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

Washington, D.C. 20549

FORM 6-K

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

For the month of April 2008
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

Annual report 2007

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

Portugal Telecom

Portugal

Wireline Euro 1,962 million (revenues)	• Retail [PT Comunicações 100%] • Large corporates voice and data [PT Corporate 100%] • SMEs voice and data [PT Prime 100%] • ISP and broadband services [PT.COM 100%]
Mobile Euro 1,543 million (revenues)	• TMN 100%

Main international assets

			Revenues (Euro million)
Vivo 31.38%	• Brazil	• Mobile	2,463
Médi Télécom 32.18%	• Morocco	• Mobile	438
Unitel 25% (*)	• Angola	• Mobile	649
CTM 28%	• Macao	• Wireline, mobile, Internet and data	207
MTC 34% (*)	• Namibia	• Mobile	118
CVT 40% (*)	• Cape Verde	• Wireline, mobile, Internet and data	68
CST 51% (*)	• São Tomé e Príncipe	• Wireline, mobile, Internet and data	8
Timor Telecom 41.12%	• East Timor	• Wireline, mobile, Internet and data	23
UOL 29%	• Brazil	• ISP, contents and Internet	197

(*) These stakes are held by Africatel, which is controlled 78% by PT.

Support companies

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

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

Call centres and telemarketing services [PT Contact 100%]; Pension funds management [Previsão 82.05%]

Message to Shareholders

Dear Shareholders,

The end of the takeover bid over Portugal Telecom, that had been ongoing for over a year, was a key event of the beginning of 2007. As such, from 2 March 2007, the board of directors, with the full support of the shareholders, initiated the execution of the proposed remuneration package which included the payment of dividends, together with a share buyback programme and the spin-off of PT Multimédia.

At the present time, and considering the dividend proposal on this year s results, we can state that we have achieved, on the expected timing, over 80% of what we had promised without compromising the company s financial position, its investment capacity and, therefore, its future.

The spin-off was the key element for the liberalisation of the telecoms sector in Portugal

PT Multimédia s spin-off was proposed by PT in August 2006 and was not the Result of any regulation or legal imposition. As of November 13 2007, Portugal Telecom ceased to hold any shares in PT Multimedia, a measure that we consider to be beneficial to the telecommunications market in Portugal, since promotes competition.

With the spin-off, we have actively changed the competitive arena in Portugal and were responsible for the most important boost to competition ever witnessed in our market. Currently, in any of the telecoms segments where we operate voice, broadband or TV the two largest operators taken together have a dimension that is comparable to PT, which definitely overcomes the idea that our company holds a dominant market position in Portugal.

Brazil is and will continue to be an important market for Portugal Telecom

Vivo is currently the largest mobile operator in Brazil, and this position was further consolidated during 2007. The mature relationship that we maintain with our partner Telefónica was crucial in increasing the value of our holding and carrying out difficult but essential changes with a view to enhance Vivo s competitiveness. The implementation of GSM, which we delivered in record time, is a good example of this, as it has allowed us to overcome a disadvantage to our competitors. At the present time, over 85% of our new clients are on GSM, and around 34% of the 34.4 million Vivo customers use this technology.

In August 2007, Vivo acquired Telemig, the mobile operator of the state of Minas Gerais, guaranteeing control of more than 4 million customers in the third richest state in Brazil. Also worth highlighting is the acquisition of 1,9 Ghz licenses for the regions of Brazil where Vivo did not yet operate, achieving full national coverage. In addition, Vivo secured 3G coverage for the entirety of its operational area in December, bringing in the means to consolidate its strong competitive position.

As a result of the faultless carrying out of these projects Vivo is today stronger and more competitive than a year ago, with very encouraging growth prospects.

Reinforced investment in Africa with the creation of Africatel and partnership with Helios

We have always stated that the African markets are an important part of our international strategy. In August 2007 we realised this commitment through a partnership with Helios Investment Partners, who have acquired a 22% stake on Africatel, the PT Group company that holds our interests in the sub-saharian region of the continent.

Through this strategic partnership with Helios we intend to continue developing and consolidating our operations in Africa, putting together our holdings and market knowledge to Helios strengths in the region and the financial discipline that such investors bring with them.

Africa is a market experiencing exponential growth, and we will continue to endeavor to translate such growth into value for our shareholders. We will be extremely selective on identifying opportunities for expansion, ensuring that we have an international strategy that truly delivers shareholder value.

Fixed-mobile convergence: structural changes to the business in Portugal

Regarding our operations in Portugal, we have initiated the implementation of a fixed and mobile convergence strategy. We are transforming our organisation in order to face this challenge and taking the necessary steps for the combined management of the business in Portugal. PT Portugal is underway and, in 2007, we started offering our clients integrated fixed-mobile telecommunication solutions.

The decision to launch a television service was also taken and is one of the highlights of 2007. This new area of business, where we are currently investing and will continue to do so in the coming years, is a key element of our strategy for residential customers going forward, a market segment where competition is already very strong and Portugal Telecom sees its commercial operations limited by an asymmetric regulatory framework.

Nevertheless, the commitment of our employees, this company s capacity to innovate and launch new services, its investment capacity, the reach and coverage of our distribution, maintenance and client support networks, lead me to be optimistic towards the future.

We continue to be largest investor in the information society in Portugal

I must also emphasise Portugal Telecom s contribution to the development of our country s information society. This year we have invested nearly 240 million euros in e.initiatives such as e.escolas . We distributed around 68 thousand portable computers with Internet connection to young students, fostering the access to new technologies.

In terms of training and development, I also highlight PT s commitment to the CMU programme in Portugal, which involves an investment of 5 million euros over five years. The retraining of our staff has also been a priority and in 2007, as part of the New Opportunities scheme, 664 of our collaborators saw the skills acquired throughout their professional life certified, giving a positive contribution to the development of the company and the country.

The year 2007 has closed the the takeover bid cycle

The management team which I lead is pleased with the results achieved over the last two years and with the response given by our staff and shareholders to the challenges faced, which demonstrated a clear and continuing support to this team.

PT is a reference and a leader in the development of the information society in Portugal. We have high ambitions for the future, not just in the domestic market, but also abroad. With the superior quality of our human resources, I am certain that we will continue to contribute positively to the development of the countries where we operate and to create value to our shareholders.

Henrique Granadeiro

Chairman and CEO

01 Financial review

Consolidated income statement (1)

Euro million

	2007	2006	Δ 07/06
Operating revenues	6,148.4	5,765.3	6.6%
Wireline	1,843.5	1,953.0	(5.6)%
Domestic mobile • TMN	1,464.6	1,426.2	2.7%
Brazilian mobile • Vivo (1)	2,462.9	2,104.7	17.0%
Other	377.3	281.4	34.1%
Operating costs, excluding depreciation and amortisation	3,791.7	3,528.3	7.5%
Wages and salaries	638.1	633.5	0.7%
Post retirement benefits	(65.1)	(72.1)	(9.8)%
Direct costs	907.3	724.9	25.2%
Cost of products sold	656.1	580.6	13.0%
Support services	233.6	202.1	15.6%
Marketing and publicity	147.2	138.3	6.5%
Supplies and external services	945.6	928.5	1.8%
Indirect taxes	201.8	175.9	14.7%
Provision and adjustments	127.0	216.6	(41.4)%
EBITDA (2)	2,356.7	2,237.0	5.3%
Depreciation and amortisation	1,123.1	1,130.7	(0.7)%
Income from operations (3)	1,233.6	1,106.3	11.5%
Other expenses (income)	317.9	129.2	146.0%
Curtailment costs, net	275.6	19.0	n.m.
Gains on disposal of fixed assets, net	(2.8)	(5.1)	(45.7)%
Other costs, net	45.1	115.4	(60.9)%
Income before financial results and taxes	915.7	977.1	(6.3)%
Financial expenses (income)	(116.8)	118.4	n.m.
Net interest expenses	197.4	220.1	(10.3)%
Net foreign currency exchange losses/(gains)	12.4	(4.5)	n.m.
Gains on financial assets and other investments, net	(248.8)	(18.3)	n.m.
Equity in earnings of associated companies, net	(126.1)	(130.6)	(3.4)%
Net other financial expenses	48.3	51.8	(6.7)%
Income before income taxes	1,032.5	858.6	20.3%
Provision for income taxes	(243.3)	21.4	n.m.
Income from continuing operations	789.2	880.0	(10.3)%
Net income from discontinued operations	45.5	74.1	(38.7)%
Losses (income) attributable to minority interests	(92.8)	(87.4)	6.3%
Consolidated net income	741.9	866.8	(14.4)%

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7315 in 2006. (2) EBITDA = operating income + depreciation and amortisation. (3) Operating income = income before financial results and taxes + work force reduction program costs + losses on disposals of fixed assets, net + other costs, net.

Consolidated operating revenues

Consolidated operating revenues increased by 6.6% y.o.y in 2007 to Euro 6,148 million, reflecting the higher contribution from: (1) Vivo (Euro 358 million), due to the positive impact of the change in the interconnection regime (July 2006) as well as customer and ARPU growth; (2) TMN (Euro 38 million) on the back of the 9.8% y.o.y. increase in the number of customers, particularly in postpaid and wireless broadband; and (3) other businesses (Euro 96 million) primarily explained by MTC (Euro 79 million), which has been consolidated since September 2006 only, and the increase in revenues of other fully consolidated subsidiaries. These effects were partially offset by the reduction in the contribution from the wireline business (Euro 109 million), mainly as a result of the impact of continued line loss and pricing pressure on retail revenues, notwithstanding the improvement in wholesale and data and corporate revenues.

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

	2007	**2006**	**Δ 07/06**
Wireline	1,962.4	2,071.8	(5.3)%
Domestic mobile • TMN	1,542.9	1,502.4	2.7%
Brazilian mobile • Vivo (1)	2,463.0	2,104.7	17.0%
Other and eliminations	180.1	86.4	108.4%
Total operating revenues	6,148.4	5,765.3	6.6%

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7315 in 2006.

