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 September 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 Half 2010

Earnings Release

5 August 2010

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Earnings Release 30 June 2010

Lisbon, Portugal, 5 August 2010

In 2Q10, operating revenues amounted to Euro 1,909 million, up by 17.1% y.o.y, EBITDA reached Euro 664 million, up by 11.4% y.o.y and net income increased by 82.5% y.o.y to Euro 164 million. In 1H10, consolidated operating revenues amounted to Euro 3,682 million, up by 13.8% y.o.y, while EBITDA reached Euro 1,297 million, up by 8.2% y.o.y. Consolidated EBITDA margin stood at 35.2%. Income from operations reached Euro 488 million. In 1H10, the contribution of fully and proportionally consolidated international assets to operating revenues and EBITDA stood at 57.2%, up by 7.4pp y.o.y, and at 48.8%, up by 7.6pp y.o.y, respectively. Net income amounted to Euro 264 million and basic earnings per share reached Euro 0.30. In 1H10, Capex decreased by 4.5% to Euro 484 million, equivalent to 13.1% of revenues and was primarily directed to the investment in the rollout of new technologies and services, namely the fibre network and TV service in Portugal and the investments in 3G and 3.5G in Portugal and Brazil. Despite the continued investments in new technologies and services, EBITDA minus Capex increased by 17.5% y.o.y to Euro 813 million. Operating cash-flow stood at Euro 466 million, while free cash-flow reached Euro 118 million mainly due to an increase in income taxes paid, primarily at Vivo, following the improvement in its earnings and appreciation of the Brazilian Real. As at 30 June 2010, net debt amounted to Euro 6,093 million, while after-tax unfunded post retirement benefit obligations totalled Euro 1,193 million.

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

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	1,908.8	1,629.7	17.1%	3,682.2	3,235.0	13.8%
Operating costs, excluding PRBs and D&A	1,245.1	1,034.2	20.4%	2,385.2	2,036.6	17.1%
EBITDA (1)	663.6	595.5	11.4%	1,297.0	1,198.4	8.2%
Income from operations (2)	250.6	231.5	8.2%	488.4	486.5	0.4%
Net income	164.2	90.0	82.5%	264.5	256.6	3.1%
Capex (3)	254.7	282.4	(9.8)%	483.7	506.2	(4.5)%
Capex as % of revenues (%)	13.3	17.3	(4.0)pp	13.1	15.6	(2.5)pp
EBITDA minus Capex	408.9	313.1	30.6%	813.3	692.1	17.5%
Free cash flow	174.8	226.7	(22.9)%	117.9	134.9	(12.6)%
Net debt	6,092.8	6,156.2	(1.0)%	6,092.8	6,156.2	(1.0)%
After-tax unfunded PRB obligations	1,192.9	1,291.4	(7.6)%	1,192.9	1,291.4	(7.6)%
EBITDA margin (%) (4)	34.8	36.5	(1.8)pp	35.2	37.0	(1.8)pp
Net debt / EBITDA (x)	2.3	2.6	(0.3)x	2.3	2.6	(0.2)x
EBITDA / net interest (x)	8.5	8.2	0.3x	8.6	8.3	0.3x
Basic earnings per share	0.19	0.10	82.5%	0.30	0.29	3.1%
Diluted earnings per share (5)	0.18	0.10	90.4%	0.30	0.29	2.6%

(1) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(2)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains). **(3)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09). **(4)** EBITDA margin = EBITDA / operating revenues.
(5) Earnings per share computed using net income excluding the costs associated with the convertible bonds divided by the diluted number of shares.

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Financial Review

Income Statement

In 1H10, consolidated operating revenues increased by 13.8% y.o.y to Euro 3,682 million, as a result of revenue growth in wireline and international operations, namely Vivo, Timor Telecom and Dedic, PT s contact centre and outsourcing business in Brazil.

