decreased by 3.3% y.o.y in the first half of 2006 to Euro 356 million, equivalent to 11.5% of operating revenues, primarily as a result of the reduction in Vivo s contribution on a constant currency basis (Euro 50 million), which was partially offset by the impact of the appreciation of the Real against the Euro (Euro 22 million) and the growth in capex of PTM.

EBITDA minus Capex decreased by 9.3% y.o.y to Euro 734 million in the first half of 2006, equivalent to 23.8% of operating revenues. Approximately 93% of PT s EBITDA minus Capex was generated by its domestic businesses (wireline, TMN and PTM).

Free cash flow decreased from Euro 263 million in the first half of 2005 to Euro 170 million in the first half of 2006, primarily due to the increase in interest paid, namely: (1) at Portugal Telecom, which in the first half of 2006 included both the interest paid on the Eurobonds issued in 2005 and the interest on the Eurobond repaid in February 2006, and (2) at Vivo, in connection with the debt restructuring undertaken in the first half of 2006. This effect was partially offset by the growth in operating cash flow and the reduction in payments related to post retirement benefits, in connection with the higher level of curtailments in the first half of 2005.

Net debt as at 30 June 2006 increased to Euro 4,380 million from Euro 3,672 million as at 31 December 2005. The free cash flow of Euro 170 million generated in the period was more than offset by: (1) the dividends paid in the first half of 2006 by PT and PTM amounting to Euro 553 million; (2) the extraordinary contribution of Euro 300 million to fund post retirement health care obligations, which reduced the unfunded post retirement liabilities by the same amount, and (3) the equity swaps contracted over 7.4 million PT shares in the first half of 2006, with a notional value of Euro 62 million.

Net exposure to Brazil amounted to R$ 7,517 million, or Euro 2,701 million at the Euro/Real exchange rate prevailing at the end of the first half of 2006. As at 30 June 2006, assets denominated in Reais in PT s consolidated balance sheet represented approximately 37% of total assets and PT s share of Vivo s net debt amounted to Euro 641 million.

As at 14 September 2006, PT had entered into equity swap contracts to acquire PT shares, equivalent to 1.83% of its share capital. PT had entered into these equity swaps as part of the share buyback programme approved in April 2005, which was suspended as a result of the tender offer launched by Sonaecom on 6 February 2006.

PT completed its share capital restructuring on 11 September 2006, as approved by shareholder at the AGM held on 21 April 2006, by reducing the share capital to Euro 395,099,775 through the decrease in the par value of PT shares to Euro 0.35. As a result, adjusted distributable reserves as at 30 June 2006 amounted to Euro 1,425 million, adjusted for the Euro 164 million impact of the share buyback already executed up to 6 February 2006.

On 3 August 2006, PT s Board of Directors announced its intention to increase the shareholder remuneration package announced on 6 March 2006 for the 2006-2008 period from Euro 3.0 billion to Euro 3.5 billion (including the dividend already paid in May 2006 of Euro 536 million). The shareholder remuneration package should consist of an extraordinary cash return of Euro 1.9 billion, or Euro 1.75 per share, within the next 12 months, and a commitment to continue to implement a progressive dividend policy, in addition to the distribution of PTM shares (see PT Multimedia spin-off below). The implementation of this proposal is subject to shareholder approval at an Extraordinary General Meeting to be called for that purpose and will be executed only if the Sonaecom tender offer lapses or ceases.

