PORTUGAL TELECOM SGPS SA
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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 November 2010

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

First Nine Months 2010

Earnings Release

3 November 2010

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Earnings Release

Lisbon, Portugal, 3 November 2010

Following the disposal of Brasilcel on 27 September 2010, PT adjusted its income and cash-flow statements for previous periods in order to recognise Vivo business line as a discontinued operation. In 3Q10, operating revenues amounted to Euro 952 million, up by 0.3% y.o.y and EBITDA reached Euro 382 million, down by 3.8% y.o.y. Net income reached Euro 5,353 million, including the gain obtained with the disposal of Brasilcel. In 9M10, consolidated operating revenues amounted to Euro 2,793 million, up by 0.7% y.o.y, while EBITDA reached Euro 1,129 million, down by 4.1% y.o.y. Consolidated EBITDA margin stood at 40.4%. Net income amounted to Euro 5,618 million and basic earnings per share reached Euro 6.41, impacted by the capital gain referred to above. In 9M10, Capex decreased by 5.2% y.o.y to Euro 494 million, equivalent to 17.7% of revenues, and was principally directed to the investment in the rollout of new technologies and services, namely the fibre network and TV service and the investments in 3G and 3.5G. In 9M10, EBITDA minus Capex reached Euro 636 million, decreasing by 3.2% y.o.y, while in 3Q10 it reached Euro 200 million, up by 4.9% y.o.y, as a result of PT s focus on profitability and cash-flow generation. In 9M10, operating cash-flow stood at Euro 410 million, while in 3Q10 it grew by 5.4% y.o.y to Euro 227 million. Free cash-flow reached Euro 4,652 million in 9M10, reflecting the first instalment received from Telefónica in connection with the disposal of Vivo. As at 30 September 2010, net debt amounted to Euro 782 million, while after-tax unfunded post retirement benefit obligations totalled Euro 1,118 million. As from September 2010, PT joined the Dow Jones Sustainability World Index, thus further recognising PT s continuous investment in sustainability and corporate responsibility and placing the company amongst the best companies in the world in the sustainability domain. As a result, PT is now simultaneously present in the two most important sustainability indexes, FSTE4Good and the DJSI.

Table 1 _ Consolidated financial highlights (1) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
Operating revenues	952.2	949.3	0.3%	2,792.6	2,772.2	0.7%
Operating costs, excluding PRBs and D&A	570.3	552.5	3.2%	1,663.3	1,595.2	4.3%
EBITDA (2)	381.9	396.8	(3.8)%	1,129.2	1,177.0	(4.1)%
Income from operations (3)	164.5	206.0	(20.2)%	526.5	618.1	(14.8)%
Net income (4)	5,353.2	116.1	n.m.	5,617.7	372.7	n.m.
Capex (5)	181.4	205.7	(11.8)%	493.6	520.6	(5.2)%
Capex as % of revenues (%)	19.1	21.7	(2.6)pp	17.7	18.8	(1.1)pp
EBITDA minus Capex	200.4	191.1	4.9%	635.6	656.3	(3.2)%
Free cash flow	4,630.0	92.6	n.m.	4,651.8	121.7	n.m.
Net debt (6)	781.6	5,383.2	(85.5)%	781.6	5,383.2	(85.5)%
After-tax unfunded PRB obligations	1,118.0	1,167.0	(4.2)%	1,118.0	1,167.0	(4.2)%
EBITDA margin (%) (7)	40.1	41.8	(1.7)pp	40.4	42.5	(2.0)pp
Net debt / EBITDA (x) (8)	0.5	3.4	(2.9)x	0.5	3.4	(2.9)x
EBITDA / net interest (x) (8)	6.7	6.6	0.1x	6.4	7.2	(0.7)x
Basic earnings per share	6.11	0.13	n.m.	6.41	0.43	n.m.
Diluted earnings per share (10)	5.70	0.13	n.m.	6.00	0.42	n.m.

(1) 2009 figures were adjusted in order to recognise Vivo business line as a discontinued operation. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains). **(4)** In 3Q10 and 9M10, net income includes one-off items related to the capital gain obtained with the disposal of Brasilcel; the accumulated currency translation adjustments that were recognised in net income on the date of disposal, and adjustments to the book value of certain assets, provisions for contingencies and other non-recorring costs. **(5)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09). **(6)** The 2009 information is proforma in order to reflect the deconsolidation of Vivo. **(7)** EBITDA margin = EBITDA / operating revenues. **(8)** Earnings per share computed using net income excluding the costs associated with the convertible bonds divided by the diluted number of shares.

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Financial Review

Income Statement

In 9M10, consolidated operating revenues increased by 0.7% y.o.y to Euro 2,793 million, as a result of revenue growth in wireline and international operations, namely MTC in Namibia, Timor Telecom and Dedic. Lower MTRs impacted revenue growth by 0.3pp y.o.y in 9M10.