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

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**1,908.8**	**1,629.7**	**17.1%**	**3,682.2**	**3,235.0**	**13.8%**
Wireline (2)	482.8	473.3	2.0%	971.0	965.3	0.6%
Domestic mobile • TMN (2)	343.6	367.1	(6.4)%	689.5	737.1	(6.5)%
Brazilian mobile • Vivo (1)	1,001.4	738.7	35.6%	1,884.8	1,442.4	30.7%
Other and eliminations	80.9	50.7	59.7%	136.9	90.2	51.9%
Operating costs, excluding PRBs and D&A	**1,245.1**	**1,034.2**	**20.4%**	**2,385.2**	**2,036.6**	**17.1%**
Wages and salaries	212.1	177.2	19.7%	410.7	338.8	21.2%
Direct costs	351.6	273.3	28.6%	675.7	534.7	26.4%
Commercial costs	304.4	261.7	16.3%	581.4	524.3	10.9%
Other operating costs	377.0	321.9	17.1%	717.3	638.9	12.3%
EBITDA (3)	**663.6**	**595.5**	**11.4%**	**1,297.0**	**1,198.4**	**8.2%**
Post retirement benefits	17.8	22.4	(20.5)%	35.6	44.8	(20.5)%
Depreciation and amortisation	395.2	341.5	15.7%	773.0	667.1	15.9%
Income from operations (4)	**250.6**	**231.5**	**8.2%**	**488.4**	**486.5**	**0.4%**
Other expenses (income)	**11.8**	**14.9**	**(20.4)%**	**22.5**	**17.6**	**28.2%**
Curtailment costs, net	4.1	1.6	147.5%	9.2	3.5	165.0%
Net losses (gains) on disposal of fixed assets	0.8	(0.4)	n.m.	0.8	0.1	n.m.
Net other costs (gains)	7.0	13.6	(49.0)%	12.5	14.0	(11.1)%
Income before financ. & inc. taxes	**238.8**	**216.7**	**10.2%**	**465.8**	**468.9**	**(0.7)%**
Financial expenses (income)	**6.3**	**35.9**	**(82.4)%**	**41.5**	**54.4**	**(23.7)%**
Net interest expenses	77.6	72.4	7.3%	150.5	144.7	4.0%
Equity in earnings of affiliates, net	(45.2)	(53.5)	(15.6)%	(83.9)	(102.2)	(17.9)%
Net other financial losses (gains)	(26.2)	17.1	n.m.	(25.1)	11.8	n.m.
Income before income taxes	**232.4**	**180.8**	**28.6%**	**424.3**	**414.6**	**2.4%**
Provision for income taxes	(16.9)	(62.6)	(73.0)%	(79.7)	(118.4)	(32.7)%
Income from continued operations	**215.5**	**118.1**	**82.5%**	**344.7**	**296.2**	**16.4%**
Losses (income) attributable to minority interests	(51.4)	(28.2)	82.3%	(80.2)	(39.6)	102.5%
Consolidated net income	**164.2**	**90.0**	**82.5%**	**264.5**	**256.6**	**3.1%**

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(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 3 million in 1H10. 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).

In 1H10, revenues from domestic operations decreased by 2.3% y.o.y. The revenue performance of domestic operations was negatively impacted by lower equipment sales (Euro 7 million), lower MTRs (Euro 4 million), and lower customer revenues at TMN, which more than offset the increase of wireline revenues, notwithstanding the negative impact of the change in the recognition of contract penalties (Euro 8 million).

In 1H10, wireline operating revenues increased by 0.6% y.o.y, from Euro 965 million to Euro 971 million. Adjusting for the change in revenue recognition of contract penalties referred to above, wireline revenues would have increased by 1.4% y.o.y, underpinned by retail revenues and data and corporate and despite lower wholesale revenues. Retail revenues were broadly flat at Euro 484 million in 1H10. Adjusting for the change in the recognition of contract penalties, wireline retail revenues would have grown by 0.9% y.o.y, on the back of the continued strong performance of the Meo triple-play offer (voice, data and pay-TV), which continues to mitigate significantly fixed line net disconnections, which stood at 36 thousand in 1H10 compared to 65 thousand in 1H09 and 110 thousand in 1H08. Moreover, net disconnections of traffic generating lines stood at only 13 thousand in 1H10, compared to 44 thousand in 1H09, an improvement of almost 70% y.o.y.

In the wireline, retail net additions reached 156 thousand in 1H10, up by 13.9% y.o.y, driven by the success of PT s Meo triple-play offer, which is contributing to gain in broadband market share and record losses in terms of fixed line net disconnections. ADSL retail customers increased by 19.5% y.o.y in 1H10, reaching 933 thousand customers. Broadband retail net additions reached 71 thousand in 1H10, in line with the improving trend posted during 2009. PT s Meo offer continues to see strong demand in the market having reached an estimated market share of 27% and surpassed the 700 thousand customer threshold. Pay-TV net additions reached 122 thousand in 1H10 and total pay-TV customers stood at 702 thousand, equivalent to 75.3% penetration of the ADSL retail customer base, up by 18.6pp y.o.y. Retail RGU per access increased by 11.3% y.o.y in 1H10 to 1.60.