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Operating Highlights

Table 2 _ Key Performance Indicators

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
Customer base ('000)						
Wireline	4,433	4,445	(0.3%)	4,433	4,445	(0.3%)
Mobile	33,887	33,554	1.0%	33,887	33,554	1.0%
Pay-TV	1,444	1,465	(1.5%)	1,444	1,465	(1.5%)
Broadband (ADSL retail + cable)	980	833	17.6%	980	833	17.6%
Wireline						
Main accesses ('000)	4,433	4,445	(0.3%)	4,433	4,445	(0.3%)
Retail accesses	4,209	4,371	(3.7%)	4,209	4,371	(3.7%)
PSTN/ISDN	3,573	3,871	(7.7%)	3,573	3,871	(7.7%)
Carrier pre-selection	581	540	7.6%	581	540	7.6%
ADSL retail	636	500	27.1%	636	500	27.1%
Wholesale accesses	224	73	205.0%	224	73	205.0%
Unbundled local loops	146	28	n.m.	146	28	n.m.
Wholesale line rental	20	0	n.m.	20	0	n.m.
ADSL wholesale	59	46	28.9%	59	46	28.9%
Net additions ('000)	(14)	18	n.m.	(45)	68	n.m.
Retail accesses	(74)	6	n.m.	(146)	41	n.m.
PSTN/ISDN	(97)	(43)	124.9%	(196)	(77)	154.5%
Carrier pre-selection	(16)	32	n.m.	6	55	(89.4%)
ADSL retail	23	49	(53.9%)	51	119	(57.4%)
Wholesale accesses	60	12	n.m.	101	26	285.6%
Unbundled local loops	37	12	209.4%	74	19	286.6%
Wholesale line rental	20	0	n.m.	20	0	n.m.
ADSL wholesale	4	0	n.m.	7	7	4.4%
Pricing plans ('000)	2,283	1,330	71.6%	2,283	1,330	71.6%
Total traffic (million of minutes)	3,393	3,778	(10.2%)	6,884	7,587	(9.3%)
ARPU (Euro)	29.9	30.6	(2.4%)	30.0	30.6	(2.0%)
Domestic mobile TMN						
Customers ('000)	5,362	5,108	5.0%	5,362	5,108	5.0%
Net additions ('000)	44	21	108.1%	50	54	(8.3%)
MOU (minutes)	120	122	(1.4%)	119	119	(0.7%)
ARPU (Euro)	20.9	22.7	(7.8%)	20.7	22.7	(8.8%)
Data as % of service revenues (%)	12.3	10.8	1.5pp	12.6	11.0	1.6pp
CCPU (1) (Euro)	11.0	11.3	(3.1%)	10.8	11.3	(4.9%)
ARPU minus CCPU (Euro)	10.0	11.4	(12.5%)	9.9	11.4	(12.6%)
Brazilian mobile Vivo						
Customers ('000)	28,525	28,446	0.3%	28,525	28,446	0.3%
Net additions ('000)	(1,613)	1,487	n.m.	(1,280)	1,903	n.m.
MOU (minutes)	66	79	(16.4%)	67	80	(16.2%)
ARPU (R$)	24.1	28.6	(15.8%)	24.7	28.7	(13.8%)
Data as % of service revenues (%)	7.7	6.1	1.6pp	7.4	5.8	1.6pp

CCPU [1] (R$)	16.3	19.6	(17.1%)	15.5	17.3	(10.5%)
ARPU minus CCPU (R$)	7.8	9.0	(13.0%)	9.3	11.4	(18.9%)
Multimedia PT Multimedia						
Homes passed ('000)	2,782	2,606	6.7%	2,782	2,606	6.7%
Pay-TV customers ('000)	1,444	1,465	(1.5%)	1,444	1,465	(1.5%)
Pay-TV net additions ('000)	(28)	9	n.m.	(35)	16	n.m.
Cable broadband accesses ('000)	344	333	3.4%	344	333	3.4%
Cable broadband net additions ('000)	(8)	13	n.m.	(4)	27	n.m.
Pay-TV blended ARPU (Euro)	29.2	28.1	4.1%	28.9	27.6	4.6%

(1) CCPU (cash cost per user) = operating costs minus provisions, depreciation and amortisation and sales of equipment per user.

Customers

- Wireline main lines decreased by 0.3% y.o.y in the second quarter of 2006 to 4,433 thousand, as a result of continued traditional line loss.
- Mobile customers increased by 1.0% y.o.y in the second quarter of 2006 to 33,887 thousand. Excluding the database adjustment undertaken by Vivo, mobile customers would have grown by 6.4% y.o.y.
- Pay-TV customers totalled 1,444 thousand in the second quarter of 2006, equivalent to a penetration of approximately 40% of the TV households in Portugal.
- Retail broadband customers reached 980 thousand in the second quarter of 2006, equivalent to a penetration of 21.1% of retail access lines (PSTN/ISDN and cable). Retail broadband net additions were 16 thousand in the second quarter of 2006.

Wireline

- Total main lines decreased by 0.3% y.o.y in the second quarter of 2006 to 4,433 thousand, of which 3,573 thousand were PSTN/ISDN, 636 thousand were ADSL retail, 59 thousand were ADSL wholesale, 146 thousand were unbundled local loops (ULL) and 20 thousand were wholesale line rental(WLR).
- The number of pricing plans increased by 120 thousand in the second quarter of 2006 to 2,283 thousand, underpinned by the strong growth in flat rate pricing plans. Currently, over one-third of the retail customer base has a flat rate pricing plan.
- In the second quarter of 2006, total traffic fell by 10.2% y.o.y. Retail traffic fell by 14.8% y.o.y, primarily as a result of continued fixed-to-mobile substitution and intense competition, while wholesale traffic fell by 6.6% y.o.y, mainly due to the migration of dial-up narrowband Internet to broadband.
- Total ARPU decreased by 2.4% y.o.y in the second quarter of 2006 to Euro 29.9. Subscription and voice ARPU decreased by 6.9% y.o.y to Euro 24.8, as a result of declining traffic revenues, whilst data ARPU increased by 27.7% y.o.y to Euro 5.1, representing already 16.9% of total ARPU in the second quarter of 2006.