Table 2 _ Consolidated income statement (1) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
Operating revenues	**952.2**	**949.3**	**0.3%**	**2,792.6**	**2,772.2**	**0.7%**
Wireline (2)	481.6	481.1	0.1%	1,452.6	1,446.4	0.4%
Domestic mobile • TMN (2)	355.9	397.9	(10.5)%	1,045.4	1,135.0	(7.9)%
Other and eliminations	114.6	70.4	62.7%	294.5	190.8	54.4%
Operating costs, excluding PRBs and D&A	**570.3**	**552.5**	**3.2%**	**1,663.3**	**1,595.2**	**4.3%**
Wages and salaries	163.7	140.7	16.4%	470.6	408.8	15.1%
Direct costs	137.4	127.8	7.4%	412.8	384.6	7.3%
Commercial costs	98.0	111.0	(11.7)%	272.2	307.1	(11.4)%
Other operating costs	171.2	173.1	(1.1)%	507.8	494.6	2.7%
EBITDA (3)	**381.9**	**396.8**	**(3.8)%**	**1,129.2**	**1,177.0**	**(4.1)%**
Post retirement benefits	17.8	22.4	(20.5)%	53.5	67.2	(20.5)%
Depreciation and amortisation	199.6	168.3	18.6%	549.3	491.7	11.7%
Income from operations (4)	**164.5**	**206.0**	**(20.2)%**	**526.5**	**618.1**	**(14.8)%**
Other expenses (income)	**100.5**	**13.5**	**n.m.**	**121.1**	**28.7**	**n.m.**
Curtailment costs, net	1.6	0.6	172.4%	10.9	4.1	166.1%
Net losses (gains) on disposal of fixed assets	(1.8)	(0.4)	n.m.	(1.0)	(0.9)	10.2%
Net other costs (gains)	100.7	13.3	n.m.	111.2	25.5	n.m.
Income before financ. & inc. taxes	**64.0**	**192.5**	**(66.8)%**	**405.4**	**589.4**	**(31.2)%**
Financial expenses (income)	**98.8**	**18.7**	**n.m.**	**145.6**	**22.5**	**n.m.**
Net interest expenses	56.9	60.1	(5.3)%	175.5	164.2	6.9%
Equity in earnings of affiliates, net	18.5	(56.1)	n.m.	(65.4)	(158.3)	(58.7)%
Net other financial losses (gains)	23.3	14.7	58.2%	35.5	16.6	114.0%
Income before income taxes	**(34.8)**	**173.8**	**n.m.**	**259.7**	**566.9**	**(54.2)%**
Provision for income taxes	(37.6)	(52.7)	(28.6)%	(64.1)	(164.4)	(61.0)%
Income from continued operations	**(72.4)**	**121.2**	**n.m.**	**195.6**	**402.5**	**(51.4)%**
Income from discontinued operations	5,474.8	29.6	n.m.	5,551.5	44.4	n.m.
Income before minority interests	**5,402.4**	**150.7**	**n.m.**	**5,747.0**	**446.9**	**n.m.**
Losses (income) attributable to minority interests	(49.2)	(34.6)	41.9%	(129.3)	(74.3)	74.2%
Consolidated net income (5)	**5,353.2**	**116.1**	**n.m.**	**5,617.7**	**372.7**	**n.m.**

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(1) 2009 figures were adjusted in order to recognise Vivo business line as a discontinued operation. **(2)** Wireline and domestic mobile operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN, this impact amounted to Euro 7 million in 9M10. Wireline revenues include the impact of the change in the recognition of contract penalties as from 3Q09. **(3)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(4)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + other costs (gains). **(5)** In 3Q10 and 9M10, net income includes one-off items related to the capital gain obtained with the disposal of Brasilcel; the accumulated currency translation adjustments that were recognised in net income on the date of disposal, and adjustments to the book value of certain assets, provisions for contingencies and other non-recorring costs.

In 9M10, revenues from domestic operations decreased by 3.0% y.o.y. The revenue performance of domestic operations was negatively impacted by lower equipment sales (Euro 20 million), lower MTRs (Euro 8 million), the the change in recognition of contract penalties in wireline (Euro 8 million) and lower customer revenues at TMN, as a result of adverse economic conditions coupled with increasing competition in the youth segment.

Notwithstanding difficult economic conditions and an adverse evolution of ULL revenues in 3Q10, the wireline business further consolidated its positive revenue turnaround. In 9M10, wireline operating revenues increased by

0.4% y.o.y, from Euro 1,446 million to Euro 1,453 million, underpinned by retail revenues and despite lower corporate and data revenues, a significant decrease of directories business and declining wholesale revenues. Adjusting for the change in revenue recognition of contract penalties referred to above, wireline revenues would have increased by 1.0% y.o.y in 9M10. In 3Q10, retail revenues grew by 0.4% y.o.y, on the back of the continued strong performance of the Meo triple-play offer (voice, data and pay-TV), which is underpinning better performance in line disconnections and broadband. In 9M10, retail revenues decreased by 0.3% y.o.y from Euro 727 million to Euro 725 million, while adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 0.7% y.o.y.

In the wireline, retail net additions reached 239 thousand in 9M10, up by 10.6% y.o.y, driven by the success of PT s Meo triple-play offer, which is contributing to steady and consecutive gains in broadband market share and record reduction in line net disconnections. As a result, according to the 2Q10 report issued by ANACOM, the Portuguese telecom regulator, PT has increased its fixed broadband market share in the past nine consecutive quarters. Fixed broadband retail customers increased by 18.7% y.o.y in 9M10, reaching 964 thousand customers. Broadband retail net additions reached 102 thousand in 9M10, in line with the improving trend posted during 2009. The solid performance of Meo triple-play offer contributed decisively to mitigate fixed line net disconnections, which stood at 52 thousand in 9M10 compared to 80 thousand in 9M09 and 143 thousand in 9M08. Moreover, net disconnections of traffic generating lines stood at only 20 thousand in 9M10, compared to 48 thousand in 9M09, an improvement of almost 60% y.o.y, and to 89 thousand in 9M08. PT s Meo offer continues to see strong demand in the market having reached an estimated market share of 28.5%. Pay-TV net additions reached 188 thousand in 9M10 and total pay-TV customers stood at 769 thousand, equivalent to 79.8% penetration of the fixed broadband retail customer base, up by 17.6pp y.o.y. Retail RGU per access increased by 11.3% y.o.y in 9M10 to 1.64.