In 1H10, TMN s operating revenues decreased by Euro 48 million (-6.5% y.o.y) to Euro 689 million, mainly due to: (1) lower customer revenues (Euro 19 million), against a backdrop of adverse economic conditions and increased penetration of on-net flat-fee prepaid tariff plans in prepaid customers; (2) lower equipment sales (Euro 17 million), and (3) lower interconnection revenues (Euro 8 million), partially as a result of the negative impact of lower MTRs (Euro 3 million). Non-SMS data revenues continued to be an important source of growth, on the back of increasing penetration of smartphones and wireless data cards. Non-SMS data revenues increased by 9.1% y.o.y in 1H10, now representing 60.6% of total data revenues. Data revenues reached 24.2% of service revenues, up by 1.5pp y.o.y.

In 1H10, Vivo s operating revenues increased by 30.7% y.o.y in Euros and 6.6% y.o.y in Reais, improving the revenue trend seen in 2009 and in 1Q10, on the back of continued customer growth (19.6% increase y.o.y in the customer base) and data revenue growth.

Other revenues, including intra-group eliminations, increased by 51.9% y.o.y in 1H10 to Euro 137 million. This performance was mainly due to: (1) the increase of 32.1% y.o.y at Timor Telecom; (2) the improved trends at Dedic, and (3) the consolidation of GPTI, an IT / IS company acquired by Dedic, as from 1 March 2010. These effects more than offset the revenue contraction at CVT in Cape Verde, which was primarily due to weak economic conditions and adverse regulation.

Table 3 _ Revenues by region (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Domestic operations (2)	798.0	805.5	(0.9)%	1,595.2	1,632.9	(2.3)%
Brazil (1)(3)	1,051.4	764.6	37.5%	1,967.9	1,489.2	32.1%
Other and eliminations (4)	59.4	59.5	(0.3)%	119.2	112.9	5.5%
Total operating revenues	**1,908.8**	**1,629.7**	**17.1%**	**3,682.2**	**3,235.0**	**13.8%**

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** Domestic operations include the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. **(3)** Includes mainly Vivo, Dedic, PT s contact centre business, and GPTI. **(4)** Includes fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

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In 1H10, the contribution from fully and proportionally consolidated international assets to operating revenues stood at 57.2%, up by 7.4pp y.o.y, and Brazil accounted for 53.4% of consolidated operating revenues, an increase of 7.4pp y.o.y.

EBITDA increased by 8.2% y.o.y in 1H10 to Euro 1,297 million, equivalent to a margin of 35.2%. EBITDA performance in the period was underpinned by growth at Vivo and other international assets and resilient performance in the domestic businesses. In 2Q10, the EBITDA performance of domestic businesses continued to show sequential improvement, notwithstanding lower revenues at TMN and the continued investment in the roll-out of triple-play offers, as a result of cost control and efficiency improvements. In 2Q10, EBITDA increased by 11.4% y.o.y benefiting from an improved sequential performance across all PT businesses.

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

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Wireline	187.7	200.6	(6.4)%	376.3	408.7	(7.9)%
Domestic mobile • TMN	161.1	161.7	(0.4)%	325.2	331.4	(1.9)%
Brazilian mobile • Vivo (1)	293.4	214.6	36.7%	549.7	418.2	31.4%
Other and eliminations	21.4	18.7	14.8%	45.9	40.1	14.5%
EBITDA (2)	**663.6**	**595.5**	**11.4%**	**1,297.0**	**1,198.4**	**8.2%**
EBITDA margin (%)	34.8	36.5	(1.8)pp	35.2	37.0	(1.8)pp
Domestic operations (3)	347.3	360.8	(3.7)%	698.8	737.0	(5.2)%
Brazil (1)(4)	297.2	217.4	36.7%	556.5	422.6	31.7%
Other (5)	19.2	17.3	10.9%	41.7	38.8	7.6%

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(3)** Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro, PT Contact and PT Sales. **(4)** Includes mainly Vivo, Dedic and GPTI. **(5)** Includes only fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