Consolidated operating costs

Consolidated operating costs amounted to Euro 4,915 million in 2007, an increase of 5.5% y.o.y. On a constant currency basis, operating costs would have increased by 4.2% y.o.y. in 2007.

Consolidated operating costs (1) Euro million

	2007	2006	Δ 07/06	% Rev.
Wages and salaries	638.1	633.5	0.7%	10.4%
Post retirement benefits	(65.1)	(72.1)	(9.8)%	(1.1)%
Direct costs	907.3	724.9	25.2%	14.8%
Telecommunications costs	739.6	567.8	30.3%	12.0%
Directories	68.0	74.4	(8.6)%	1.1%
Other	99.7	82.7	20.5%	1.6%
Costs of products sold	656.1	580.6	13.0%	10.7%
Support services	233.6	202.1	15.6%	3.8%
Marketing and publicity	147.2	138.3	6.5%	2.4%
Supplies and external services	945.6	928.5	1.8%	15.4%
Indirect taxes	201.8	175.9	14.7%	3.3%
Provisions and adjustments	127.0	216.6	(41.4)%	2.1%
Operating costs, excluding depreciation and amortisation	3,791.7	3,528.3	7.5%	61.7%
Depreciation and amortisation	1,123.1	1,130.7	(0.7)%	18.3%
Total operating costs	4,914.8	4,659.0	5.5%	79.9%

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7315 in 2006.

Wages and salaries _ Wages and salaries increased by 0.7% y.o.y. in 2007 to Euro 638 million, primarily as a result of the increase in the contributions from Vivo (Euro 13 million) and MTC (Euro 7 million), which has been consolidated since September 2006 only. These effects were partially offset by the 7.0% y.o.y decrease in wages and salaries for the wireline business as a result of the ongoing redundancy programme and the focus on containing wage increases. Wages and salaries accounted for 10.4% of consolidated operating revenues.

Post retirement benefits costs _ Post retirement benefit costs (PRB) were Euro 65 million negative (gain) in 2007, as compared to Euro 72 million negative in 2006. In 2007, post retirement benefit costs included prior year service gains amounting to Euro 110 million, mainly related to the vested rights resulting from some changes introduced in the Social Security Rules (Dec-Law 187/2007 and Law 52/2007) in order to guarantee the long-term financial sustainability of the Portuguese social security system. In 2006, post retirement benefit costs included prior year service gains amounting to Euro 151 million mainly related to the reduction in health care benefits (Euro 127 million), in connection with the changes made to Portugal

Telecom s Health Care Plan in order to maintain its long-term sustainability and financing. Excluding prior year service gains, post retirement benefit costs would have decreased from Euro 78 million in 2006 to Euro 46 million in 2007, primarily explained by the reduction in service costs, following the decrease in healthcare obligations occurred at the end of 2006, and also due to the reduction in interest costs and the increase in expected return on assets, in line with the decrease in the unfunded obligations.

Direct costs _ Direct costs increased by 25.2% y.o.y to Euro 907 million in 2007 and accounted for 14.8 of consolidated operating revenues. Telecommunications costs, which are the main component of direct costs, increased by 30.3% to Euro 740 million in 2007, with the reduction in telecommunication costs at the wireline (Euro 3 million) and domestic mobile (Euro 9 million) businesses, primarily due to lower wireline traffic volumes and lower fixed-to-mobile and mobile-to-mobile interconnection rates in Portugal, being more than offset by the increase in telecommunications costs at Vivo (Euro 168 million), mainly due to the end of the partial Bill & Keep interconnection regime (Euro 127 million).

Cost of products sold _ Cost of products sold increased by 13.0% y.o.y in 2007 to Euro 656 million. Excluding the impact of the appreciation of the Real against the Euro (Euro 11 million), costs of products sold would have increased by 11.2% y.o.y to Euro 645 million in 2007, in line with increased commercial activity in the domestic and Brazilian mobile businesses, including the introduction of the GSM by Vivo, which was partially offset by lower handset prices, benefiting from the appreciation of the Real against the Dollar.

Support services _ Support services increased by 15.6% y.o.y in 2007 to Euro 234 million and represented 3.8% of consolidated operating revenues. This growth is primarily explained by the increase in support services from Vivo (Euro 28 million) and TMN (Euro 11 million), in line with higher commercial activity in both businesses.

Marketing and publicity _ Marketing and publicity increased by 6.5% y.o.y. in 2007 to Euro 147 million, primarily due to higher contributions from TMN (Euro 4 million) and Vivo (Euro 2 million), in line with increased commercial activity in both businesses, and also due to the increase in the contribution from MTC (Euro 4 million), which has been fully consolidated since September 2006 only. Marketing and publicity expenses accounted for 2.4% of consolidated operating revenues.

Supplies and external services _ Supplies and external expenses increased by 1.8% y.o.y in 2007 to Euro 946 million. Commissions, which are the main component of supplies and external services, remaining stable at Euro 264 million. The increase in other supplies and external services, is primarily explained by higher contributions from Vivo (Euro 10 million) and MTC (Euro 7 million), which has been consolidated since September 2006 only. The increase in the contribution of Vivo is primarily explained by the appreciation of the Real against the Euro (Euro 5 million) and by the increases of electricity expenses related to the GSM network and legal fees. Supplies and external services accounted for 15.4% of consolidated operating revenues.

Indirect taxes _ Indirect taxes, which mainly include spectrum fees (TMN and Vivo) and other taxes, increased from Euro 176 million in 2006 to Euro 202 million in 2007, mainly due to the increase in spectrum fees at Vivo and TMN in line with the growth in the customer base of both businesses.

Provisions and adjustments _ Provisions and adjustments decreased from Euro 217 million in 2006 to Euro 127 million in 2007. The decrease in this cost item is primarily related to decreases of Euro 59 million and Euro 32 million at Vivo and wireline business, respectively, mainly due to a reduction in doubtful accounts receivable at both businesses and also due to a one-off provision recorded by Vivo in 2006 (Euro 30 million) resulting from billing problems associated with the system migration to a unified platform. In 2007, provisions and adjustments accounted for 2.1% of consolidated operating revenues.

Depreciation and amortisation _ Depreciation and amortisation costs decreased by 0.7% y.o.y. in 2007 to Euro 1,123 million, with the reduction at the wireline business (Euro 32 million) being partially offset by higher contributions from Vivo (Euro 17 million), mainly due to the appreciation of the Real against the Euro (Euro 13 million), and from MTC (Euro 7 million), which has been consolidated since September 2006 only. This cost item accounted for 18.3% of consolidated operating revenues.

EBITDA

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

	2007	2006	Δ 07/06
Wireline	1,008.8	1,072.9	(6.0)%
Domestic mobile • TMN	679.0	658.7	3.1%
Brazilian mobile • Vivo (1)	595.0	496.2	19.9%
Other	73.9	9.2	n.m.
Total EBITDA (2)	2,356.7	2,237.0	5.3%
EBITDA margin (%)	38.3	38.8	(0.5pp)

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7315 in 2006. (2) EBITDA = income from operations + depreciation and amortisation

EBITDA increased by 5.3% y.o.y in 2007 to Euro 2,357 million, equivalent to an EBITDA margin of 38.3%, a decrease of 0.5 p.p. y.o.y. EBITDA growth in the period was driven primarily by growth in mobile businesses and an increase in other businesses. Although part of the improvement in Vivo EBITDA is explained by the impact of a one-off provision recorded in 2006 (Euro 30 million), underlying EBITDA increased by 17.0% y.o.y in local currency on the back of the strong increase in top-line. TMN EBITDA increased by 3.1% y.o.y driven by robust customer growth, in voice and data, combined with strict cost control, notwithstanding increased commercial activity (+20.8% increase in net additions). Wireline EBITDA decreased by 6.0% y.o.y, mainly as a result of the decrease in prior years service gains in 2007. Excluding this impact, Wireline EBITDA would have decreased by 2.6% y.o.y in 2007, with the 1.3pp improvement in underlying EBITDA margin resulting from the continued reduction in personnel-related and other operating costs. Other EBITDA increased from Euro 9 million in 2006 to Euro 74 million in 2007, mainly as a result of the increase in the contribution of MTC (Euro 38 million), which was only fully consolidated since September 2006, and the increase in EBITDA of other fully consolidated subsidiaries.

Net income

Curtailment costs, net _ Curtailment costs amounted to Euro 276 million in 2007, including a cost of Euro 289 million related to the reduction of 1,004 employees and a gain of Euro 14 million related with the settlement of benefits. In 2006 curtailment costs amounted to Euro 19 million due to the booking of net gains of Euro 209 million related to the termination of the protocol with the national healthcare system. Work force reduction programme costs in 2006 amounted to Euro 228 million corresponding to the reduction of 772 employees.

Net interest expenses _ Net interest expenses decreased by 10.3% y.o.y to Euro 197 million in 2007, mainly as a result of the reduction in the average cost of debt in Portugal and Brazil, as well as the decrease in Vivo s average net debt in the period, and notwithstanding the increase in PT s average net debt in the period due to the execution of the share buyback. Excluding Brazil and the interest cost associated with PTM equity swap (settled in the second quarter of 2007), PT s the average cost of debt was 3.7% in 2007, as compared to 3.8% in 2006.

Net foreign currency exchange losses/(gains) _ Net foreign currency exchange losses amounted to Euro 12 million in 2007, as compared to net foreign currency exchange gains of Euro 4 million in 2006. In 2007 and 2006, this item included mainly foreign currency losses related to dividends receivable from Unitel (denominated in US Dollars), following the devaluation of the US Dollar against the Euro in both periods, and foreign currency gains related to Vivo s US Dollar debt not swapped to Reais, in connection with the appreciation of the Real against the Dollar in both periods.