In 9M10, TMN s operating revenues decreased by Euro 90 million (-7.9% y.o.y) to Euro 1,045 million, mainly due to: (1) lower customer revenues (Euro 44 million), against a backdrop of adverse economic conditions and increased penetration of on-net flat-fee prepaid tariff plans, especially in the youth segment; (2) lower equipment sales (Euro 27 million), and (3) lower interconnection revenues (Euro 13 million), partially as a result of the negative impact of lower MTRs (Euro 7 million). Data revenues continued to be an important source of growth, having reached 24.5% of service revenues, up by 1.8pp y.o.y.

Other revenues, including intra-group eliminations, increased by 54.4% y.o.y in 9M10 to Euro 294 million. This performance was mainly due to: (1) the increase of 32.4% and 20.2% y.o.y at Timor Telecom and MTC, respectively; (2) the improving business trends at Dedic, and (3) the consolidation of GPTI, an IT / IS company acquired by Dedic, as from 1 March 2010.

EBITDA decreased by 4.1% y.o.y in 9M10 to Euro 1,129 million, equivalent to a margin of 40.4%. EBITDA performance in the period was impacted by the domestic businesses, as a result of: (1) revenue decline at TMN and notwithstanding an 11.2% y.o.y reduction in operating costs excluding D&A, and (2) the decline in wireline as a result of the continued investment in the roll-out of triple-play offers. This performance has more than offset growth of fully consolidated international assets.

Wireline EBITDA amounted to Euro 560 million in 9M10, equivalent to a 38.6% margin. EBITDA margin continued to be impacted primarily by the investment in the pay-TV business as programming costs, customer acquisition and support service costs were significantly impacted by the roll-out of the triple play offers. In 3Q10, wireline EBITDA amounted to Euro 184 million, equivalent to a margin of 38.2%, down by 2.5pp y.o.y, showing an important sequential improvement when compared to recent quarters, notwithstanding the continued investment in the roll-out of triple-play offers as referred to above, as a result of cost control and efficiency improvements. The improvement in EBITDA trend is owed to streamlined cost structure resulting from fixed-mobile convergence and restructuring of the domestic business around customers segments. In 9M10, wages and salaries in the wireline segment declined by 1.0% y.o.y, as a result of strong focus on cost reduction.

Table 3 _ EBITDA by business segment (1)(2) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
Wireline	184.1	195.7	(5.9)%	560.4	604.4	(7.3)%
Domestic mobile • TMN	163.2	175.9	(7.2)%	488.4	507.4	(3.7)%
Other and eliminations	34.6	25.2	37.3%	80.4	65.2	23.3%
EBITDA (2)	**381.9**	**396.8**	**(3.8)%**	**1,129.2**	**1,177.0**	**(4.1)%**
EBITDA margin (%)	40.1	41.8	(1.7)pp	40.4	42.5	(2.0)pp

(1) 2009 figures were adjusted in order to recognise Vivo business line as a discontinued operation. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation.

Notwithstanding the 11.2% y.o.y reduction in operating costs excluding D&A, which underlines a clear improved efficiency, TMN s EBITDA decreased by 3.7% y.o.y to Euro 488 million in 9M10, as a result of lower customer and interconnection revenues as referred to above, but EBITDA margin expanded 2.0pp compared to 9M09.

Other EBITDA increased by 23.3% y.o.y to Euro 80 million in 9M10 as a result of: (1) the 27.0% and 20.3% y.o.y growth in Timor Telecom and MTC, respectively; (2) the improved trends at Dedic, and (3) the consolidation of GPTI as from 1 March 2010. These effects more than offset the EBITDA contraction at CVT in Cape Verde, primarily due to weaker economic conditions and adverse regulation.

Post retirement benefit costs amounted to Euro 53 million in 9M10, compared to Euro 67 million in 9M09. The decline of 20.5% y.o.y is mainly due to: (1) the reduction of Euro 105 million in post retirement liabilities in 2009, following the halting of the redundancy programme; (2) the increase in fair value of plan assets, from Euro 2,132 million to Euro 2,370 million, in 2009 as a result of the performance of the plan assets, and the contributions to the pension funds, and (3) the reduction of the discount rate from 5.75% to 5.50%.

Depreciation and amortisation costs increased by 11.7% y.o.y to Euro 549 million, reflecting mainly a higher contribution from the wireline business, as a result of the investments in the rollout of pay-TV service, and the accelerated depreciation of certain GSM network equipments at TMN.

Curtailment costs amounted to Euro 11 million in 9M10 as compared to Euro 4 million in 9M09. The low level of curtailment costs in both 9M10 and 9M09 is explained by the decision to halt the redundancy programme.