Wireline EBITDA amounted to Euro 376 million in 1H10, equivalent to a 38.8% margin. In 2Q10, wireline EBITDA amounted to Euro 188 million, equivalent to a margin of 38.9%, showing an important sequential improvement when compared to recent quarters. EBITDA loss in 2Q10, when compared to 1Q10, improved significantly and was reduced to a mere Euro 1 million. In 1H10, EBITDA margin continued to be impacted primarily by higher programming, customer acquisition and support service costs in connection with the roll-out of the triple play offers. The improvement in EBITDA trend, even more visible in 2Q10, is owed to streamlined cost structure resulting from fixed-mobile convergence and restructuring of the domestic business around customers segments. In 1H10, wages and salaries in the wireline segment declined by 1.3% y.o.y, as a result of strong focus on cost reduction, notwithstanding the halting of the redundancy programme, which resulted in lower costs associated to pre-retirements. Projected benefit obligations related to salaries payable to pre-retired and suspended employees fell by 5.7% y.o.y (Euro 45 million), and the corresponding cash outflow was 9.5% lower in the period (Euro 7 million).

In 1H10, TMN s EBITDA decreased by 1.9% y.o.y to Euro 325 million, mainly as a result of lower customer revenues and sales. Due to a strong and continuous focus on cost cutting to increase efficiency, EBITDA margin reached 47.2%, an increase of 2.2pp compared to 1H09. In 2Q10, EBITDA at TMN was broadly flat y.o.y at Euro 161 million.

In 1H10, Vivo s EBITDA increased by 31.4% y.o.y, underpinned by customer and revenue growth and by the appreciation of the Brazilian Real. Vivo s EBITDA, in Reais, increased by 7.3% y.o.y in the period showing an improved trend in 2Q10 (+10.6% y.o.y) when compared to 1Q10

(+3.9% y.o.y). Vivo s EBITDA margin

reached 29.2% in 1H10, an improvement of 0.2pp compared to 1H09. In 1H10, net adds were up by 125.8% to 4,233 thousand, whilst the share of net adds in the semester stood at 37.9%, which compares to Vivo s market share of 30.2%.

Other EBITDA increased by 14.5% y.o.y to Euro 46 million in 1H10 as a result of: (1) the 9.6% y.o.y growth in Timor Telecom; (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 weak economic conditions and adverse regulation.

Fully and proportionally consolidated international assets contributed to 48.8% of PT s consolidated EBITDA in 1H10, up by 7.6pp y.o.y. Brazilian businesses accounted for 42.9% of EBITDA in the period and fully consolidated African businesses accounted for 4.8% of EBITDA.

Post retirement benefit costs amounted to Euro 36 million in 1H10, compared to Euro 45 million in 1H09. The decline of 20.5% y.o.y is mainly due to: (1) the reduction of Euro 105 million in post retirement liabilities, that occurred during 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, that occurred 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 15.9% y.o.y to Euro 773 million, reflecting higher contributions from: (1) Vivo, which accounted for 75.1% of the increase in D&A, mainly as a result of the appreciation of the Brazilian Real (Euro 78 million), and (2) wireline in Portugal, as a result of the investments in the rollout of pay-TV service. In 1H10, D&A included the depreciation of Vivo s CDMA network, which was already fully depreciated as at the end of 2Q10.

Curtailment costs amounted to Euro 9 million in 1H10 as compared to Euro 3 million in 1H09. The low level of curtailment costs in both 1H10 and 1H09 is explained by the decision to halt the curtailment programme, which is continuously reflected in both lower payments and lower present benefit obligations related to pre-retired and suspended employees.

Net interest expenses increased to Euro 150 million in 1H10 from Euro 145 million in 1H09, mainly as a result of the appreciation of the Brazilian Real and the increase in the cost of debt in domestic operations, notwithstanding the decrease in the cost of debt in Vivo. Consolidated cost of debt was 5.2% in 1H10. Excluding Brasil, PT s cost of debt was 4.7% in 1H10.

Equity in earnings of affiliates in 1H10 amounted to Euro 84 million. In 1H09, this caption included PT s share in the earnings of Médi Télécom, which was sold in 4Q09. Adjusting for the contribution of Médi Télécom in 1H09 and for the depreciation of the Kwanza against the Euro, equity accounting in earnings of affiliated companies would have remained broadly flat at Euro 96 million.

Net other financial gains, which include net foreign currency gains, net gains on financial assets and net other financial expenses, amounted to Euro 25 million in 1H10, as compared to net losses of Euro 12 million in 1H09. Net foreign currency gains amounted to Euro 40 million in 1H10 (Euro 2 million in 1H09), primarily due to the transfer of positive foreign currency adjustments (Euro 32 million) to net income following the share capital reductions at Brasilcel related to repatriation of capital. Additionally, gains recorded in 1H10 and 1H09

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are also explained by the impact of the appreciation of the US Dollar against the Euro in both periods on net assets denominated in US Dollars. Net gains on financial assets amounted to Euro 0.8 million in 1H10, which compares to Euro 7 million in 1H09, 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, financial discounts and other financing costs, decreased to Euro 16 million in 1H10 from Euro 21 million in the same period of last year.