Domestic Mobile

- Net additions totalled 44 thousand in the second quarter of 2006, compared with 21 thousand in the same period of last year. The strong performance in the corporate segment, in which TMN is gaining market share, underpinned postpaid customer net additions in the second quarter of 2006, which reached 31 thousand, representing more than 70% of total net additions in the period.
  At the end of June 2006, TMN had 5,362 thousand customers, an increase of 5.0% over the same period of last year. The rollout of 3G progressed steadily, with total 3G enabled customers exceeding 500 thousand at the end of June 2006, equivalent to 10% of total customers.
- Data services accounted for 12.3% of service revenues in the second quarter of 2006, an improvement of 1.6pp over the second quarter of 2005, underpinned by the growth in non-SMS data revenues, which increased by 24.6% y.o.y and already accounted for 22.5% of total data revenues.
- Minutes of usage (MOU) decreased by 1.4% y.o.y to 120 minutes in the second quarter of 2006, primarily as a result of lower fixed-mobile traffic and aggressive SMS promotions over the past months focusing on the youth segment.

- ARPU in the second quarter of 2006 decreased by 7.8% y.o.y to Euro 20.9, primarily as a result of the reduction in interconnection ARPU of 15.5% y.o.y due to the cut in fixed-to-mobile and mobile- to-mobile interconnection rates.

Brazilian Mobile

- Net disconnections reached 1,613 thousand in the second quarter of 2006, as a result of a database adjustment of 1,823 thousand inactive customers, namely due to the systems migration to a unified platform. At the end of June 2006, Vivo had 28,525 thousand customers, an increase of 0.3% y.o.y. Vivo s market share at the end of June 2006 was 40.6% in its areas of operation and 31.1% in the whole of Brazil.

- Data revenues represented 7.7% of total service revenues in the second quarter of 2006, with approximately 35% of data revenues already being generated by non-SMS data services.

- MOU dropped by 16.4% y.o.y in the second quarter of 2006 to 66 minutes, primarily due to the negative evolution of prepaid MOU traffic, which was impacted by the reduction in incoming traffic. Postpaid MOU remained stable in the second quarter of 2006.

- ARPU decreased by 15.8% y.o.y in the second quarter of 2006 to R$ 24.1, primarily as a result of the decrease in incoming traffic, the fixed-to- mobile to mobile-to-mobile traffic migration, as well as the traffic promotions.

Multimedia

- Pay-TV customers totalled 1,444 thousand at the end of June 2006, with net disconnections of 28 thousand in the second quarter of 2006, as a result of a challenging macroeconomic and competitive environment. At the end of June 2006, cable and DTH customers totalled 1,072 thousand and 371 thousand respectively.

- Blended ARPU in the second quarter of 2006 increased by 4.1% y.o.y to Euro 29.2, primarily reflecting the take-up of the digital package TV Cabo Funtastic Life , which offers 65 channels.

- Broadband cable customers reached 344 thousand at the end of June 2006, an increase of 3.4% y.o.y. Broadband penetration rate of cable customers reached 32.1%, increasing by 1.2pp y.o.y in the second quarter of 2006.

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Consolidated Income Statement

Table 3 _ Consolidated Income Statement (1) Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
Operating revenues	1,523.0	1,576.6	(3.4%)	3,088.6	3,028.7	2.0%
Wireline	478.9	522.6	(8.4%)	970.4	1,035.0	(6.2%)
Domestic mobile TMN	347.2	349.2	(0.6%)	685.1	694.7	(1.4%)
Brazilian mobile Vivo (1)	491.2	499.2	(1.6%)	1,014.4	896.5	13.1%
Multimedia PT Multimedia	163.7	157.2	4.2%	323.8	309.8	4.5%
Other	42.1	48.4	(13.2%)	94.9	92.6	2.4%
Operating costs, excluding D&A	1,020.2	1,018.1	0.2%	1,998.4	1,851.2	8.0%
Wages and salaries	171.1	174.2	(1.8%)	351.7	337.1	4.3%
Post retirement benefits	7.8	22.3	(65.3%)	23.9	44.7	(46.5%)
Direct costs	200.3	217.4	(7.9%)	402.5	427.8	(5.9%)
Costs of telecommunications	110.8	139.3	(20.4%)	228.8	271.8	(15.8%)
Programming costs	38.8	34.3	13.1%	75.3	68.7	9.7%
Directories	19.3	20.9	(7.4%)	38.5	41.6	(7.6%)
Other	31.3	22.9	36.5%	59.9	45.7	31.1%
Costs of products sold	155.5	187.1	(16.9%)	290.6	297.2	(2.2%)
Marketing and publicity	36.5	46.5	(21.6%)	72.8	79.3	(8.1%)
Maintenance and repairs	39.8	40.1	(0.6%)	81.4	78.1	4.2%
Supplies and external expenses	265.8	249.1	6.7%	516.1	454.6	13.5%
Provisions	89.5	33.8	164.5%	150.7	40.1	276.1%
Taxes other than income taxes	43.3	39.2	10.6%	90.9	76.4	19.0%
Other operating costs	10.6	8.4	26.3%	17.9	16.0	11.4%
EBITDA (2)	502.9	558.4	(10.0%)	1,090.2	1,177.5	(7.4%)
Depreciation and amortisation	299.6	276.0	8.5%	597.1	523.3	14.1%
Income from operations (3)	203.3	282.4	(28.0%)	493.1	654.2	(24.6%)
Other expenses (income)	32.7	81.5	(59.8%)	36.7	99.2	(63.0%)
Work force reduction programme costs	24.5	75.2	(67.4%)	25.0	90.5	(72.3%)
Losses (gains) on disposal of fixed assets	0.5	(0.2)	n.m.	(0.2)	0.4	n.m.
Net other costs	7.7	6.4	20.0%	11.9	8.2	44.3%
Income before financ. & inc. taxes	170.5	200.9	(15.1%)	456.4	555.0	(17.8%)
Financial expenses (income)	87.1	46.3	88.2%	108.9	104.9	3.9%
Net interest expenses	63.5	63.1	0.6%	113.7	116.2	(2.2%)
Net foreign currency losses (gains)	7.1	(26.3)	n.m.	(2.0)	(35.9)	(94.5%)
Net losses (gains) on financial assets	22.5	14.4	56.3%	12.8	22.0	(41.8%)
Equity in losses (earnings) of affiliates	(22.4)	(21.6)	3.5%	(45.5)	(28.5)	59.5%
Other financial expenses	16.5	16.7	(1.6%)	29.9	31.1	(3.8%)
Income before income taxes	83.4	154.6	(46.1%)	347.5	450.1	(22.8%)
Provision for income taxes	92.4	(64.4)	n.m.	50.8	(156.3)	n.m.
Income from continued operations	175.8	90.2	94.9%	398.3	293.8	35.6%
Income from discontinued operations	0.0	2.5	n.m.	0.0	1.6	n.m.