Net other costs amounted to Euro 111 million in 9M10, primarily as a result of: (1) the recognition in 3Q10 of provisions and adjustments in order to reflect the recoverable amount of certain assets and estimated losses with certain legal actions, and (2) expenses incurred in 3Q10 related to the Oi acquisition process.

Net interest expenses increased to Euro 176 million in 9M10 from Euro 164 million in 9M09, mainly as a result of the increase in the cost of debt in domestic operations. Consolidated cost of debt was 4.6% in 9M10.

Equity in earnings of affiliates in 9M10 amounted to Euro 65 million compared to Euro 158 million in 9M09, with the decline being explained mainly by: (1) non-recurring losses on investments in associate companies, totalling Euro 72 million, to adjust its carrying value to the corresponding estimated recoverable amounts; (2) PT s share in 9M09 in the earnings of Médi Télécom, which was sold in 4Q09, and (3) the impact of the devaluation of the Kwanza against the Euro. Adjusting for these effects, equity in earnings of affiliates would have amounted to Euro 153 million in 9M10 and Euro 150 million in 9M09.

Net other financial losses, which include net foreign currency losses, net gains on financial assets and net other financial expenses, amounted to Euro 35 million in 9M10 compared to Euro 17 million in 9M09. Net foreign currency losses amounted to Euro 11 million in 9M10 (Euro 2 million in 9M09), primarily as a result of the impact of the depreciation of the US Dollar against the Euro during 3Q10 on net assets denominated in US Dollars. Net gains on financial assets amounted to Euro 1 million in 9M10, which compares to Euro 7 million in 9M09, resulting primarily from the impact of the appreciation of the US Dollar against the Euro on Euro/Dollar free-standing cross currency derivatives, which were settled in April 2009. Other financial expenses, which include banking services and other financing costs, amounted to Euro 26 million in 9M10 compared to Euro 22 million in the same period of last year.

Provision for income taxes decreased to Euro 64 million in 9M10 from Euro 164 million in 9M09, corresponding to an effective tax rate of 24.7% and 29.0%, respectively. In 9M10, this caption includes: (1) a gain of Euro 52 million related to a corporate restructuring of Africatel businesses that resulted in lower taxable profits, and (2) a gain of Euro 4 million corresponding to the impact on deferred taxes, as at 1 January 2010, of the change in the statutory tax rate applicable in Portugal from 26.5% to 29.0% for companies with taxable profits higher than Euro 2 million. Adjusting for these effects, provision for income taxes would have amounted to Euro 120 million in 9M10, corresponding to an effective tax rate of 46.1% (29.0% in 9M09). This increase in the effective tax rate is primarily explained by: (1) a higher statutory tax rate in Portugal, as referred to above, and (2) higher non-recurring losses and interest expenses non-deductible for tax purposes.

Income from discontinued operations includes primarily the gain, net of related expenses, obtained with the disposal of the investment in Vivo, which was concluded on 27 September 2010, and Vivo s earnings before minority interests up to the that date. In 9M10, income from discontinued operations amounted to Euro 5,551 million, including primarily the capital gain obtained with the disposal of Brasilcel and the accumulated currency translation adjustments that were recognised in net income on the date of disposal, although not contributing to the distributable net income.

Income attributable to minority interests increased by Euro 55 million to Euro 129 million in 9M10, reflecting higher minority interests from Vivo (Euro 32 million) and from the African businesses (Euro 24 million). The increase in minority interests from Vivo was related to the improvement in its earnings during the period and the appreciation of the Brazilian Real. The increase in minority interests from Africatel is primarily explained by the share of minority interests in the tax and accounting gains, resulting from the corporate restructuring of the African businesses, recorded in 9M10 and 9M09, respectively.

Net income increased to Euro 5,618 million, compared to Euro 373 million in 9M09, reflecting primarily the increase in the income from discontinued operations following the gain obtained from the disposal of Vivo in 3Q10. This effect was partially offset by: (1) a lower income from continuing operations, reflecting higher non-recurring expenses and lower gains from affiliated companies, and (2) higher minority interests. Distributable net income in 9M10 amounted to Euro 4,585 million. In 3Q10 and in 9M10, net income also includes one-off items related to adjustments to the book value of certain assets, provisions for contingencies and other non-recorring costs.

Shareholder remuneration

PT announced today that the Board of Directors has approved the intention to submit for shareholders approval at the next Shareholders Meeting a shareholder remuneration proposal consistent with the Company s financial profile following the sale of its shareholding in Vivo and in anticipation of the proposed investment in Oi, the potential transfer to the Portuguese State of the pension liabilities and pension funds, and commitment to a solid investment grade rating.

The remuneration package proposal is as follows: (1) an exceptional cash dividend of Euro 1.65 per share, of which Euro 1.00 per share to be paid in December 2010 (as an anticipation of 2010 profits) that requires a prior formal approval in a specific Board meeting, and Euro 0.65, with the latter subject to the Annual Shareholders Meeting approval, and (2) an ordinary cash dividend of Euro 0.65 per share for the fiscal years ending 31 December 2010 and 2011, an increase of 13% compared to the initial commitment by the Company of Euro 0.575 for the same period, which is also subject to Annual Shareholders Meeting approval.

The Board will also propose that PT adopt a progressive dividend policy with the objective of raising the dividend per share every year between 3% and 5% for the period between 2012 and 2014.