Provision for income taxes decreased to Euro 80 million in 1H10 from Euro 118 million in 1H09, corresponding to an effective tax rate of 18.8% and 28.6%, respectively. In 1H10, this caption includes: (1) a gain of Euro 48 million related to 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 132 million in 1H10, corresponding to an effective tax rate of 31.1% (28.6% in 1H09).

Income attributable to minority interests increased by Euro 41 million to Euro 80 million in 1H10, reflecting the increase in minority interests from Vivo (Euro 16 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 gain and accounting gains resulting from the corporate restructuring of the African businesses.

Net income increased by 3.1% y.o.y in 1H10 to Euro 264 million, as compared to Euro 257 million in 1H09 with the improvement in EBITDA, the increase in net other financial gains and the tax gains recognised in 2Q10 offsetting higher depreciation and amortisation costs and lower equity in earnings of affiliated companies. In 2Q10, net income increased by 82.5% y.o.y to Euro 164 million.

Capex

Capex decreased by 4.5% y.o.y in 1H10 to Euro 484 million, equivalent to 13.1% of revenues, notwithstanding: (1) the continued investments in future proof technologies, namely FTTH, 3G and 3.5G; (2) the investments in new services, namely IPTV, (3) the strong growth of pay-TV customers (58.6% y.o.y in 1H10), and (4) the appreciation of the Real against the Euro (Euro 37 million). This decline was more evident in 2Q10, as capex decreased by 9.8% when compared to 2Q09.

Table 5_Capex by business segment (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Wireline	99.7	125.9	(20.9)%	212.1	227.3	(6.7)%
Domestic mobile • TMN (2)	29.1	33.4	(13.1)%	52.6	58.0	(9.4)%
Brazilian mobile • Vivo (1)	105.6	104.7	0.8%	171.6	191.3	(10.3)%
Other	20.4	18.2	11.8%	47.5	29.7	60.1%
Total capex	254.7	282.4	(9.8)%	483.7	506.2	(4.5)%
Capex as % of revenues (%)	13.3	17.3	(4.0)pp	13.1	15.6	(2.5)pp

(1) Considering a Euro/Real average exchange rate of 2.3839 in 1H10 and 2.9214 in 1H09. **(2)** Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1Q09).

Wireline capex decreased from Euro 227 million in 1H09 to Euro 212 million in 1H10 (6.7% y.o.y decline), as the investments in legacy network infrastructure declined in the period, notwithstanding: (1) the continued efforts in the rollout 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 the result of PT s focus on efficiency and cash flow, benefiting from significant investments during 2008 and 2009 and fixed-mobile integration. Capex at wireline represented 21.8% of revenues, down by 1.7pp when compared to 1H09.

TMN s capex decreased by 9.4% y.o.y to Euro 53 million in 1H10, equivalent to 7.6% of revenues. The decrease in TMN s capex is primarily explained by the focus on cash-flow generation, with TI/SI related capex decreasing by 30.5% y.o.y as a result of the fixed-mobile integration. Capex continued to be directed primarily towards expanding network capacity and coverage, namely in the urban areas and in the main roads. Infra-structure related capex was broadly flat as a result of the continued focus on the provision of mobile voice and data services of excellence to customers and on accommodating increased voice and data usage. Approximately 70% of network capex is being 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.

Capex at Vivo decreased by 10.3% y.o.y to Euro 172 million in 1H10, notwithstanding the appreciation of the Brazilian Real. Vivo s capex in Reais decreased by 26.8% to R$ 818 million. Capex at Vivo was directed towards: (1) increasing network capacity to support the accelerated growth of voice traffic in the 2G network; (2) expanding coverage of 3G and 3.5G networks to support the growth in wireless broadband, and (3) improving network quality to continue to be the most reliable and best quality network in Brazil. Vivo s 3G and 3.5G network covers 608 municipalities and more than 61% of Brazilian population and it is expected that 2,800 municipalities will be covered by the end of 2011. Additionally, Vivo continues to lead in overall quality metrics measured by the Brazilian telecoms regulator, Anatel. Capex at Vivo represented 9.1% of revenues, down by 4.2pp when compared to 1H09.