Losses (income) attributable to minority interests	14.9	8.4	77.7%	3.2	(11.8)	n.m.
Consolidated net income	190.7	101.1	88.7%	401.5	283.5	41.6%

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06. (2) EBITDA = income from operations + depreciation and amortisation. (3) Income from operations= income before financials and taxes + goodwill impairment + workforce reduction costs + losses (gains) on disposal of fixed assets + net other costs.

Consolidated Operating Revenues

Table 4 _ Consolidated Operating Revenues Standalone Revenues by Segment[1] Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
Wireline	522.6	563.0	(7.2%)	1,053.5	1,116.1	(5.6%)
Domestic mobile TMN	363.5	373.8	(2.8%)	719.9	748.1	(3.8%)
Brazilian mobile Vivo[1]	491.1	499.1	(1.6%)	1,014.4	896.4	13.2%
Multimedia PT Multimedia	164.0	157.7	4.0%	324.7	310.3	4.6%
Other and eliminations	(18.1)	(17.1)	5.7%	(23.8)	(42.2)	(43.5%)
Total operating revenues	1,523.0	1,576.6	(3.4%)	3,088.6	3,028.7	2.0%

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06.

Consolidated operating revenues increased by 2.0% y.o.y in the first half of 2006 to Euro 3,089 million, reflecting the higher contribution from Vivo, due to the appreciation of the Real during the period, and PTM. On a constant currency basis, consolidated operating revenues would have decreased by 4.5% y.o.y in the first half of 2006, primarily due to the lower contribution from wireline and domestic mobile revenues, which were impacted by the reduction in interconnection rates and by the reduction in Vivo s operating revenues in local currency.

Operating revenues from the wireline business decreased by 5.6% y.o.y (Euro 63 million) to Euro 1,053 million in the first half of 2006. In the first half of 2006, the growth in revenues from ADSL and pricing plans was not sufficient to offset the decrease in access and traffic revenues, driven by continued competition from fixed and mobile operators. The negative impact of lower fixed-to-mobile interconnection rates was Euro 17 million in the first half of 2006.

TMN operating revenues decreased by 3.8% y.o.y (Euro 28 million) in the first half of 2006 to Euro 720 million, primarily as a result of lower interconnection revenues. Fixed-to-mobile and mobile-to-mobile interconnection rates registered an average annual reduction of 21.7% and 22.1% respectively in the first half of 2006, with both reaching Euro 0.12 per minute for TMN in April 2006. Interconnection rates continued to fall by Euro 0.50 cents per quarter to Euro 0.11 per minute in October 2006. The impact of lower interconnection rates on TMN s revenues in the first half of 2006 amounted to Euro 30 million. Excluding this effect, TMN operating revenues would have remained flat in the first half of 2006.

Vivo operating revenues increased by 13.2% y.o.y in the first half of 2006 to Euro 1,014 million, underpinned by the 23.1% y.o.y appreciation of the Real against the Euro (Euro 190 million). Vivo operating revenues fell by 8.1% y.o.y in the first half of 2006, in local currency and in accordance with IFRS, due to the challenging operating environment.

PTM operating revenues increased by 4.6% y.o.y in the first half of 2006 to Euro 325 million, as a result of the increase in Pay-TV and cable Internet revenues, which rose by 5.4% in the period. This growth was driven by the improvement in ARPU, primarily underpinned by the take-up of the digital package TV Cabo Funtastic Life .