Furthermore, for the fiscal year 2011 onwards, the Board of Directors also has the intention to approve the payment of an interim ordinary dividend based on the financial performance of the Company, in order to allow for a smoother cash return to its shareholders throughout the year.

The exceptional cash dividend and the remuneration package proposal are subject to market conditions, PT s financial condition, applicable law regarding the distribution of net income, including additional shareholder approvals, as applicable, and other factors considered relevant by the Board at the time.

Upon approval of the remuneration package at the next Annual Shareholders Meeting, PT will further reinforce its commitment to continue to deliver best in class returns and free cash flow payout to its shareholders, while retaining a solid balance sheet and financial flexibility to continue investing in its core markets, new products and services and maintaining its long term strategic competitive position.

Capex

Capex decreased by 5.2% y.o.y in 9M10 to Euro 494 million, equivalent to 17.7% of revenues, and was directed towards investments in: (1) future proof technologies, namely FTTH, and also 3G and 3.5G; (2) new services, namely Pay-TV, and (3) connecting customers as a result of the strong growth of pay-TV service (52.3% y.o.y in 9M10).

Table 4 _ Capex by business segment (1) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
Wireline	107.0	130.7	(18.1)%	319.0	358.0	(10.9)%
Domestic mobile • TMN (2)	31.5	48.1	(34.5)%	84.1	106.1	(20.8)%
Other	42.9	26.8	59.9%	90.4	56.5	60.0%
Total capex	**181.4**	**205.7**	**(11.8)%**	**493.6**	**520.6**	**(5.2)%**
Capex as % of revenues (%)	19.1	21.7	(2.6)pp	17.7	18.8	(1.1)pp

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(1) 2009 figures were adjusted in order to recognise Vivo business line as a discontinued operation. **(2)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

Wireline capex decreased by 10.9% y.o.y from Euro 358 million in 9M09 to Euro 319 million in 9M10, as the investments in legacy network infrastructure declined in the period, notwithstanding: (1) the continued efforts in the roll-out of future proof infrastructures, namely FTTH, and (2) the increase in customer related capex associated to the growth in pay-TV services. Other investments, namely infrastructure backbone SI/TI, also decreased as a result of PT s focus on efficiency and cash flow, significant investments undertaken during 2008 and 2009 and synergies from fixed-mobile integration. Additionally, PT will continue to invest in its FTTH network roll-out, with the objective of covering an additional 600 thousand homes. Capex at wireline represented 22.0% of revenues, down by 2.8pp when compared to 9M09.

TMN s capex decreased by 20.8% y.o.y to Euro 84 million in 9M10, equivalent to 8.0% of revenues. The decrease in TMN s capex is primarily explained by the focus on cash-flow generation, supported by synergies from fixed-mobile integration. Capex continued to be directed primarily towards expanding network capacity and coverage, namely in the urban areas and main roads. Infra-structure related capex was broadly flat as a result of the continued focus on the provision of high quality mobile voice and data services and on accommodating increased voice and data usage. In 9M10, approximately 70% of network capex was directed towards 3G and 3.5G networks. Against a backdrop of the high quality of the network and services offered to customers, TMN s network quality continues to stand out in the context of the Portuguese market for its coverage and reliability both in voice and broadband. PT reinforces the objective of further strengthening its mobile data capabilities by leveraging the existing FTTH deployment to boost its mobile network quality, which at the end of 2011 is expected to have 80% of fibre based sites with Ethernet mobile backhauling.

In 9M10, other capex increased to Euro 90 million, compared to Euro 57 million in 9M09, as a result of investments made in 9M10 in Africa, namely MTC and CVT, and in the expansion of Dedic s business, including the construction of new sites.

Cash Flow

Operating cash flow stood at Euro 410 million in 9M10, compared to Euro 502 million in 9M09, mainly due to an increase in working capital investment (Euro 86 million), which is primarily explained by a higher capex working capital in the wireline business (Euro 69 million), as the higher capex in 4Q09 compared to 4Q08 led to higher payments to fixed asset suppliers in 9M10. In 3Q10, operating cash-flow increased by 5.4% y.o.y to Euro 227 million, primarily as a result of the improvement in EBITDA minus capex (Euro 9 million).

Free cash flow amounted to Euro 4,652 million in 9M10 compared to Euro 122 million in the same period of last year, while in 3Q10 free cash flow amounted to Euro 4,630 million. Adjusting for the first instalment received from Telefónica related to the disposal of 50% stake in Brasilcel (Euro 4,489 million net of expenses), free cash flow would have amounted to Euro 141 million in 3Q10, which compares to Euro 93 million in 3Q09.