Gains on financial assets and other investments, net _ Net gains on financial assets amounted to Euro 249 million in 2007, as compared to net gains of Euro 18 million in 2006. This caption includes mainly the following: (1) the sale of 22% of Africatel (gain of Euro 111 million in 2007), the holding company that aggregates all of PT s interests in Africa excluding Médi Télécom; (2) equity swap contracts on PT Multimedia shares (gains of Euro 77 million in 2007, as compared to 10 million in 2006); (3) the financial settlement of equity swaps over PT s own shares (gains of Euro 32 million in 2007, as compared to Euro 24 million in 2006); and (4) the disposal of the investment in BES (gain of Euro 36 million in 2007).

Equity in earnings of associated companies, net _ Equity in earnings of associated companies decreased 3.4% to Euro 126 million in 2007, as compared to Euro 131 million in 2006, on the back of the reduction in the contribution from Médi Télécom (Euro 3 million in 2007 vs. Euro 46 million in 2006) resulting primarily from the recognition in 2006 of tax losses carried forward from previous years. This item included mainly PT s share in the earnings of Unitel in Angola (Euro 92 million in 2007, as compared to Euro 82 million in 2006), CTM in Macao (Euro 17 million in 2007, as compared to Euro 15 million in 2006) and UOL (Euro 13 million in 2007, as compared to Euro 6 million in 2006).

Net other financial expenses _ Net other financial expenses decreased 6.7% to Euro 48 million in 2007, as compared to Euro 52 million in 2006 and included mainly banking services, commissions, financial discounts and other financing costs. The reduction in this cost item is primarily explained by the financial taxes paid by Vivo in 2006, in connection with its debt restructuring occurred in that period.

Provision for income taxes _ Provision for income taxes amounted to Euro 243 million in 2007, as compared to a gain of Euro 21 million in 2006. The increase in this caption is primarily explained by the recognition in 2006 of: (1) a tax credit amounting to Euro 53 million, following the liquidation of a holding company, (2) a Euro 142 million gain related the reduction of deferred tax liabilities resulting from the voluntary taxation of certain capital gains, and (3) tax losses from previous periods amounting to Euro 134 million at Vivo following the completion of its corporate restructuring. Adjusting for these one-off effects, provision for income taxes would have been Euro 308 million in 2006, with the adjusted effective tax rate falling from 36% in 2006 to 24% 2007 mainly as a result: (1) the reduction in allowances for deferred taxes on tax losses generated by Vivo, following the corporate restructuring completed in the end of 2006; (2) the reduction in the statutory tax rate in Portugal from 27.5% in 2006 to 26.5% in 2007; and (3) the booking of non-taxable capital gains in 2007 related to the disposals of 22% of Africatel and of the investment in shares of BES.

Net income from discontinued operations _ Net income from discontinued operations includes the results of companies that have been disposed during the reportable periods, and the after-tax gains obtained with the sale of these investments. Following the approval of the spin-off of PT Multimedia in PT s Annual General Meeting hold on 27 April 2007, this business was reported as a discontinued operation in all reportable periods, in accordance with IFRS rules. As a result, the earnings of PT Multimedia before minority interest until the conclusion of the spin-off process that occurred in November 2007 were included in this caption. In 2007, this caption included costs related to the spin-off process amounting to Euro 18 million, net of tax, in connection with employee, organisational and IT restructuring costs.

Minority interests _ Income attributable to minority interests increased to Euro 93 million in 2007 from Euro 87 million in 2006, mainly due to the increase in income attributable to the minority interests of MTC (from Euro 9 million in 2006 to Euro 23 million in 2007), which has been consolidated since September 2006 only, and Africatel (Euro 10 million in 2007), following the disposal of a 22% stake of this investment in July 2007. These effects were partially offset by the decrease in the income attributable to minority interests of Vivo (from Euro 34 million in 2006 to Euro 15 million in 2007), primarily explained by the share of minority interests in the tax gains booked by Vivo in 2006.

Net income _ Net income decreased by 14.4% y.o.y in 2007 to Euro 742 million, primarily as a result of the increase in curtailment costs in 2007 and lower provision for income taxes in 2006, which more than offset the increase in EBITDA and higher net financial gains.

Capex

Capex by business segment (1) Euro million

	2007	2006	∆ 07/06
Wireline (2)	292.1	238.5	22.5%
Domestic mobile • TMN (3)	182.9	188.6	(3.0)%
Brazilian mobile • Vivo (1)	359.9	386.8	(7.0)%
Other	64.4	53.8	19.7%
Total capex	899.3	867.7	3.6%
Capex as % of revenues (%)	14.6	15.1	(0.4pp)

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7513 in 2006. (2) Includes the capitalisation of Euro 43 million related with transponder satellite capacity for the DTH offer. (3) Excludes the commitments under the terms of the UMTS licence (Euro 242 million in 2007).

Capex amounted to Euro 899 million in 2007, equivalent to 14.6% of revenues. The increase in Wireline capex was primarily due to: (1) network upgrades to provide greater bandwidth, in part related to IPTV services launched in June 2007; (2) the capitalisation of transponder satellite capacity for the DTH offer, and (3) client-related capex. This increase was partially offset by the decrease in Vivo and TMN s capex, with this being directed mostly towards build up of network capacity and 3G/3.5G coverage. Capex at Vivo was directed towards to the GSM/EDGE overlay as well as network coverage and capacity. Other capex includes capex related to consolidated businesses not included in the main segments and support companies. In 2007, other capex increased to Euro 64 million, as compared to Euro 54 million in 2006, mainly as a result of the consolidation of MTC (Euro 17 million) from September 2006.

Cash flow

EBITDA minus Capex by business segment (1) Euro million

	2007	2006	y.o.y
Wireline	716.7	834.3	(14.1)%
Domestic mobile • TMN	496.1	470.1	5.5%
Brazilian mobile • Vivo (1)	235.1	109.4	114.9%
Other	9.5	(44.6)	n.m.
Total EBITDA minus Capex	1,457.4	1,369.3	6.4%

(1) Considering a Euro/Real average exchange rate of 2.6661 in 2007 and 2.7315 in 2006.

EBITDA minus Capex _ EBITDA minus Capex increased by 6.4% y.o.y to Euro 1,457 million in 2007. On a combined basis, the domestic businesses accounted for approximately 83% of total EBITDA minus Capex.

Free cash flow Euro million

	2007	2006	y.o.y
Operating free cash flow	1,432.8	1,586.6	(9.7)%
Net disposal (acquisition) of financial investments	238.5	(142.3)	n.m.
Interest paid	(234.3)	(311.0)	(24.7)%
Contributions and payments related to PRBs	(167.2)	(278.5)	(40.0)%
Financial settlement of PTM equity swap	94.5	0.0	n.m.
Income taxes paid	(206.5)	(47.9)	n.m.
Other cash movements (1)	83.8	17.9	n.m.
Free cash flow	1,241.6	824.9	50.5%

(1) In 2007, other cash movements included Euro 149 million related to dividends received, mainly from PTM (Euro 54 million) and Unitel (Euro 73 million).

Operating free cash flow _ In 2007, operating free cash flow decreased by 9.7% y.o.y to Euro 1,433 million. The reduction in operating cash flow is explained by the working capital investment in 2007, versus a divestment in 2006, primarily as a result of higher commercial activity at TMN and Vivo.

Free cash flow _ Free cash flow increased from Euro 825 million in 2006 to Euro 1,242 million in 2007, primarily as a result of: (1) the increase in net disposal of financial investments, mainly due to disposals of Africatel and BES in 2007 amounting to Euro 117 million and Euro 110 million, respectivatily, as compared to the investment in MTC of Euro 109 million in 2006; (2) the cash settlement of the PTM equity swap in 2007 (Euro 94 million); (3) lower interest paid, and (4) lower contributions and payments related to post retirement benefits, as a result of the Euro 87 million reimbursement made in 2007 by PT Prestações, the fund created to cover healthcare responsibilities, on account of healthcare expenses paid by PT in previous years. These effects were only partially offset by higher income taxes paid, as PT s tax losses carried forward were fully used in 2006. The reduction in interest paid from Euro 311 million in 2006 to Euro 234 million in 2007, is primarily explained by the fact that PT paid in 2006 the last annual interest installment (Euro 52 million) on the Eurobond repaid in 2006 and by the decrease in Vivo s interest payments following its debt restructuring undertaken in 2006.

Consolidated balance sheet (1)

Euro million

	31 December 2006	31 December 2006
Cash and equivalents	1,834.9	2,083.7
Accounts receivable, net	1,441.8	1,417.0
Inventories, net	160.6	130.3
Financial investments	565.3	631.5
Intangible assets, net	3,383.1	3,490.9
Tangible assets, net	3,585.4	3,942.0
Post retirement benefits	134.1	134.1
Other assets	910.7	1,050.5
Deferred tax assets and prepaid expenses	1,106.2	1,291.4
Total assets	13,122.2	14,171.2
Accounts payable	1,108.9	1,115.1
Gross debt	6,216.8	5,840.3
Post retirement benefits	1,463.9	1,807.6
Other liabilities	1,878.4	1,995.7
Deferred tax liabilities and deferred income	372.3	306.5
Total liabilities	11,040.4	11,065.2
Equity before minority interests	1,338.2	2,255.2
Minority interests	743.6	850.8
Total shareholders equity	2,081.8	3,106.0
Total liabilities and shareholders equity	13,122.2	14,171.2

(1) Considering the Euro/Real exchange rate of 2.5963 at the end of 2007 and 2.8118 at the end of 2006.

Assets and liabilities _ The decrease in assets and liabilities in 2007 is primarily explained by the conclusion of the spin-off process of PT Multimedia occurred on November 2007.