Table 5 _ Consolidated Operating Revenues - Contribution by Segment (1)

Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
Wireline	478.9	522.6	(8.4%)	970.4	1,035.0	(6.2%)
Domestic mobile TMN	347.2	349.2	(0.6%)	685.1	694.7	(1.4%)
Brazilian mobile Vivo (1)	491.2	499.2	(1.6%)	1,014.4	896.5	13.1%
Multimedia PT Multimedia	163.7	157.2	4.2%	323.8	309.8	4.5%
Other	42.1	48.4	(13.2%)	94.9	92.6	2.4%
Total operating revenues	1,523.0	1,576.6	(3.4%)	3,088.6	3,028.7	2.0%

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06.

The difference in the growth rates of the standalone revenues and the contribution to consolidated revenues of the domestic mobile business is related to the decline in fixed-to-mobile interconnection rates during the period in analysis. TMN s standalone revenues, which fell by 3.8% y.o.y (Euro 28 million) in the first half of 2006, were negatively impacted by Euro 30 million, as a result of lower interconnection rates.

EBITDA

Table 6 _ EBITDA by Business Segment (1) (2)

Euro million

	2Q06	2Q05	y.o.y	Margin	1H06	1H05	y.o.y	Margin
Wireline	240.0	250.7	(4.3%)	45.9	486.9	521.7	(6.7%)	46.2
Domestic mobile TMN	163.1	165.4	(1.4%)	44.9	318.8	334.2	(4.6%)	44.3
Brazilian mobile Vivo (1)	57.9	98.8	(41.4%)	11.8	197.6	241.0	(18.0%)	19.5
Multimedia PT Multimedia	55.9	51.3	8.9%	34.1	106.2	96.1	10.5%	32.7
Other	(14.1)	(7.8)	80.7%	n.m.	(19.3)	(15.5)	24.0%	n.m.
Total EBITDA	502.9	558.4	(10.0%)	33.0	1,090.2	1,177.5	(7.4%)	35.3
EBITDA margin (%)	33.0	35.4	(2.4pp)		35.3	38.9	(3.6pp)	

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06. (2) EBITDA = Income from operations + depreciation and amortisation

EBITDA decreased by 7.4% y.o.y in the first half of 2006 to Euro 1,090 million, equivalent to an EBITDA margin of 35.3% . The Euro 87 million reduction in EBITDA is primarily explained by the: (1) negative impact of lower interconnection rates (Euro 18 million); (2) one-off reversal of a provision relating to a receivable from Angola Telecom (Euro 23 million) booked in the first quarter of 2005, and (3) a provision in Vivo related to billing problems in connection with the systems migration to a unified platform (Euro 30 million).

In the first half of 2006, the EBITDA of the wireline business decreased by 6.7% y.o.y to Euro 487 million. Adjusting for the one-off impact of the receivable from Angola Telecom booked in the first quarter of 2005, wireline s EBITDA would have decreased by 2.3% y.o.y in the first half of 2006 against the same period of last year, primarily as a result of the reduction in traffic revenues and the level of line loss.

PTM s contribution to consolidated EBITDA improved by 1.6pp y.o.y to 9.7% in the first half of 2006, underpinned by ARPU, and margin improvements in the period.

The contribution to consolidated EBITDA from the mobile businesses decreased by 1.5p. p to 47.4% in the first half of 2006, primarily as a result of the decrease in Vivo s EBITDA. The reduction in Vivo s EBITDA in the first half of 2006, on a constant currency basis, was driven mainly by the increase in provisions, call centre costs and outsourcing costs. In the case of TMN, excluding the negative impact of lower fixed-to-mobile rates, which amounted to Euro 16 million in the first half of 2006, EBITDA would have remained flat at Euro 335 million in the first half of 2006.

Other EBITDA was negative Euro 19 million in the first half of 2006, as compared to negative Euro 16 million in the previous year, primarily as a result of lower management fees in: (1) Unitel, which did not book management fees in the first half of 2006 as the management contract that ended in December 2005 is currently being negotiated, and (2) Vivo, which posted a weaker operational and share price performance in the period, thus resulting in a lower management fee.