Table 5 _ Free cash flow (1) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
EBITDA minus Capex	200.4	191.1	4.9%	635.6	656.3	(3.2)%
Non-cash items	11.6	7.8	48.2%	31.1	16.0	94.2%
Change in working capital	15.5	17.0	(9.1)%	(256.4)	(170.1)	50.7%
Operating cash flow	**227.5**	**215.9**	**5.4%**	**410.4**	**502.2**	**(18.3)%**
Interests	(15.7)	(14.0)	12.2%	(181.1)	(186.8)	(3.0)%
Net payments and contributions related to PRBs	(5.9)	(6.9)	(14.1)%	31.5	(15.2)	n.m.
Paym. to pre-retired, suspended employees and other	(45.4)	(49.3)	(7.9)%	(116.2)	(127.5)	(8.9)%
Income taxes	2.7	(70.0)	n.m.	(37.6)	(90.6)	(58.5)%
Dividends received	0.9	10.4	(91.6)%	9.6	18.4	(48.1)%
Disposal of stake in Médi Télécom	0.0	20.0	n.m.	0.0	20.0	n.m.
Disposal of stake in Brasilcel	4,500.0	0.0	n.m.	4,500.0	0.0	n.m.
Share capital reductions at Brasilcel	0.0	0.0	n.m.	89.9	0.0	n.m.
Other cash movements	(34.2)	(13.6)	150.5%	(54.7)	1.0	n.m.
Free cash flow	**4,630.0**	**92.6**	**n.m.**	**4,651.8**	**121.7**	**n.m.**

(1) 2009 figures were adjusted in order to recognise Vivo business line as a discontinued operation.

Consolidated Net Debt

Consolidated net debt amounted to Euro 782 million as at 30 September 2010, compared to Euro 5,528 million as at 31 December 2009, a reduction of Euro 4,746 million as a result of the free cash flow generated in the period (Euro 4,652 million) and the elimination of Vivo from the consolidation perimeter (Euro 699 million). These effects were partially offset by: (1) the dividends paid by PT (Euro 504 million) and its subsidiaries (Euro 63 million), and (2) the consolidation of GPTI as from 1 March 2010, which had a net debt position of Euro 31 million as at that date.

Table 6 _ Change in net debt **Euro million**

	3Q10	3Q09	9M10	9M09
Net debt (initial balance as reported)	6,092.8	6,156.2	5,528.0	5,571.3
Less: Vivo s net debt	719.5	695.3	699.0	664.9
Net debt (initial balance adjusted)	5,373.3	5,460.8	4,829.0	4,906.4
Less: free cash flow	4,630.0	92.6	4,651.8	121.7
Dividends paid by PT	0.0	0.0	503.6	503.6
Changes in consolidation perimeter	0.9	0.0	31.7	0.0
Commitments related to fixed assets	0.0	0.0	0.0	11.5
Other (1)	37.3	14.9	69.1	83.4
Net debt (final balance)	**781.6**	**5,383.2**	**781.6**	**5,383.2**
Receivable from TEF, at present value	2,953.2	0.0	2,953.2	0.0
Pro-forma net debt	(2,171.6)	5,383.2	(2,171.6)	5,383.2
Change in net debt	(4,591.7)	(77.6)	(4,047.4)	476.8
Change in net debt (%)	(75.4)%	(1.3)%	(73.2)%	8.6%

(1) In 9M10, this caption includes mainly Euro 63 million related to dividends paid by PT s fully consolidated subsidiaries to minority shareholders (Euro 37 million in 9M09). In 9M09, this caption includes the settlement of an Euro-Dollar derivative, in 7 April 2009, which resulted in a payment of Euro 38 million.

As at 30 September 2010, total consolidated gross debt amounted to Euro 7,029 million, of which 88.1% was medium and long-term and 81.0% was set at fixed rates. Following the disposal of Brasilcel, 99.7% of total debt was denominated in Euros as at 30 September 2010.

The amount of cash available in PT s domestic operations plus the undrawn amount of PT s committed commercial paper lines and standby facilities totalled Euro 7,120 million at the end of September 2010, of which Euro 952 million was undrawn committed commercial paper and standby facilities.

In 9M10, PT s average cost of debt stood at 4.6% and as at 30 September 2010, PT s consolidated net debt had a maturity of 12.6 years. As at the end of 9M10, the net debt to EBITDA ratio was 0.5x compared to 3.4x in 9M09, while EBITDA cover stood at 6.4x in 9M10 compared to 7.2x in 9M09 as reported.

Post Retirement Benefits Obligations

As at 30 September 2010, the projected post retirement benefits obligations (PBO) related to pensions and healthcare amounted to Euro 3,051 million and the market value of assets under management amounted to Euro 2,242 million. In addition, PT had liabilities in the form of salaries payable to suspended and pre-retired employees amounting to Euro 712 million, which are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, total gross unfunded obligations amounted to Euro 1,521 million. After-tax unfunded obligations amounted to Euro 1,118 million. PT s post retirement benefits plans for pensions and healthcare are closed to new participants.

Table 7 _ Post retirement benefits obligations **Euro million**

	30 September 2010	31 December 2009
Pensions obligations	2,713.4	2,710.2
Healthcare obligations	337.4	335.3
PBO of pension and healthcare obligations	**3,050.8**	**3,045.5**
Market value of funds (1)	(2,242.0)	(2,369.5)
Unfunded pensions and healthcare obligations	**808.8**	**675.9**
Salaries to suspended and pre-retired employees	712.3	791.4
Total gross unfunded obligation	**1,521.1**	**1,467.4**
After-tax unfunded obligations	**1,118.0**	**1,078.5**
Unrecognised prior years service gains	21.9	23.4
Accrued post retirement benefits	1,543.0	1,490.8

(1) The reduction in the market value of funds resulted mainly from the payments of pensions and supplements of Euro 114.7 million and the reimbursement of excess funding of the healthcare plan amounting to Euro 75.0 million. These effects were partially offset by the positive performance of assets under management amounting to Euro 30.1 million (equivalent to 1.4% in 9M10) and PT s contributions to the pension funds amounting to Euro 35.1 million.