The net exposure to Brazil _ The net exposure (assets minus liabilities) to Brazil amounted to R$ 7,525 million as at 31 December 2007 (Euro 2,898 million at the Euro/Real exchange rate prevailing as at 31 December 2007). The assets denominated in Brazilian Reais in the balance sheet as at 31 December 2007 amounted to Euro 5,454 million, equivalent to approximately 41.6% of total assets.

Gearing ratio _ The gearing ratio [net debt / (net debt + shareholders equity)] increased to 67.8% as at 31 December 2007, from 54.7% as at 31 December 2006, while the shareholders equity plus long-term debt to total assets ratio increased from 53.4% to 53.7%. As at 31 December 2007, the net debt to EBITDA ratio was 1.9 times and EBITDA cover was 11.9 times.

Consolidated net debt

Change in net debt Euro million

	2007	2006
Net debt (initial balance)	3,756.6	3,672.5
Less: PTM Net debt as at 31 December 2006	178.9	0.0
Less: Free cash flow	1,241.6	824.9
Less:PTM free cash flow	0.0	(74.0)
Commitments under the UMTS license	241.7	0.0
Translation effect on foreign currency debt	32.6	(12.1)
Dividends paid (1)	552.7	552.2
Acquisitions of treasury shares (2)	1,158.3	62.1
Extraordinary contribution to pension fund	117.0	302.3
Other	(56.6)	(69.5)
Net debt (final balance)	4,381.8	3,756.6
Change in net debt	625.3	84.1
Change in net debt (%)	16.6%	2.3%

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(1) In 2007, this item included dividends paid by PT (Euro 517 million) and certain of its subsidiaries. (2) In 2007, this item corresponds to the notional amount of equity swaps contracted over 117.7 million PT shares, in connection with the share buyback programme announced by the Board of Directors on 20 February 2007 and approved at the AGM of 27 April 2007.

Net debt _ Consolidated net debt as at 31 December 2007 increased to Euro 4,382 million, as compared to Euro 3,757 million as at 31 December 2006. The increase in net debt over the period is primarily explained by: (1) the share buyback, currently under execution; (2) the recognition of the investments in UMTS commitments, and (3) the extraordinary contribution to the pension fund.

Consolidated net debt

Euro million

	31 December 2007	31 December 2006	Change	Change (%)
Short-term	1,256.1	1,372.7	(116.6)	(8.5)%
Bonds	96.3	0.0	96.3	n.m.
Bank loans	431.3	406.9	24.4	6.0%
Other loans	324.0	749.9	(425.9)	(56.8)%
Commitments under the UMTS license	55.9	0.0	55.9	n.m.
Liability with equity swaps on own shares	323.2	187.6	135.6	72.3%
Financial leases	25.5	28.4	(2.9)	(10.3)%
Medium and long-term	4,960.7	4,467.4	493.3	11.0%
Exchangeable bonds	689.4	0.0	689.4	n.m.
Bonds	3,061.7	3,133.6	(71.9)	(2.3)%
Bank loans	940.9	1,103.3	(162.4)	(14.7)%
Commitments under the UMTS license	144.7	0.0	144.7	n.m.
Other loans	0.0	0.3	(0.3)	n.m.
Financial leases	124.0	230.2	(106.2)	(46.1)%
Gross debt	6,216.8	5,840.2	376.6	6.4%
Cash and equivalents	1,834.9	2,083.7	(248.8)	(11.9)%
Net debt	4,381.8	3,756.6	625.3	16.6%

Total debt _ As at 31 December 2007, 79.8% of total debt was medium and long-term, while 64.0% of total debt was at fixed rates. As at 31 December 2007, 85.7% of total debt was denominated in Euros, 0.1% in US Dollars and 14.1% in Brazilian Reais. PT s rating was confirmed as Baa2 by Moody s and BBB- by S&P, both with stable outlook, on 5 March 2007 and 16 March 2007, respectively. The total undrawn amount of PT s domestic commercial paper lines and standby facilities stood at Euro 1,451 million as at 31 December 2007. The amount of available cash from the domestic operations plus the undrawn amount of PT s domestic commercial paper lines and standby facilities totalled Euro 2,672 million at the end of December 2007.

The 50% share of Vivo s net debt, proportionally consolidated by PT, amounted to Euro 370 million as at 31 December 2007. Approximately 95% of Vivo s net debt is either Real-denominated or has been swapped into Reais.

Net debt maturity profile

Euro million

Maturity	Net debt	Notes
2008	(578.9)	Net cash position
2009	1,122.5	Includes a Euro 880 million Eurobond issued in April 1999
2010	226.3	
2011	159.8	
2012	1,282.2	Includes a Euro 1,000 million Eurobond issued in March 2005
2013	67.4	
2014	881.6	Includes a Euro 689 million related to the exchangeable bonds issued in August 2007
2015	225.4	
2016	0.0	
2017 and following	995.4	Includes a Euro 500 million Eurobond issued in March 2005 (matures in 2017) and a Euro 500 million Eurobond issued in June 2005 (matures in 2025)
Total	4,381.8	

Cost of debt and maturity _ PT s average cost and maturity of net debt in 2007 was 4.9% and 6.7 years, respectively, including loans obtained in Brazil and denominated in Reais. Excluding Vivo s debt and the interest cost associated with the equity swap over PT Multimedia shares, PT s average cost of debt was 3.7% in 2007. The maturity of the net debt excluding Brazil also amounted to 6.7 years at 31 December 2007.

Debt ratings

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

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

Post retirement benefits

PBO _ As at 31 December 2007, the projected benefit obligations (PBO) of PT s post retirement benefits, including pensions, healthcare obligations and salaries to pre-retired and suspended employees, amounted to Euro 4,203 million. The PBO was computed based on a discount rate of 5.25% for pension and healthcare obligations, and 4.75% for the obligations related to the payment of salaries to pre-retired and suspended employees. PT s post retirement benefits plans are closed to new participants since 1994 for pensions and 2000 for healthcare.

Post retirement benefits obligations Euro million

	2007	**2006**	**Change**
Pension obligations	2,762.1	3,073.8	(311.7)
Salaries to suspended and pre-retired employees	985.7	997.7	(12.0)
Healthcare obligations	455.3	491.1	(35.8)
Projected benefit obligation (PBO)	4,203.0	4,562.6	(359.6)
Market value of funds	(2,899.1)	(2,908.1)	9.0
Gross unfunded obligation	1,304.0	1,654.4	(350.5)
Unrecognised prior years service gains	25.9	19.1	6.8
Net liability for post retirement benefits	1,329.9	1,673.5	(343.6)
After-tax unfunded obligations	958.4	1,216.0	(257.6)

Change in plans _ In 2007, following the introduction of changes to the Social Security rules (DL 187/2007 and Law 52/2007) and adjustments introduced by PT to the growth rate used to calculate pension complements, the PBO was reduced by Euro 122 million. The impact of this reduction includes Euro 110 million related to vested rights that were recognised as prior year service gains and Euro 11 million related to unvested rights, which are deferred and amortised over the average working life of active employees. In addition, PT settled the Marconi Melhoria plan, which resulted in a reduction of unfunded liabilities by Euro 14 million, recognised as curtailment gains. In summary, gross unfunded obligations amounted to Euro 1,304 million at the end of 2007, whilst after tax unfunded obligations stood at Euro 958 million.

Change in gross unfunded obligations Euro million

	2007	2006	Change	Change (%)
Gross unfunded obligations (initial balance)	1,654.4	2,635.9	(981.4)	**(37.2)%**
Changes in the consolidation perimeter	0.0	2.5	(2.5)	
Post retirement benefits costs (PRBs) (1)	(63.1)	(72.1)	9.0	
Prior years service gains not recognized in net income	(11.1)	(19.1)	7.9	
Curtailment cost (2)	293.2	7.4	285.8	
Contributions and payments (3)	(284.2)	(580.8)	296.6	
Net actuarial losses	(285.2)	(319.4)	34.2	
Gross unfunded obligations (final balance)	1,304.0	1,654.4	(350.4)	**(21.2)%**
After-tax unfunded obligations	958.4	1,216.0	(257.6)	**(21.2)%**

(1) In 2007, the post retirement benefits gain recorded in the income statement amounted to Euro 65 million, including a gain of Euro 2 million related to the amortisation of prior years service gains on unvested rights. (2) In 2007 curtailment cost recorded in the income statement amounted to Euro 276 million, and excludes Euro 15 million related to the spin-off of PTM which were recorded under discontinued operations and includes a gain of Euro 2 million related to the extraordinary recognition of deferred prior years service gains. (3) In 2007 this caption included: (i) Euro 38 million of regular contributions; (ii) Euro 175 million of payments of salaries to pre-retired and suspended employees and other; (iii) Euro 61 million of net refunds related to healthcare benefits, and (iv) Euro 117 million of an extraordinary contributions to the pensions funds.

Gross unfunded obligations _ The decrease in the gross unfunded obligations by Euro 351 million in 2007 to Euro 1,304 million is primarily explained by: (1) the net actuarial gains booked in the period in the amount of Euro 285 million; (2) the reduction and settlement of benefits in the amount of Euro 135 million, and (3) the Euro 117 million extraordinary contribution made in 2007, notwithstanding the Euro 291 million work force reduction costs incurred in the period.

Net actuarial gains _ Net actuarial gains in 2007 include the impacts of the changes in actuarial assumptions (Euro 151 million) and of the differences between those actuarial assumptions and real data (Euro 134 million). The change in actuarial assumptions corresponds to the net effect of: (i) the increase in the discount rate from 4.75% to 5.25% for pension liabilities and from 4.25% to 4.75% for salary liabilities, reflecting the evolution of market yields; (ii) the reduction in the salary growth rate from 2.25% to 2.00%; and (iii) the increase in the inflation rate from 1.75% to 2.00%.