Consolidated Operating Costs

Table 7 _ Consolidated Operating Costs (1) — Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y	% Rev.
Wages and salaries	171.1	174.2	(1.8%)	351.7	337.1	4.3%	11.4
Post retirement benefits	7.8	22.3	(65.3%)	23.9	44.7	(46.5%)	0.8
Direct costs	200.3	217.4	(7.9%)	402.5	427.8	(5.9%)	13.0
Telecommunication costs	110.8	139.3	(20.4%)	228.8	271.8	(15.8%)	7.4
Programming costs	38.8	34.3	13.1%	75.3	68.7	9.7%	2.4
Directories	19.3	20.9	(7.4%)	38.5	41.6	(7.6%)	1.2
Other	31.3	22.9	36.5%	59.9	45.7	31.1%	1.9
Costs of products sold	155.5	187.1	(16.9%)	290.6	297.2	(2.2%)	9.4
Marketing and publicity	36.5	46.5	(21.6%)	72.8	79.3	(8.1%)	2.4
Supplies and external expenses	265.8	249.1	6.7%	516.1	454.6	13.5%	16.7
Provisions	89.5	33.8	164.5%	150.7	40.1	276.1%	4.9
Taxes other than income taxes	43.3	39.2	10.6%	90.9	76.4	19.0%	2.9
Other operating costs	50.5	48.5	4.1%	99.3	94.2	5.4%	3.2
Operating costs, excluding D&A	1,020.2	1,018.1	0.2%	1,998.4	1,851.2	8.0%	64.7
Depreciation and amortisation	299.6	276.0	8.5%	597.1	523.3	14.1%	19.3
Total operating costs	1,319.8	1,294.2	2.0%	2,595.5	2,374.5	9.3%	84.0

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06.

Consolidated operating costs amounted to Euro 2,595 million in the first half of 2006, an increase of 9.3% y.o.y, mainly as a result of the appreciation of the Real against the Euro and higher provisions. On a constant currency basis, operating costs would have increased by 0.6% y.o.y in the first half of 2006.

Wages and salaries increased by 4.3% y.o.y in the first half of 2006 to Euro 352 million and represented 11.4% of consolidated operating revenues. On a constant currency basis, wages and salaries would have decreased by 1.1% y.o.y, primarily as a result of the 4.2% y.o.y decrease in wireline. These effects were partially offset by the 19.8% y.o.y increase in wages and salaries of Mobitel (in local currency), PT s call centre business in Brazil, due to the incorporation of 1,121 additional employees.

Post retirement benefits costs (PRBs) decreased by 46.5% y.o.y in the first half of 2006 to Euro 24 million, primarily as a result of: (1) the net effect in the interest cost of the reduction in the discount rate from 5.3% in the first half of 2005 to 4.86% in the first half of 2006 (Euro 9 million), and (2) the improvement in the expected return on assets resulting from the contributions made to the pension funds, including the Euro 300 million extraordinary contribution made in the second quarter of 2006 (15 million).

Direct costs decreased by 5.9% y.o.y to Euro 402 million in the first half of 2006. This cost item represented 13.0% of consolidated operating revenues. Telecommunications costs, which are the main component of direct costs, decreased by 15.8% to Euro 229 million in the first half of 2006, primarily due to lower wireline traffic volumes and lower fixed-to-mobile and mobile-to-mobile interconnection rates in Portugal. Telecommunications costs accounted for 7.4% of consolidated operating revenues. Programming costs increased by 9.7% y.o.y to Euro 75 million, primarily as a result of the launch of PTM s digital offer in the second quarter of 2005 and the introduction of a new premium content movie channel.

Costs of products sold decreased by 2.2% y.o.y in the first half of 2006 to Euro 291 million, despite the increase related with the appreciation of the Real against the Euro (Euro 38 million). On a constant currency basis, costs of products sold decreased by 14.9% y.o.y to Euro 253 million in the first half of 2006, primarily as a result of lower commercial activity at Vivo as compared to the same period of last year.

Marketing and publicity costs decreased by 8.1% y.o.y in the first half of 2006 to Euro 73 million, primarily as a result of the reduction in TMN (Euro 5 million) and in the wireline business (Euro 3 million). These effects were partially offset by the appreciation of the Real against the Euro (Euro 7 million). On a constant currency basis, marketing and publicity costs would have decreased by 16.8% y.o.y in the period.

Supplies and external expenses increased by 13.5% y.o.y in the first half of 2006 to Euro 516 million, mainly as a result of the appreciation of the Real against the Euro (Euro 42 million). On a constant currency basis, supplies and external expenses would have increased by 4.3% y.o.y in the period, primarily as a result of the increase in commissions at TMN and Vivo, and the increase in outsourcing and call centre expenses at Vivo related to increased commercial activity. Supplies and external expenses accounted for 16.7% of consolidated operating revenues.

Provisions increased from Euro 40 million in the first half of 2005 to Euro 151 million in the first half of 2006. The increase in this cost item is primarily related with the increases of Euro 30 million and Euro 81 million in the wireline business and Vivo respectively. The increase in wireline is primarily related to the reversal of a provision in the first quarter of 2005 for a receivable from Angola Telecom (Euro 23 million) that had been fully provided for in previous years. The increase in Vivo is explained mainly by the impact of the appreciation of the Real against the Euro (Euro 23 million) and a higher level of bad debt provisioning, resulting from billing problems associated with the systems migration to a unified platform. In the first half of 2006, provisions accounted for 4.9% of consolidated operating revenues.