Total gross unfunded obligations increased by Euro 54 million to Euro 1,521 million as at 30 September 2010, as a result of: (1) the reimbursement of Euro 75 million, related to the excessive funding of the healthcare plan, and (2) net actuarial losses of Euro 72.6 million, related to the difference between the actual return on assets (equivalent to 1.4% in 9M10) and the estimated expected return on assets (6% on an annual basis). These effects more than offset (1) PT s contributions to the pension funds (Euro 35.1 million) and (2) the reduction of liabilities related to salaries payable to suspended and pre-retired employees (Euro 79 million), mainly due to the payments to suspended and pre-retired employees during the period and to the halting of the redundancy programme.

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Table 8 _ Change in gross unfunded obligations **Euro million**

	9M10	9M09
Gross unfunded obligations (initial balance)	1,467.4	1,809.9
Post retirement benefits costs (PRB)	54.9	68.6
Curtailment cost	10.9	4.1
Net reimbursements (contributions) to pension funds (1)	31.5	(15.2)
Payments to pre-retired, suspended employees and other	(116.2)	(127.5)
Net actuarial (gains) losses (2)	72.6	(152.1)
Gross unfunded obligations (final balance)	1,521.1	1,587.8
After-tax unfunded obligations	1,118.0	1,167.0

(1) In 9M10, this caption includes: (i) termination payments amounting to Euro 4.2 million; (ii) reimbursement net of payments of healthcare expenses made by PT amounting to Euro 70.7 million, and (iii) contributions to the pension funds of Euro 35.1 million. **(2)** In 9M10, this caption relates to the difference between the actual return on assets (Euro 30.1 million, equivalent to 1.4% in 9M10), and the expected return on assets (6% on an annual basis).

Table 9 _ Post retirement benefits costs **Euro million**

	9M10	9M09
Service cost	6.1	5.1
Interest cost (1)	151.5	162.2
Expected return on assets (2)	(102.7)	(98.7)
Sub-total	54.9	68.6
Amortisation of prior year service gains	(1.5)	(1.4)
Post retirement benefits costs	**53.5**	**67.2**

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

In September 2010, PT announced that it is in discussions regarding the potential transfer to the Portuguese State of the pension liabilities associated with mandatory Pension Funds that cover part of the active and retired employees of PT, as well as the assets to fund these liabilities. Any unfunded liabilities, calculated as of the transfer date, will be fully funded by PT at such date. PT further informed that it has not yet reached an agreement, as this is subject to the agreement by the parties on the respective terms and conditions and to the relevant internal approvals of both parties.

Equity

Equity excluding minority interests amounted to Euro 5,490 million as at 30 September 2010. The increase of Euro 4,171 million in 9M10 is explained by: (1) the net income generated in the period of Euro 5,618 million, and (2) the positive currency translation adjustments amounting to Euro 266 million, primarily related to the appreciation of the Real against the Euro in the period. These effects more than offset: (1) the accumulated currency translation adjustments related to the investment in Brasilcel that were transferred to net income upon the disposal of this investment, which amounted to Euro 1,134 million as at the disposal date; (2) the dividends paid by PT to shareholders amounting to Euro 504 million, and (3) the net actuarial losses related to post retirement benefits amounting to Euro 53 million (net of taxes).

Table 10 _ Change in shareholders equity (excluding minority interests) **Euro million**

	9M10
Equity before minority interests (initial balance)	**1,318.3**
Net income	5,617.7
Net currency translation adjustments (1)	(868.6)
Dividends	(503.6)
Net actuarial gains (losses), net of taxes	(53.4)
Other	(20.7)
Equity before minority interests (final balance)	**5,489.7**
Change in equity before minority interests	**4,171.4**
Change in equity before minority interests (%)	**316.4%**

(1) In 9M10, this caption includes a gain of Euro 266 million related to positive currency translation adjustments generated in the period and the reclassification to net income of Euro 1,134 million related to the accumulated currency translation adjustments regarding Vivo as of the disposal date.

Consolidated Statement of Financial Position

The main changes in the consolidated statement of financial position are primarily explained by the disposal of Brasilcel, since the balance sheet as at 31 December 2009 included the assets and liabilities of Vivo. As at 31 December 2009, Vivo had total assets of Euro 6,150 million, including primarily tangible and intangible assets (Euro 4,279 million), accounts receivable (Euro 546 million), deferred taxes (Euro 418 million) and taxes receivable (Euro 373 million), and had total liabilities of Euro 2,344 million, including primarily gross debt (Euro 995 million) and accounts payable (Euro 497 million). The increase in net accounts receivable is mainly explained by the present value of the receivable from Telefónica regarding the sale of Brasilcel (Euro 2,953 million).