Post retirement benefits costs Euro million

	2007	2006
Service cost	17.8	28.7
Interest cost	208.9	217.5
Expected return on assets	(179.4)	(167.7)
Prior years service gains (1)	(112.3)	(150.6)
Post retirement benefits costs	(65.1)	(72.1)
Curtailment costs related to PRBs		
PBO related	291.7	227.8
Recognition of deferred prior years service gains	(2.3)	0.0
Settlement of benefits	(13.8)	(208.9)
Curtailment costs, net	275.6	19.0

(1) In 2007, this item includes Euro 110 million related to vested rights and Euro 2 million related to the amortisation of prior years service gains on unvested rights.

Post retirement benefit costs _ Post retirement benefit costs were Euro 65 million negative (gain) in 2007, compared with a gain of Euro 72 million in 2006, mainly as a result of the decrease in prior years service gains of Euro 40 million recorded in the period. The decrease in service cost in 2007 is explained primarily by the reduction in healthcare obligations that occurred at the end of 2006, while the decrease in net interest cost is explained by the narrowing of the unfunded gap.

Shareholders equity (excluding minority interests)

Shareholders equity _ As at 31 December 2007, shareholders' equity excluding minority interests amounted to Euro 1,338 million, a decrease of Euro 917 million during 2007.

Change in shareholders equity (excluding minority interests) Euro million

	2007
Equity before minority interests (initial balance)	2,255.2
Net income	741.9
Currency translation adjustments (1)	204.1
Net actuarial gains, net of tax effect	209.6
Dividends paid	(516.5)
Spin-off of the Multimedia business	(405.3)
Acquisition of treasury stock (2)	(1,158.3)
Market value of the exchangeable bond option	57.1
Hedge accounting of financial instruments and change in the fair value of available for sale investments (3)	(20.3)
Other (4)	(29.4)
Equity before minority interests (final balance)	1,338.2
Change in equity before minority interests	(917.0)
Change in equity before minority interests (%)	(40.7)%

(1) This item is primarily related to the appreciation of the Real against the Euro from 2.8118 as at 31 December 2006 to 2.5963 as at 31 December 2007. (2) This item is related to the notional amount of equity swaps contracted during the period over 117.7 million own shares. (3) In 2007, this item includes Euro 36 million corresponding to the offset of the gain obtained on the disposal of the investment in the shares of Banco Espírito Santo recorded in the income statement in 2Q07. (4) This item includes primarily Euro 28 million related to price resets on existing equity swap contracts on own shares.

Distributable reserves _ Pursuant to Portuguese legislation, the amount of distributable reserves is determined according to the standalone financial statements of the company prepared in accordance with Portuguese GAAP. Distributable reserves decreased from Euro 2,728 million in 2006 to Euro 1,856 million in 2007.

Change in distributable reserves Euro million

	2007
Distributable reserves (initial balance)	2,727.8
Dividends paid	(516.5)
Spin-off of the Multimedia business	(374.7)
Net income under Portuguese GAAP	613.5
Share capital restructuring	440.3
Acquisition of treasury shares (1)	(1,050.3)
Other	16.5
Distributable reserves (final balance)	1,856.5
Change in distributable reserves in the period	(871.3)
Change in distributable reserves in the period (%)	(31.9)%

(1) In 3Q07, PT acquired 103 million own shares for a total amount of Euro 1,050 million, through the exercise of the physical settlement option of equity swaps contracted under the share buyback programme currently being executed.

02 Business performance

Domestic market

Wireline

Operating revenues _ Wireline operating revenues decreased by 5.3% y.o.y in 2007 to Euro 1,962 million, with the reduction in retail revenues more than offsetting the increase in wholesale and data and corporate revenues in the period.

Wireline income statement (1)

Euro million

	2007	**2006**	**y.o.y**
Operating revenues	1,962.4	2,071.8	(5.3)%
Retail	1,023.2	1,173.5	(12.8)%
Voice	841.1	993.2	(15.3)%
Data and other	182.1	180.3	1.0%
Wholesale	486.9	464.2	4.9%
Data and corporate	265.6	250.5	6.0%
Other wireline revenues	186.7	183.6	1.7%
Operating costs, excluding D&A	953.6	998.9	(4.5)%
Wages and salaries	252.9	272.0	(7.0)%
Post retirement benefits	(65.3)	(71.6)	(8.7)%
Direct costs	354.0	356.1	(0.6)%
Commercial costs	90.8	83.3	9.0%
Other operating costs	321.2	359.1	(10.5)%
EBITDA (2)	1,008.8	1,072.9	(6.0)%
EBITDA, excluding exceptional items (3)	898.5	922.3	(2.6)%
Depreciation and amortisation	323.6	355.5	(9.0)%
Income from operations (4)	685.2	717.3	(4.5)%
EBITDA margin	51.4%	51.8%	(0.4pp)
EBITDA margin, excluding exceptional items	45.8%	44.5%	1.3pp
Capex (5)	292.1	238.5	22.5%
Capex as % of revenues	14.9%	11.5%	3.4pp
EBITDA minus Capex	716.7	834.3	(14.1)%

(1) Includes intragroup transactions.

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

(3) Adjusts for prior years service gains related to vested rights in the amount of Euro 110 million in 2007 and Euro 151 million in 2006.

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

(5) Includes the capitalisation of Euro 43 million related with transponder satellite capacity for the DTH offer.

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Retail revenues _ Retail revenues fell by 12.8% y.o.y in 2007 on the back of continued competition from other fixed operators as well as increasing competition from mobile operators, both in voice and broadband. Voice revenues decreased by 15.3% y.o.y in 2007, as a result of line loss and increasing pricing pressure, particularly in unbundled local loop (ULL) areas. Data revenues increased by 1.0% y.o.y, notwithstanding the drecrease in ADSL retail customers, due to the database cleanup undertaken at the end of the year, and the increasing pricing pressure in broadband, from both fixed and mobile operators.

Wholesale revenues _ Wholesale revenues increased by 4.9% y.o.y in 2007, primarily as a result of the growth in wholesale line rental and ULL on the back of increasing ULL accesses (+48.7% y.o.y).

Data and corporate revenues _ Data and corporate revenues increased by 6.0% y.o.y in 2007, as a result of continued focus on providing corporate customers more advanced and customised solutions combining telecoms and IT. The growth in the period was underpinned by the increase in revenues from VPN and circuits, as well as from outsourcing, network management and IT/SI solutions.

Other revenues _ Other revenues increased by 1.7% y.o.y in 2007, with the the growth in portal revenues (+49.2% y.o.y) and in equipment sales (+23.6% y.o.y) more than offsetting the decrease in directories (-9.9% y.o.y).

EBITDA _ EBITDA amounted to Euro 1.009 million in 2007, decreasing by 6.0% y.o.y. The reduction in EBITDA is explained primarily by decrease in prior years service gains from Euro 151 million in 2006 to Euro 110 million in 2007. Excluding the impact of this exceptional item, underlying EBITDA would have decreased by 2.6% y.o.y, with the 1.3pp improvement in underlying EBITDA margin resulting from the continued reduction in personnel-related and other operating costs. In effect, in 2007, wages and salaries decreased by 7.0% y.o.y while other operating costs decreased by 10.5% y.o.y. The net reduction in headcount in 2007 reached 827 employees, improving the efficiency ratio to 657 lines per employee in 2007 from 613 in 2006.

Capex _ Capex amounted to Euro 292 million in 2007, equivalent to 14.9% of operating revenues, and included Euro 43 million related to the capitalisation of the long-term contracts for transponder satellite capacity for the DTH offer, which will be made available in the Summer of 2008. Capex was directed mainly towards: (1) network upgrades to provide greater bandwidth to customers; (2) network capacity and information systems to provide IPTV services (soft launch in the second quarter of 2007), and (3) client-related capex as a result of investments in terminal equipment for both residential and corporate clients. EBITDA minus Capex amounted to Euro 717 million in 2007.

ADSL _ ADSL retail accesses decreased to 652 thousand in 2007, as a result of the database cleanup (mainly related to inactive prepaid broadband customers) of 103 thousand. Adjusting for this impact, ADSL net additions in the period reached 70 thousand. Voice lines fell by 9.2% y.o.y to 3,010 thousand, as a result of 136 thousand net disconnections of traffic-generating lines (an improvement over 2006 with net disconnections of 285 thousand) and the 170 thousand net disconnections of carrier press-selection lines. In terms of competitors   lines, voice-only lines (carrier pre-selection + wholesale line rental) decreased by 172 thousand in 2007, while ULL lines increased by 95 thousand. The growing presence of GSM-based fixed offers and wireless broadband has contributed further to fixed-mobile migration, while the increase in voice net additions of cable competitors, on the back of aggressively priced and promoted triple-play offers, continued to impact line loss.

IPTV _ In terms of triple-play services, PT launched its IPTV-based offer at the end of June 2007. At the end of 2007, PT had added a total of 21 thousand IPTV customers. The triple-play offer includes 42 pay-TV channels (of which 10 are a la carte), a broadband access of up to 8Mbps and unlimited fixed-to-fixed calls. Additionally, customers can buy premium services, such as SportTV (premium sports), premium movie channels and VOD services. This triple-play service is provided using ADSL 2+. PT was the first operator in Portugal to introduce HDTV and has the most extensive VOD offer in the market.