In 1H10, other capex increased to Euro 48 million, compared to Euro 30 million in 1H09, as a result of investments made in 1H10 in the expansion of Dedic, PT s contact centre and outsourcing operation in Brazil, including the construction of new sites.

Cash Flow

EBITDA minus Capex increased from Euro 692 million in 1H09 to Euro 813 million in 1H10 (+17.5% y.o.y) as a result of: (1) strong EBITDA growth in international operations and continued focus on cost cutting across the various business segments in Portugal, and (2) capex reduction in the main operations, following the recent deployment of future proof technologies, namely FTTH in Portugal, 3G and 3.5G in Portugal and Brazil.

Operating cash flow amounted to Euro 466 million in 1H10, compared to Euro 476 million in 1H09, with the increase in working capital investment (Euro 136 million) more than offsetting the improvement in EBITDA minus CAPEX. The increase in working capital investment is mainly attributable to: (1) Vivo, resulting primarily from the increase in the annual payment of Fistel fees (Euro 20 million), in line with the increase in Vivo s customer base, and (2) wireline business, resulting primarily from a higher working capital investment related to capex (Euro 59 million), as the higher capex in 4Q09 compared to 4Q08 led to higher payments to fixed asset suppliers in 1H10.

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

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
EBITDA minus Capex	408.9	313.1	30.6%	813.3	692.1	17.5%
Non-cash items	27.8	18.3	52.0%	55.7	49.8	11.7%
Change in working capital	(36.1)	67.7	n.m.	(402.6)	(266.3)	51.2%
Operating cash flow	**400.7**	**399.1**	**0.4%**	**466.4**	**475.6**	**(1.9)%**
Interests	(95.6)	(97.4)	(1.8)%	(215.7)	(225.1)	(4.2)%
Net payments and contributions related to PRBs	(31.1)	(0.1)	n.m.	37.4	(8.3)	n.m.
Payments to pre-retired, suspended employees and other	(35.3)	(39.6)	(11.1)%	(70.8)	(78.2)	(9.5)%
Income taxes	(38.4)	(18.7)	106.1%	(71.2)	(27.9)	155.1%
Dividends received	0.3	0.1	102.6%	8.7	8.0	8.1%
Other cash movements	(25.6)	(16.8)	52.7%	(36.9)	(9.3)	298.4%
Free cash flow	**174.8**	**226.7**	**(22.9)%**	**117.9**	**134.9**	**(12.6)%**

Free cash flow amounted to Euro 118 million in 1H10 as compared to Euro 135 million in the same period of last year. This change is primarily explained by: (1) the reduction in operating free cash flow described above (Euro 9 million); (2) an increase in income taxes paid (Euro 43 million), primarily at Vivo, following the improvement in its earnings and appreciation of the Brazilian Real, and (3) higher payments related to legal actions (Euro 13 million), both at Vivo and domestic operations. These effects more than offset: (1) the decrease in net contributions and payments related to post retirement benefits (Euro 46 million), as the reimbursement of Euro 75 million received in 1H10 related to the excessive funding of the healthcare post retirement benefit plan more than offset higher contributions to the pension funds (Euro 30 million), and (2) lower payments of salaries to pre-retired, suspended employees and other (Euro 7 million).

Consolidated Net Debt

Consolidated net debt amounted to Euro 6,093 million as at 30 June 2010, a decrease of Euro 63 million y.o.y and an increase of Euro 565 million when compared to the end of 2009, following: (1) Euro 504 million in dividends paid by PT; (2) Euro 84 million unfavourable impact on Vivo s net debt related to the appreciation of the Real against the Euro, and (3) the consolidation of GPTI s net debt, which amounted to Euro 31 million as at 1 March 2010. As at 30 June 2010, Vivo s net debt represented Euro 720 million of PT s consolidated net debt.

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

	2Q10	1Q10	1H10	2H09
Net debt (initial balance)	5,659.8	5,528.0	5,528.0	6,156.2
Less: free cash flow	174.8	(57.0)	117.9	734.6
Dividends paid by PT	503.6	0.0	503.6	0.0
Changes in consolidation perimeter	0.0	30.8	30.8	0.0
Other (1)	50.1	14.2	64.3	44.6
Net debt (final balance excluding translations effect)	6,038.6	5,630.0	6,008.9	5,466.1
Translation effect on foreign currency debt	54.2	29.7	83.9	61.9
Net debt (final balance)	6,092.8	5,659.8	6,092.8	5,528.0
Change in net debt	433.0	131.8	564.8	(628.1)
Change in net debt (%)	7.7%	2.4%	10.2%	(10.2)%

(1) This caption includes mainly: Euro 60 million in 1H10 related to dividends paid by PT s fully consolidated subsidiaries to minority shareholders (Euro 39 million in 2H09).