Table 11 _ Consolidated statement of financial position **Euro million**

	30 September 2010	31 December 2009
Cash and equivalents	6,247.3	1,518.0
Accounts receivable, net	4,271.6	1,538.4
Inventories, net	124.7	239.9
Financial investments	567.0	614.1
Intangible assets, net	1,079.9	4,074.3
Tangible assets, net	3,542.5	4,843.9
Accrued post retirement asset (1)	1.3	67.6
Other assets	347.4	783.7
Deferred tax assets and prepaid expenses	644.2	1,160.7
Total assets	16,825.9	14,840.5
Accounts payable	719.6	1,338.6
Gross debt	7,028.8	7,046.0
Accrued post retirement liability	1,544.3	1,558.3
Other liabilities	1,224.4	1,602.9
Deferred tax liabilities and deferred income	614.5	907.2
Total liabilities	11,131.6	12,453.0
Equity before minority interests	5,489.7	1,318.3
Minority interests	204.6	1,069.1
Total shareholders equity	5,694.3	2,387.4

Total liabilities and shareholders equity	16,825.9	14,840.5

(1) The reduction in accrued post retirement assets is mainly related to the reimbursement of Euro 75 million of the excess funding computed as at 31 December 2009.

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Operational Review

Domestic Operations

Revenues from domestic operations, which include wireline and TMN, decreased by 4.3% y.o.y in 3Q10, as a result of lower revenues at TMN due to: (1) lower customer revenues (Euro 25 million), as a result of increasingly more difficult economic conditions and increased popularity of on-net flat-fee prepaid tariff plans; (2) lower equipment sales (Euro 11 million), and (3) lower interconnection revenues (Euro 5 million), mainly due to lower MTRs. Revenues in the wireline segment increased by 0.1% y.o.y, underpinned by retail and wholesale revenues and despite lower data and corporate revenues.

Table 12 _ Domestic operations income statement (1) **Euro million**

	3Q10	3Q09	y.o.y	9M10	9M09	y.o.y
Operating revenues	**804.9**	**841.3**	**(4.3)%**	**2,400.1**	**2,474.2**	**(3.0)%**
Wireline	481.6	481.1	0.1%	1,452.6	1,446.4	0.4%
Domestic mobile • TMN	355.9	397.9	(10.5)%	1,045.4	1,135.0	(7.9)%
Other and eliminations	(32.7)	(37.6)	(13.1)%	(98.0)	(107.2)	(8.6)%
EBITDA (2)	**345.8**	**370.0**	**(6.5)%**	**1,044.6**	**1,107.0**	**(5.6)%**
Post retirement benefits	17.8	22.4	(20.5)%	53.5	67.2	(20.5)%
Depreciation and amortisation	184.6	157.4	17.3%	506.5	462.0	9.6%
Income from operations (3)	**143.5**	**190.2**	**(24.6)%**	**484.7**	**577.7**	**(16.1)%**
EBITDA margin	43.0%	44.0%	(1.0)pp	43.5%	44.7%	(1.2)pp
Capex (4)	141.7	181.6	(21.9)%	411.5	471.2	(12.7)%
Capex as % of revenues	17.6%	21.6%	(4.0)pp	17.1%	19.0%	(1.9)pp
EBITDA minus Capex	204.1	188.5	8.3%	633.1	635.8	(0.4)%

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

EBITDA declined by 6.5% y.o.y in 3Q10 to Euro 346 million, an improved sequential trend compared to 2Q10, and equivalent to a margin of 43.0%. This performance was primarily explained by: (1) revenue decline at TMN; (2) continued strong roll-out of the triple-play offers, which resulted in higher programming, customer care and support costs, and (3) the halting of the redundancy programme, in favour of insourcing of certain operations.

Capex in the domestic business decreased by 21.9% y.o.y to Euro 142 milllion in 3Q10. Domestic capex was primarily directed to: (1) the continued efforts in the roll-out of pay-TV and FTTH, future proof technologies and services paving the way for future growth in wireline, and (2) investments in 3G and 3.5G networks in the domestic mobile business. Against a backdrop of the high quality of the network and services offered to customers, TMN s network quality continues to stand out in the context of the Portuguese market for its coverage and reliability.

EBITDA minus Capex from domestic operations improved by 8.3% y.o.y in 3Q10 to Euro 204 million, as a result of PT s focus on improving profitability against a backdrop of an adverse economic environment and commitment to increase cashflow generation.

Wireline

In 3Q10, retail net additions reached 83 thousand, up by 4.8% y.o.y, as a result of the significant growth of the pay-TV service, which accounted for 67 thousand net additions, bringing the total pay-TV customers to 769 thousand (up by 52.3% y.o.y). Fixed broadband net additions in the quarter stood at 32 thousand, with fixed broadband customer base growing 18.7% y.o.y as a result of the solid growth in triple-play customers. Traffic generating lines declined only by 6 thousand in 3Q10, also reflecting the positive impact of the triple-play offers and further consolidating the reversal of the traditional line loss trend in wireline (loss of traffic generating lines was 5 thousand in 3Q09, 23 thousand in 3Q08 and 41 thousand in 3Q07). In the quarter, net disconnections of voice lines were 15 thousand, including 9 thousand net disconnections of carrier pre-selection lines, which now account for only 102 thousand lines (3.8% of total PSTN/ISDN lines). Pay-TV customer penetration stands at 29.7% of traffic generating lines (+10.4pp y.o.y) and 79.8% of the fixed broadband customer base (+17.6pp y.o.y), a solid performance considering that the pay-TV service was launched, on a nationwide basis, only in April 2008.

Table 13 _ Wireline operating data

	3Q10	**3Q09**	**y.o.y**	**9M10**	**9M09**	**y.o.y**
Main accesses (000)	4,800	4,494	6.8%	4,800	4,494	6.8%
Retail accesses	4,428	4,080	8.5			