Wireline operating data

	2007	2006	y.o.y
Main accesses (000)	4,176	4,404	(5.2)%
Retail accesses	3,682	4,001	(8.0)%
PSTN/ISDN	3,010	3,317	(9.2)%
Traffic-generating lines	2,772	2,909	(4.7)%
Carrier pre-selection	238	408	(41.7)%
ADSL retail (1)	652	685	(4.9)%
TV subscribers	21	0	n.m.
Wholesale accesses	494	403	22.6%
Unbundled local loops	291	196	48.7%
Wholesale line rental	140	142	(1.4)%
ADSL wholesale	62	65	(3.5)%
Net additions (000)	(227)	(74)	n.m.
Retail accesses	(319)	(353)	(9.8)%
PSTN/ISDN	(306)	(453)	(32.3)%
Traffic-generating lines	(136)	(285)	(52.2)%
Carrier pre-selection	(170)	(168)	1.4%
ADSL retail	(33)	100	n.m.
TV subcribers	21	0	n.m.
Wholesale accesses	91	279	(67.4)%
Unbundled local loops	95	124	(22.9)%
Wholesale line rental	(2)	142	n.m.
ADSL wholesale	(2)	13	n.m.
ARPU (Euro)	30.4	30.1	1.1%
Voice	24.5	25.0	(2.2)%
Data and other	5.9	5.0	17.5%
Total traffic (million minutes)	12,502	13,442	(7.0)%
Retail traffic	5,217	5,575	(6.4)%
Wholesale traffic	7,285	7,867	(7.4)%
Retail MOU (minutes / month)	159	158	0.6%
Employees	6,354	7,181	(11.5)%

(1) Includes a database cleanup (related to inactive prepaid broadband customers) of 103 thousand.

Fixed-mobile convergent products _ In addition, PT has begun to rollout fixed-mobile convergent products to its SME/SoHo and residential segments as a means to increase revenues and improve customer loyalty. After having developed a mobile OfficeBox offer in the first half of 2007, PT has now integrated fixed voice and broadband, as well as a PC, into an upgraded version of the OfficeBox product (see description in domestic mobile section - TMN for further detail). With regards to the residential segment, PT launched a wireless broadband offer also using the brand Sapo Mobile (Sapo is the fixed ADSL brand). Customers can opt between a monthly flat rate or alternatively a daily usage rate in case they also subsribe to a fixed ADSL monthly package, thus benefiting from a fixed and mobile bundle and increasing the perceived value attributed to the fixed broadband offer.

ARPU _ Blended ARPU, which was not impacted by the database cleanup undertaken at the end of the year, increased by 1.1% y.o.y in 2007 to Euro 30.4 driven by the growth in data ARPU, which increased by 17.5% y.o.y. The increased penetration of data services, including corporate VoIP and IPTV, more than offset the reduction in voice and broadband ARPU.

Traffic _ Although retail traffic fell by 6.4% y.o.y. in 2007, as a result of line loss, retail MOU increased by 0.6% y.o.y in the period to 159 minutes, reflecting the positive impact of the rollout of flat-rate pricing plans. The 7.4% y.o.y reduction in wholesale traffic in 2007 is explained primarily by the 58.8% y.o.y decrease in dial-up Internet traffic, as a result of the continued migration to broadband.

Domestic mobile - TMN

Operating revenues _ Operating revenues increased by 2.7% y.o.y in 2007 to Euro 1,543 million, supported by the growth of service revenues (+2.2% y.o.y) and equipment sales (+9.3% y.o.y), as a result of the successful TMN s campaigns, namely the Summer and Christmas campaigns. Customer revenues increased by 2.6% y.o.y to Euro 1,146 million on the back of strong customer growth, particularly in postpaid and wireless broadband.

Interconnection revenues grew 0.3% y.o.y. in 2007 to Euro 247 million, notwithstanding the negative impact from the reduction of mobile termination rates (MTR). Excluding this impact (Euro 14 million), service revenues would have increased by 3.2% y.o.y in 2007.

Domestic mobile income statement (1)

Euro million

	2007	2006	y.o.y
Operating revenues	1,542.9	1,502.4	2.7%
Services rendered	1,393.1	1,363.2	2.2%
Customer	1,146.2	1,117.0	2.6%
Interconnection	246.9	246.2	0.3%
Sales	141.8	129.7	9.3%
Other operating revenues	8.1	9.4	(14.3)%
Operating costs, excluding D&A	864.0	843.7	2.4%
Wages and salaries	52.7	56.0	(5.8)%
Direct costs	282.6	292.9	(3.5)%
Commercial costs	318.3	306.6	3.8%
Other operating costs	210.4	188.2	11.8%
EBITDA (2)	679.0	658.7	3.1%
Depreciation and amortisation	223.6	220.1	1.6%
Income from operations (3)	455.4	438.6	3.8%
EBITDA margin	44.0%	43.8%	0.2pp
Capex (4)	198.0	188.6	5.0%
Capex as % of revenues	12.8%	12.6%	0.3pp
EBITDA minus Capex	481.0	470.1	2.3%

(1) Includes intragroup transactions.

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

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

(4) Includes Euro 15 million related to the capitalisation of a long-term telecom contract with PT Comunicações and excludes the commitments under the terms of the UMTS licence (Euro 242 million in 2007).

Mobile termination rates _ Mobile termination rates currently stand at Euro 11 cents per minute, following the reduction on 1 October 2006. A final decision concerning the draft proposal issued by the telecom regulator for the MTR schedule for 2008 is still pending. The draft decision proposed a reduction to Euro 8 cents per minute on 1 January 2008, followed by quarterly cuts of Euro 0.5 cents until reaching Euro 6.5 cents per minute on 1 October 2008. This proposal, reintroduces asymmetry in fixed-to-mobile rates, after having eliminated it in 2005, and introduces asymmetry in mobile-to-mobile rates, a flat 20% premium for the third operator on the prices referred above, subject to a review at the end of 2008.

EBITDA _ EBITDA increased by 3.1% y.o.y to Euro 679 million in 2007, notwithstanding significantly higher commercial activity. In spite of the increase in commercial activity, mainly focused on prepaid to postpaid migration and wireless broadband sales, the decrease in unitary SARC (-14.9% y.o.y) and the focus on the reduction of addressable costs, namely staff, resulted in an EBITDA margin improvement of 0.2pp y.o.y to 44.0% in 2007. The negative impact of MTR cuts amounted to Euro 7 million in 2007. Excluding this impact, EBITDA would have increased by 4.2% y.o.y in 2007.

Capex _ Capex increased from Euro 189 million in 2006 to Euro 198 million in 2007, equivalent to 12.8% of operating revenues. Capex was directed primarily towards network capacity, as a result of increased voice and data usage, and 3G/3.5G coverage (approximately 82% of network capex). EBITDA minus Capex amounted to Euro 481 million in 2007, representing an increase of 2.3% from 2006.

Domestic mobile operating data (1)

	2007	**2006**	**y.o.y**
Customers (000)	6,261	5,704	9.8%
Net additions (000)	558	391	42.5%
MOU (minutes)	121	120	0.3%
ARPU (Euro)	19.8	21.0	(5.7)%
Customer	15.8	16.6	(4.5)%
Interconnection	3.5	3.8	(7.5)%
Roamers	0.5	0.6	(24.9)%
ARPM (Euro cents)	16.4	17.5	(6.0)%
Data as % of service revenues (%)	16.0	13.3	2.8pp
SARC (Euro)	46.9	55.1	(14.9)%
Employees	1,144	1,140	0.4%

(1) Includes MVNO subscribers.

Customers _ Total customers increased by 9.8% y.o.y to 6,261 thousand, which includes MVNO subscribers, with net additions in 2007 reaching 558 thousand (+42.5% y.o.y), as a result of the successful TMN s campaign both for voice and data offers and including the strong take-up of wireless broadband supported by the information society initiatives. In early October, TMN celebrated the 6 million customer mark, thus consolidating its leadership position in the market. TMN continued to focus on postpaid, particularly on the corporate segment, and on prepaid to postpaid migration. As a result, approximately 70% of net additions in the period were postpaid, which accounted for 23.8% of total customers at the end of 2007.

Handset portfolio _ TMN launched several initiatives during the Christmas campaign, using the TMN and the UZO brands, aimed at stimulating usage. In terms of handsets, TMN continued to focus on having a balanced and broad portfolio, with an important component of exclusive handsets, which allows for greater pricing flexibility and thus better control of SARC. Additionally, TMN reinforced its offering of the Blackberry email to corporate, SME and SoHo segments. For the Summer campaign, TMN launched 25 new handsets, of which 8 were exclusive, and for the Christmas campaign, TMN offered 16 new handsets, of which 6 were exclusive.

Broadband _ The rollout of broadband data remained a key priority during the quarter. Demand for the service internetnotelemovel , which was the first flat-rate offer for Internet and email access on mobile handsets launched in Portugal, has been picking up, whilst wireless broadband take-up remains strong. The wireless broadband take-up has been underpinned by the e-escolas programme, a part of the Government s Plano Tecnológico initiative, which aims to provide laptop computers with wireless broadband connectivity, at certain discounts, to schools, teachers, students and info-excluded individuals. This project is being developed as part of TMN s commitment to the development of the information society, as per the UMTS licence terms. At the end of 2007, TMN had already delivered approximately 70 thousand laptops bundled with broadband subscriptions.

Fixed-mobile convergent offers _ TMN has also been developing fixed-mobile convergent offers with the objective of providing more comprehensive and integrated solutions for its customers. OfficeBox , which targets the SME and SoHo segments, is an off-the-shelf product aimed at covering the full telecommunication needs of small businesses. It includes fixed-line and mobile voice, fixed and mobile Internet access, mobile handset and a PC. Its minimum price is a flat rate of Euro 70 per month per workstation.

ARPU _ ARPU decreased by 5.7% y.o.y in 2007 to Euro 19.8, mainly as a result of the increasing penetration in lower segments of the market and the growing number of users with multiple SIM cards, as well as lower roaming prices. Nevertheless, the growth in the average customer base more than offset the dilution in ARPU, allowing service revenues to grow by 2.2% y.o.y in 2007. Roamers ARPU decreased by 24.9% y.o.y as a result of the adjustments TMN has been making to its roaming pricing plans, following EU-imposed changes to wholesale roaming prices, which came into effect as of 1 September 2007. Blended MOU increased by 0.3% y.o.y in 2007 to 121 minutes, as a result of the growth in outgoing voice MOU.