As at 30 June 2010, total consolidated gross debt amounted to Euro 8,094 million, of which 86.8% was medium and long-term. At the end of June 2010, 87.2% of total debt was denominated in Euros and 12.8% in Brazilian Reais. Vivo s debt is either Real-denominated or has been hedged into Reais. Also as at the end of 1H10, 72.6% of gross debt and 96.4% of net debt was set at fixed rates.

The amount of cash available in PT s domestic operations plus the undrawn amount of PT s committed commercial paper lines and standby facilities totalled Euro 2,579 million at the end of June 2010, of which Euro 988 million was undrawn committed commercial paper and standby facilities.

In 1H10, PT s average cost of debt stood at 5.2%. Excluding Brazil, PT s average cost of debt was 4.7% in 1H10. As at 30 June 2010, PT s consolidated net debt had a maturity of 5.9 years. In 1H10, the net debt to EBITDA ratio was 2.3x compared to 2.6x in 1H09, while EBITDA cover stood at 8.6x compared to 8.3x in 1H09.

Post Retirement Benefits Obligations

As at 30 June 2010, the projected post retirement benefits obligations (PBO) related to pensions and healthcare amounted to Euro 3,056 million and the market value of assets under management amounted to Euro 2,179 million. In addition, PT had liabilities in the form of salaries payable to suspended and pre-retired employees amounting to Euro 747 million and these are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, gross unfunded total obligations amounted to Euro 1,623 million. After-tax unfunded obligations amounted to Euro 1,193 million. PT s post retirement benefits plans for pensions and healthcare are closed to new participants.

Table 8 _ Post retirement benefits obligations **Euro million**

	30 June 2010	31 December 2009
Pensions obligations	2,718.6	2,710.2
Healthcare obligations	337.2	335.3
PBO of pension and healthcare obligations	**3,055.9**	**3,045.5**
Market value of funds (1)	(2,179.4)	(2,369.5)
Unfunded pensions and healthcare obligations	**876.5**	**675.9**
Salaries to suspended and pre-retired employees	746.5	791.4
Total gross unfunded obligation	**1,623.0**	**1,467.4**
After-tax unfunded obligations	**1,192.9**	**1,078.5**
Unrecognised prior years service gains	22.4	23.4
Accrued post retirement benefits	1,645.4	1,490.8

(1) The change in the market value of funds resulted mainly from: (i) the negative performance of assets under management amounting to Euro 74.7 million (equivalent to -3.3% in 1H10), (ii) the payments of pensions and supplements of Euro 69.2 million and (iii) the reimbursement of excess funding of the healthcare plan amounting to Euro 75 million. These effects were partially offset by contributions to the pension funds amounting to Euro 34.8 million.

Total gross unfunded obligations increased by Euro 156 million to Euro 1,623 million as at 30 June 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 amounting Euro 143 million, related to the difference between the actual return on assets (negative Euro 75 million and equivalent to minus 3.3% in 1H10) 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 million), and (2) the reduction of liabilities related to salaries payable to suspended and pre-retired employees (Euro 45 million), due to the halting of the redundancy programme.

Table 9 _ Change in gross unfunded obligations **Euro million**

	1H10	1H09
Gross unfunded obligations (initial balance)	1,467.4	1,809.9
Post retirement benefits costs (PRB)	36.6	45.8
Curtailment cost	9.2	3.5
Net reimbursements (contributions) to pension funds (1)	37.4	(8.3)
Payments to pre-retired, suspended employees and other	(70.8)	(78.2)
Net actuarial (gains) losses (2)	143.2	(15.6)
Gross unfunded obligations (final balance)	1,623.0	1,757.0
After-tax unfunded obligations	1,192.9	1,291.4

(1) In 1H10, this caption includes the reimbursement of excess funding of the healthcare plan amounting to Euro 75 million, which was partially offset by contributions to the pension funds of Euro 34.8 million and termination payments of Euro 3.6 million. **(2)** In 1H10, this caption relates primarily to the difference between the actual return on assets (negative Euro 74.7 million, equivalent to - 3.3% in 1H10) and the expected return on assets (6% on an annual basis).