Taxes other than income taxes, which mainly includes indirect taxes and spectrum fees (TMN and Vivo), increased from Euro 76 million in the first half of 2005 to Euro 91 million in the first half of 2006, of which Euro 13 million relates to the Real appreciation during the period. On a constant currency basis, taxes other than income taxes would have increased by 2.5% y.o.y in the period, due to the increase in spectrum fees in Vivo.

Depreciation and amortisation costs rose by 14.1% y.o.y in the first half of 2006 to Euro 597 million, mainly due to the increase in the contribution of Vivo (Euro 56 million) and PTM (Euro 13 million) to consolidated D&A. The increase in Vivo s D&A costs is primarily related to: (1) the impact of the Real appreciation against the Euro in the amount of Euro 48 million, and (2) the higher level of capex in 2005 related to network expansion and coverage. This cost item accounted for 19.3% of consolidated operating revenues.

Net Income

Workforce reduction programme costs amounted to Euro 25 million in the first half of 2006, as compared to Euro 91 million in the same period of last year.

Net interest expenses decreased by 2.2% y.o.y to Euro 114 million in the first half of 2006, primarily as a result of the reduction of approximately 0.1% in the average cost of debt to 5.9% in the first half of 2006, as compared to the same period of 2005, and the decrease in the average net debt in the first half of 2006, as compared to the same period of 2005. These effects were partially offset by the impact of the Real appreciation against the Euro (Euro 8 million). On a constant currency basis, net interest expenses would have decreased by 8.9% y.o.y. Excluding Brazil, the average cost of debt was 4.0%, as compared to 4.2% in the first half of 2005, benefiting from the increase in the fair value of the equity option associated with the December 2006 convertible bond (Euro 1 million). Adjusting for the latter effect, the cost of debt excluding Brazil was 4.1% .

Net foreign currency gains amounted to Euro 2 million in the first half of 2006, as compared to Euro 36 million in the first half of 2005. 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, which was offset primarily by currency losses related with dividends receivable from Unitel (denominated in US Dollars), following the devaluation of the US Dollar against the Euro in the period. The gains recorded in the first half of 2005 were primarily related to: (1) Vivo s US Dollar debt not swapped to Reais, in connection with the appreciation of the Real against the Dollar, and (2) inter-company loans granted by PT to Vivo (denominated in US Dollars), in connection with the appreciation of the US Dollar against the Euro.

Net losses on financial assets amounted to Euro 13 million in the first half of 2006, as compared to net losses of Euro 22 million in the first half of 2005. This item included mainly gains and losses on certain derivative contracts, namely: (1) equity swap contracts on PTM shares (net losses of Euro 7 million in the first half of 2006, as compared to net gains of Euro 0.2 million in the first half of 2005); (2) Vivo s free-standing cross currency derivatives (net gains of Euro 1 million in the first half of 2006, as compared to net losses of Euro 30 million in the first half of 2005), and (3) PT s free-standing interest rate derivatives (net losses of Euro 8 million in the first half of 2006, as compared to net gains of Euro 10 million in the same period of last year).

Equity accounting in earnings of affiliated companies in the first half of 2006 amounted to Euro 45 million, as compared to Euro 29 million in the first half of 2005. This item included mainly PT s share in the earnings of Unitel in Angola (Euro 35 million), Médi Télécom in Morocco (Euro 11 million), CTM in Macau (Euro 7 million) and UOL in Brazil (Euro 4 million), which are offset by the recognition of losses related with a potential investment in Congo (Euro 8 million). The improvement in this item of Euro 17 million is primarily explained by the increase in the earnings of Unitel (from Euro 14 million to Euro 35 million).

Other financial expenses amounted to Euro 30 million in the first half of 2006, as compared to Euro 31 million in the first half of 2005 and included mainly banking services, commissions, financial discounts and other financing costs.

Provision for income taxes in the first half of 2006 was negative and amounted to Euro 51 million due to: (1) the recognition of a tax credit amounting to Euro 53 million in the first quarter of 2006, following the liquidation of a holding company, and (2) a gain amounting to Euro 142 million recorded in the second quarter of 2006, in connection with the reduction of deferred tax liabilities resulting from the voluntary taxation of certain capital gains. As part of the ongoing internal corporate restructuring, PT adopted the voluntary taxation regime on capital gains. As a result, PT used the tax losses carryforward balance to offset the tax due. Adjusting for these one-off effects in 2006, the provision for income taxes would have been Euro 143 million, as compared to Euro 156 million in the first half of 2005, corresponding to an effective tax rate of 42% (35% in the first half of 2005). The increase in the effective tax rate is primarily explained by the higher losses recorded by Vivo.

Discontinued operations include the results of companies that have been disposed during the reportable periods, and the after-tax gains obtained with the sale of these investments. Having announced the disposal of Lusomundo Serviços (PTM s media business) and PrimeSys, these businesses were reported as discontinued operations in the first half of 2005, in accordance with IFRS rules. As a result, the earnings of these companies were included in this item during 2005 until the effective date of the disposals, which were concluded on 25 August in the case of Lusomundo Serviços and on 25 November in the case of PrimeSys.