Data services _ Data services continued to contribute strongly to top line growth, with data revenues having increased by 23.5% y.o.y in 2007 and already accounting for 16.0% of service revenues at the end of the period, which compares favourably with 13.3% in 2006.

The increase in data service revenues is primarily based on non-SMS data revenues, which grew by 84.6% y.o.y and already accounted for 34.4% of total data revenues in 2007. This growth in non-SMS data was driven by a strong performance in terms of mobile Internet and wireless broadband. Data usage, measured in kilobytes, increased by more than five times in 2007 when compared to 2006. The number of SMS in 2007 reached approximately 180 messages per month per active SMS user. The number of active SMS users reached 50% of total customers at the end of the 2007.

International market

Brazilian mobile - Vivo

Operating revenues _ Vivo s operating revenues, as stated in Brazilian Reais and in accordance with IFRS, increased by 14.2% y.o.y in 2007 to R$ 13,133 million, primarily as a result of the strong growth in service revenues (+17.6% y.o.y), which was underpinned by the growth in customers and in ARPU. This strong performance more than offset the decrease in equipment sales and in other operating revenues.

Brazilian mobile income statement (1)

R$million

	2007	**2006**	**y.o.y**
Operating revenues	13,133.0	11,498.0	14.2%
Services rendered	11,502.8	9,777.5	17.6%
Sales	1,376.1	1,391.7	(1.1)%
Other operating revenues	254.1	328.9	(22.7)%
Operating costs, excluding D&A	9,960.2	8,787.3	13.3%
Wages and salaries	686.8	631.0	8.8%
Direct costs	2,284.4	1,359.6	68.0%
Commercial costs	3,535.4	3,277.1	7.9%
Other operating costs	3,453.5	3,519.5	(1.9)%
EBITDA (2)	3,172.8	2,710.8	17.0%
EBITDA~, excluding exceptional items (3)	3,107.7	2,746.0	13.2%
Depreciation and amortisation	2,789.2	2,763.4	0.9%
Income from operations (4)	383.6	(52.7)	n.m.
EBITDA margin	24.2%	23.6%	0.6pp
EBITDA margin, excluding exceptional items	23.7%	23.9%	(0.2pp)
Capex	1,919.0	2,113.0	(9.2)%
Capex as % of revenues	14.6%	18.4%	(3.8pp)
EBITDA minus Capex	1,253.8	597.7	109.8%

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(1) Information prepared in accordance with IFRS.

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

(3) Adjusts for the one-off provision related to bad debt booked in 2Q06 in the amount of R$ 162 million.

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

EBITDA _ EBITDA increased by 17.0% y.o.y to R$ 3,173 million in 2007. Part of this improvement is explained by an extraordinary provision for bad debts booked in the second quarter of 2006 (R$ 162 million). Nevertheless, the strong underlying performance in terms of top line resulted in an EBITDA (excluding exceptionals items) increase of 13.2% y.o.y. to R$ 3,108 million in 2007, notwithstanding the higher commercial activity. As a result of the measures implemented over the past year and a half to control bad debt, Vivo provisions for doubtful receivables in 2007 fell to approximately 4% of gross revenues. Unitary SARC fell by 16.1% y.o.y to R$ 110 in 2007. As a result, EBITDA margin increased by 0.6pp in 2007 to 24.2%.

Capex _ Capex decreased by 9.2% y.o.y to R$ 1,919 million in 2007, equivalent to 14.6% of operating revenues. Capex in 2007 was directed towards: (1) the implementation of the GSM/EDGE overlay, and

(2) network coverage and quality. The GSM/EDGE network overlay was implemented in record time and already covers 2,318 municipalities. All of the capex related to the initial GSM/EDGE rollout, as announced in July 2006, has been already invested. EBITDA minus Capex increased from R$ 598 million in 2006 to R$ 1,254 million in 2007.

Acquisitions _ On 2 August, Vivo reached an agreement to acquire Telemig Celular and Amazonia Celular. Anatel has already approved the acquisition of Telemig Celular. On 20 December, Vivo reached an agreement with Oi (Telemar Norte Leste) to sell Tele Norte Celular, the controlling company of Amazonia Celular. Additionally, on 25 September, Vivo acquired 1.9 GHz frequencies in all of the regions where it did not operate, in particular in the Northeast states. Vivo has thus achieved full nationwide coverage in Brazil, which has been a long-standing objective of the Company and should consolidate its leadership position in the mobile market. In December, Vivo participated in the bidding process of 3G frequencies and succeeded in achieving a nationwide coverage having offered R$ 1.1 billion for the band J licenses.

Brazilian mobile operating data (1)

	2007	2006	y.o.y
Customers (000)	33,484	29,053	15.2%
Net additions (000)	4,430	(752)	n.m.
MOU (minutes)	77	74	4.9%
ARPU (R$)	30.4	27.1	12.2%
Customer	17.3	15.7	10.3%
Interconnection	13.1	11.5	14.7%
Data as % of service revenues (%)	7.9	6.8	1.1pp
SARC (R$)	109.7	130.7	(16.1)%
Employees	5,600	5,896	(5.0)%

(1) Operating data calculated using Brazilian GAAP.

Customers _ Vivo s customer base increased by 15.2% y.o.y to 33,484 thousand, with net additions reaching 4,430 thousand in 2007 on the back of significantly higher commercial activity when compared to 2006. GSM accounted for approximately 65% of total gross additions in 2007, bringing the total number of GSM customers to more than 11.2 million at the end of the year, equivalent to 33.6% of total customers. As part of the continued focus on improving customer satisfaction and usage, Vivo launched a set of postpaid plans, called Vivo Escolha , in the third quarter of 2006. More than one year after introducing the new family of plans, approximately 67% of the postpaid customer base (excluding corporates) has already moved to a Vivo Escolha plan. Vivo s focus on providing the best network quality and the best service offering has been resulting in improved customer satisfaction levels, as evidenced by recent consumer surveys.

MOU _ Vivo s blended MOU increased by 4.9% y.o.y in 2007 to 77 minutes, reflecting the growth in outgoing traffic, as a result of successful campaigns aimed at increasing consumption in the prepaid segment, notwithstanding the strong growth of the subscriber base throughout 2007.

ARPU _ Vivo s blended ARPU reached R$ 30.4 in 2007, an increase of 12.2% y.o.y, driven by the strong growth in customer and interconnection ARPU, which increased by 10.3% y.o.y and 14.7% y.o.y respectively, on the back of higher penetration of data services.

Data revenues _ Data revenues increased by 35.5% y.o.y in 2007, representing 7.9% (+1.1pp y.o.y) of service revenues. In terms of data services, Vivo has leveraged on being the only

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operator using two technologies, positioning CDMA/EVDO as the best solution for mobile data. As a result, Vivo has continued to experience strong growth in its WAP and ZAP (EVDO data cards) offers. Recently it introduced innovative services such as Vivo Play (downloads and video streaming) and Vivo Flash (residential wireless broadband access for desktops).

Other international investments

Highlights of main assets in Africa and Asia (2007) (1) (2)

thousand (customers), million (financials)

	Stake	Customers	Rev. local	y.o.y	EBITDA local	y.o.y	Margin	Rev. Euro	EBITDA Euro
Médi Télécom (3)	32.18%	6,669	4,926	5.0%	2,271	9.3%	46.1%	438.4	202.1
Unitel (3) (5)	25.00%	3,307	891	37.2%	536	23.6%	60.2%	648.9	390.6
MTC (4) (5)	34.00%	800	1,140	16.4%	599	2.0%	52.6%	117.7	61.9
CVT (4) (5)	40.00%	221	7,458	6.9%	4,705	6.4%	63.1%	67.6	42.7
CTM (3)	28.00%	533	2,289	9.0%	967	19.2%	42.2%	207.4	87.6
CST (4) (5)	51.00%	38	156,321	12.4%	53,062	9.2%	33.9%	8.3	2.8
Timor Telecom (4)	41.12%	81	32	35.4%	15	58.7%	46.0%	23.0	10.6
UOL	29.00%	1,690	525	9.2%	153	12.5%	29.2%	197.0	57.5

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

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

(3) Equity consolidation method.

(4) Full consolidation method.

(5) These stakes are held by Africatel, which is controlled 78% by PT.

Morocco - Médi Télécom

Médi Télécom revenues increased by 5.0% y.o.y in 2007 to MAD 4,926 million, while EBITDA increased by 9.3% y.o.y to MAD 2,271 million. The mobile customer base increased by 28.9% y.o.y to 6,665 thousand, with net additions in 2007 totalling 1,496 thousand, driven by the sale of SIM-only packages. At the end of December 2007, Médi Telecom s market share stood at 33.5%, having increased 0.4pp over the end of

September 2007. MOU decreased by 4.6%

y.o.y in 2007 to 49 minutes. ARPU totalled MAD 69.3 in 2007, a decrease of 23.1% over 2006, mainly due to the significant growth of the customer base, the increasing proportion of lower ARPU customers and the increased competition in the market.

Angola - Unitel

Unitel s revenues and EBITDA increased by 37.2% and 23.6% y.o.y respectively in 2007, underpinned by strong customer growth, both in Luanda and in the main districts of the Angola. EBITDA margin reached 60.2% in 2007. Net additions totalled 1,258 thousand in 2007, with the total customer base reaching 3,307 thousand at the end of December 2007, an increase of 61.4% over the same period of last year. Unitel s MOU decreased by 16.1% y.o.y in 2007 to 118 minutes. ARPU totalled USD 27.6 in 2007, a decrease of 19.5% over 2006 , as a result of the strong growth in the customer base.