Table 10 _ Post retirement benefits costs **Euro million**

	1H10	1H09
Service cost	4.1	3.4
Interest cost (1)	101.0	108.2
Expected return on assets (2)	(68.5)	(65.8)
Sub-total	36.6	45.8
Amortisation of prior year service gains	(1.0)	(0.9)
Post retirement benefits costs	**35.6**	**44.8**

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

Equity

Equity excluding minority interests stood at Euro 1,391 million as at 30 June 2010. The increase of Euro 73 million in 1H10 is explained by: (1) the Euro 264 million net income generated in the period, and (2) positive currency translation adjustments amounting to Euro 437 million, mainly related to the appreciation of the Real against the Euro, which more than offset the Euro 504 million dividends paid by PT to shareholders and the actuarial losses related to post retirement benefits amounting to Euro 105 million (net of taxes).

Table 11 _ Change in shareholders equity (excluding minority interests) **Euro million**

	1H10
Equity before minority interests (initial balance)	**1,318.3**
Net income	264.5
Currency translation adjustments	436.6

Dividends	(503.6)
Net actuarial gains (losses), net of taxes	(105.3)
Other	(19.3)
Equity before minority interests (final balance)	**1,391.3**
Change in equity before minority interests	**73.0**
Change in equity before minority interests (%)	**5.5%**

Consolidated Statement of Financial Position

As at 30 June 2010, the net exposure (assets minus liabilities) to Brazil amounted to Euro 3,534 million (R$ 7,804 million). The assets denominated in Brazilian Reais in the balance sheet as at 30 June 2010 amounted to Euro 7,177 million (R$ 15,848 million), equivalent to 44.0% of total assets.

The increase in total assets and liabilities in 1H10 is due to the impact of the appreciation of the Real against the Euro and to certain loans obtained in the period, which led to an increase in both gross debt and cash and cash equivalents.

Table 12 _ Consolidated statement of financial position (1) **Euro million**

	30 June 2010	31December 2009
Cash and equivalents	2,001.6	1,518.0
Accounts receivable, net	1,942.3	1,538.4
Inventories, net	240.5	239.9
Financial investments	621.8	614.1
Intangible assets, net	4,363.0	4,074.3
Tangible assets, net	4,894.5	4,843.9
Accrued post retirement asset (2)	1.1	67.6
Other assets	936.0	783.7
Deferred tax assets and prepaid expenses	1,316.5	1,160.7
Total assets	16,317.3	14,840.5
Accounts payable	1,262.2	1,338.6
Gross debt	8,094.4	7,046.0
Accrued post retirement liability	1,646.5	1,558.3
Other liabilities	1,757.4	1,602.9
Deferred tax liabilities and deferred income	889.7	907.2
Total liabilities	13,650.2	12,453.0
Equity before minority interests	1,391.3	1,318.3
Minority interests	1,275.8	1,069.1
Total shareholders equity	2,667.1	2,387.4
Total liabilities and shareholders equity	16,317.3	14,840.5

(1) Considering a Euro/Real exchange rate of 2.2082 as at 30 June 2010 and 2.5113 as at 31 December 2009. **(2)** 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.

03

Operational Review

Domestic Operations

Revenues from domestic operations, which include wireline and TMN, decreased by 0.9% y.o.y in 2Q10, notwithstanding the increase of 2.0% y.o.y in the wireline segment, as a result of lower revenues at TMN due to: (1) lower customer revenues (Euro 13 million), as a result of the economic conditions and increased popularity of on-net flat-fee prepaid tariff plans; (2) lower equipment sales (Euro 10 million), and (3) lower interconnection revenues (Euro 2 million), due to lower MTRs. Revenues in the wireline segment increased by 2.0% y.o.y (Euro 10 million), notwithstanding the change in the recognition of contract penalties (Euro 4 million), which negatively impact the comparison between the quarters. Adjusting for the change in revenue recognition referred to above, wireline revenues would have increased by 2.8% y.o.y, underpinned by retail and data and corporate revenues and despite lower wholesale revenues due to lower competitive accesses.

Table 13 _ Domestic operations income statement (1) **Euro million**

	2Q10	2Q09	y.o.y	1H10	1H09	y.o.y
Operating revenues	**798.0**	**805.5**	**(0.9)%**	**1,595.2**	**1,632.9**	**(2.3)%**
Wireline	482.8	473.3	2.0%	971.0	965.3	0.6%
Domestic mobile • TMN	343.6	367.1	(6.4)%	689.5	737.1	(6.5)%
Other and eliminations	(28.4)	(34.8				