Losses attributable to minority interests amounted to Euro 3 million in the first half of 2006, as compared to income attributable to minority interests of Euro 12 million in the same period of last year. In the first half of 2006, this item included primarily the losses attributable to minority interests of Vivo s subsidiaries (Euro 29 million, as compared to income of Euro 1 million in 2005), and the income attributable to minority interests of PTM (Euro 18 million, as compared to Euro 5 million in 2005).

Net income increased by 41.6% y.o.y in the first half of 2006 to Euro 402 million, primarily as a result of the one-off effect of the tax restructuring completed in the period.

04
Capex

Table 8 _ Capex by Business Segment (1)

Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y	% Rev.
Wireline	55.3	54.3	2.0%	99.6	96.5	3.2%	9.5
Domestic mobile TMN	29.0	28.9	0.4%	51.5	47.7	7.9%	7.2
Brazilian mobile Vivo (1)	61.3	66.5	(7.8%)	114.6	143.0	(19.9%)	11.3
Multimedia PT Multimedia	41.6	39.6	4.9%	75.3	55.6	35.5%	23.2
Other	6.5	12.2	(46.4%)	15.3	25.5	(40.0%)	n.m.
Total capex	193.8	201.5	(3.8%)	356.3	368.3	(3.3%)	11.5

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06.

Total capex decreased by 3.3% y.o.y in the first half of 2006 to Euro 356 million, primarily as a result of the reduction in Vivo s contribution on a constant currency basis (Euro 50 million), which was partially offset by the impact of the appreciation of the Real against the Euro (Euro 22 million), and the growth of PTM s capex. On a constant currency basis, capex would have decreased by 9.3% y.o.y. Total capex was equivalent to 11.5% of consolidated operating revenues.

Wireline capex increased by 3.2% y.o.y in the first half of 2006 to Euro 100 million, equivalent to 9.5% of operating revenues. Wireline capex was directed mainly towards the continued investment in broadband.

TMN s capex increased by 7.9% y.o.y in the first half of 2006 to Euro 51 million, equivalent to 7.2% of operating revenues, primarily as a result of the acceleration of 3G capex, which in the first half of 2006 represented approximately 80% of TMN s network capex.

PT s share of Vivo s capex decreased by 19.9% y.o.y in the first half of 2006 to Euro 115 million, corresponding to 11.3% of operating revenues. Vivo s capex, in local currency, decreased by 34.9% y.o.y, mainly as a result of lower network-related capex. Vivo s capex in the first half of 2006 was primarily directed towards: (1) network coverage and quality, and (2) the consolidation and rationalisation of billing, CRM and ERP information systems.

PTM s capex increased from Euro 56 million in the first half of 2005 to Euro 75 million in the first half of 2006, primarily as a result of: (1) the investment in additional transponder capacity; (2) the increase in homes passed and the restructuring of the architecture of the access network to provide fibre to the hub in order to allow for greater bandwidth, and (3) the increase in terminal equipment in connection with the digitalisation programme.

Other capex totalled Euro 15 million in the first half of 2006, as compared to Euro 25 million in the same period of last year. This item includes capex related to fully consolidated businesses not included in the main segments as well as capex of PT s instrumental companies.

05
Cash Flow

Table 9 _ EBITDA minus Capex by Business Segment [1]

Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y	% Rev.
Wireline	184.6	196.4	(6.0%)	387.3	425.2	(8.9%)	36.8
Domestic mobile TMN	134.1	136.5	(1.7%)	267.3	286.5	(6.7%)	37.1
Brazilian mobile Vivo [1]	(3.4)	32.3	n.m.	83.0	98.0	(15.3%)	8.2
Multimedia PT Multimedia	14.3	11.7	22.4%	30.9	40.5	(23.7%)	9.5
Other	(20.6)	(19.9)	3.2%	(34.5)	(41.0)	(15.7%)	n.m.
Total EBITDA minus Capex	309.1	357.0	(13.4%)	734.0	809.2	(9.3%)	23.8

(1) Considering a Euro/Real average exchange rate of 3.3140 in 1H05 and 2.6925 in 1H06.

EBITDA minus Capex decreased by 9.3% y.o.y to Euro 734 million in the first half of 2006. On a combined basis, the domestic businesses accounted for approximately 93% of total EBITDA minus Capex.

Table 10 _ Free Cash Flow

Euro million

	2Q06	2Q05	y.o.y	1H06	1H05	y.o.y
EBITDA minus Capex	309.1	357.0	(13.4%)	734.0	809.2	(9.3%)
Non-cash items included in EBITDA:						
Post retirement benefit costs	7.8	22.3	(65.3%)	23.9	44.7	(46.5%)
Non-current provisions, tax prov. & other non-cash items	6.6	36.5	(81.9%)	9.3	23.4	(60.4%)
Change in working capital	34.6	(41.4)	n.m.	(126.5)	(255.2)	(50.4%)
Operating free cash flow	358.0	374.4	(4.4%)	640.7	622.2	3.0%