Namibia - MTC

MTC s revenues and EBITDA increased by 16.4% and 2.0% y.o.y respectively in 2007. The EBITDA growth was impacted by the increase in commercial costs, as a result of higher commercial activity particularly in postpaid, higher leased line costs related to network rollout and higher personnel costs. Net additions totalled 191 thousand in 2007, with total customers reaching 800 thousand at the end of December 2007, an increase of 31.3% over the same period of 2006. Postpaid customers increased by 38.5% y.o.y, representing 8.9% of total customer base. ARPU totalled NAD 134 in 2007, a decrease of 15.2% y.o.y, primarily as a result of the growth in the customer base in 2007.

Cape Verde - CVT

CVT s revenues and EBITDA increased by 6.9% and 6.4% y.o.y respectively in 2007, mainly due to the strong growth in mobile customers, which increased by 35.9% y.o.y to 148 thousand customers. Mobile MOU reached 82 minutes, an increase of 3.4% y.o.y in 2007. Mobile ARPU in 2007 was CVE 2,766, a decrease of 10.0% y.o.y. EBITDA Margin reached 63.1% in 2007.

Macao - CTM

CTM s revenues increased by 9.0% y.o.y to MOP 2,289 million in 2007, as a result of the increase in the number of mobile and broadband customers. EBITDA improved by 19.2% y.o.y to MOP 967 million in 2007. In the mobile division, customers increased by 17.0% y.o.y to 349 thousand at the end of December 2007. CTM s mobile ARPU decreased by 12.4% y.o.y to MOP 219 in 2007, as a result of the growth in the customer base.

São Tomé e Príncipe - CST

CST s revenues increased by 12.4% y.o.y to STD 156,321 million in 2007, with EBITDA growing by 9.2% y.o.y to STD 53,062 million. In the mobile division, CST added 12 thousand customers in 2007, bringing the total number of customers to 30 thousand at the end of

December 2007, an increase of 63.4% y.o.y. Mobile MOU decreased by 23.6% y.o.y in 2007, reaching 62 minutes, as a result of the growth in the customer base. Mobile ARPU was STD 299 thousand in 2007, a decrease of 22.2% over 2006.

East Timor - Timor Telecom

Timor Telecom s revenues and EBITDA increased by 35.4% and 58.7% y.o.y respectively, mainly as a result of the strong increase in the number of mobile customers. Timor Telecom s net additions reached 29 thousand, bringing the total customer base to 78 thousand at the end of December 2007, an increase of 59.3% y.o.y. Mobile MOU decreased by 4.1% y.o.y to 101 minutes. Mobile ARPU was USD 33 in 2007, a decrease of 7.4% over 2006.

Brazil - UOL

UOL s revenues increased by 9.2% y.o.y to R$ 525 million in 2007, as a result of the growth in the customer base and in advertising revenues. EBITDA increased by 12.5% y.o.y to R$ 153 million in 2007, corresponding to an EBITDA margin of 29.2%, underpinned by the strong growth in brand advertising and subscription revenues coupled with a strict cost control. UOL s subscriber base totalled 1,690 thousand at the end 2007, including 973 thousand broadband customers, which represented an increase of 23% over 2006. In December 2007, page views and unique visitors increased by 19% and 29% y.o.y respectively.

03 Employees

Number of employees and productivity ratios

	2007	2006	Δ y.o.y	y.o.y
Domestic employees	10,338	11,336	(998)	(8.8)%
Wireline	6,354	7,181	(827)	(11.5)%
Domestic mobile • TMN	1,144	1,140	4	0.4%
Other	2,840	3,015	(175)	(5.8)%
International employees	18,300	19,346	(1,046)	(5.4)%
Brazilian mobile • Vivo (1)	2,800	2,948	(148)	(5.0)%
Other	15,500	16,398	(898)	(5.5)%
Total Group employees	28,638	30,682	(2,044)	(6.7)%
Fixed lines per employee	657	613	44	7.2%
Mobile cards per employee				
TMN	5,473	5,003	470	9.4%
Vivo	5,979	4,928	1,052	21.3%

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

At the end of 2007, the number of staff employed by PT totalled 28,638 employees, of which 36.1% were based in Portugal. In the wireline business, the ratio of fixed lines per employee improved by 7.2% y.o.y in 2007 to 657 lines, reflecting the ongoing workforce rationalisation programme, while in TMN the ratio of mobile cards per employee rose by 9.4% to 5,473 cards. At the end of December 2007, the total number of employees of Vivo decreased by 5.0% y.o.y to 5,600 employees, with the ratio of mobile cards per employee increasing by 21.3% to 5,979 cards.

As part of the cost rationalisation programme, PT continued with its workforce reduction programme, with headcount decreasing by 1,004 employees in 2007, of which 827 were in the wireline business.

04 Capital markets

Shareholder remuneration

In terms of shareholder remuneration, PT returned approximately Euro 3.4 billion to shareholders in 2007, through a combination of the following:

- Share buyback of Euro 1,185 million. On 20 December 2007, PT cancelled 103,056,500 of its own shares, equivalent to 9.13% of its share capital, and reduced its share capital from Euro 33,865,695 to Euro 30,774,000. As of 31 December 2007, PT had equity swap contracts on its own shares totalling Euro 135 million.

- The distribution of 180.6 million shares of PT Multimédia to PT shareholders, equivalent to Euro 1.7 billion, assuming the weighted average market price of PT Multimédia on the Euronext Lisbon as at 6 Novembrer 2007 (Euro 9.18 per share).

- Remuneration of Euro 517 million corresponding to the payment of the May 2007 dividend equal to 47.5 cents per share for the fiscal year 2006.

Subject to Shareholders approval at the AGM.

Regarding dividends for the fiscal year 2007 to be paid in 2008, PT s Board of Directors will propose the submission for shareholders approval at the next AGM, to be held on 28 March 2008, the payment of a cash dividend of 57.5 cents per share, representing an increase of 21.1% over the previous year.

In global terms, considering the shareholder remuneration of 2006, through the payment of dividends in the amount of Euro 526 million, PT had already returned to its shareholders around 66% of the total remuneration package approved for the period 2006-2009, which corresponds to approximately Euro 3.9 billion.

In addition, as at the date of this report, PT had contracted equity swaps to acquire 63,391,786 PT shares, of which 20,640,000 shares were contracted under the previous share buyback programme. As part of the share buyback programme under execution, PT has acquired, directly or through equity swaps, a total of 145,808,286 own shares, equivalent to 14.21% of PT s share capital (or 12.92% of PT s share capital prior to the share capital reduction executed on 20 December 2007), amounting to Euro 1,434 million.

Shareholder structure

PT has a diversified shareholder base, with approximately 68% of its share capital being held by foreign shareholders, divided mainly among United States and Europe. The Portuguese market has been increasing its weight in PT s share capital, representing now almost a third of the total shareholder base, with Continental Europe and the US market representing approximately 23% and 26%, respectively, of PT s outstanding capital.

At the end of 2007, the holdings of the qualified shareholders represented approximately 57% of PT s share capital, as follows:

Qualified holdings 31 December 2007

Institutions	**No. of shares**	**% of capital**
Brandes Investments Partners	98,943,217	9.65%
Telefónica	93,915,644	9.16%
Espirito Santo Group	91,311,811	8.90%
Caixa Geral de Depósitos Group	65,341,768	6.37%
Ongoing Strategy Investments	60,404,969	5.89%
Telmex	38,460,000	3.75%
Fidelity	23,592,185	2.30%
Barclays Group	23,216,664	2.26%
Capital Group Companies	22,996,339	2.24%
Credit Suisse	22,683,484	2.21%
Visabeira Group	22,667,473	2.21%
Controlinveste Comunicações	22,284,551	2.17%

Share performance

PT shares registered a favourable evolution in 2007, in line with the positive performance of the European telecommunications sector in the period. PT shares closed the year 2007 at Euro 8.93, representing an increase of 8.6% over the previous year (considering a PT share price adjusted by the spin-off of PT Multimédia of Euro 8.22 for the 2006 year-end). The DJ Stoxx Telecom Europe index in 2007 also increased by 14.6% over last year, as well as the PSI-20 index which registered an increase of 16.3% in the same period. Taking into account shareholder remuneration, PT provided a total shareholder return of 11.7% in 2007.

Source: Bloomberg (local currency).

Among the major financial markets, the Bovespa registered the best performance in 2007 (+43.6%), followed by the DAX (+22.3%). The PSI-20 index also saw a postive performance in 2007, registered the second highest increase (+16.3%) among the European financial markets.

Source: Bloomberg (local currency).

Around 1,343 million PT shares were traded in 2007, equivalent to a daily average of 5.3 million shares, with the trading volume accounting for approximately 14% of the total trading volume of Euronext Lisbon. PT s average turnover increased to 119% in 2007, as compared with 107% in last year.

In 2007, PT s ADRs increased by 20.7%, closing the year at US$ 13.02. An average of approximately 100 thousand PT ADRs were traded daily in 2007 on the New York Stock Exchange. The number of ADRs outstanding at the end of 2007 was 48.7 million, of which 73%

were owned by international qualified shareholders. PT s ADR programme continues to be one of the most active among European telecom operators.

Bond performance

The key credit strength of PT in 2007 was again its ability to generate a strong operating free cash flow, as a result of leading market positions in both fixed and mobile businesses in Portugal and in mobile business in Brazil, as well as the implementation of continued cost cutting programmes. In 2007, PT maintained a strong liquidity position, given its high level of cash, its debt profile and the additional flexibility provided by its stand-by lines.

Rating

After the failure of the tender offer for Portugal Telecom, Standard & Poor s and Moody s confirmed PT s rating as BBB- and Baa2 respectively, both with stable outlook. These ratings reflect the factors mentioned above, as well as the expected increase in indebtedness resulting from the implementation of PT s shareholder remuneration package.

Bonds

In the beginning of 2007, PT s bond performance was mainly determined by the probability of success assigned to the tender offer over PT launched in 2006, as that event would result in the weakening of the Company s credit quality. Thus, after the failure of the tender offer, spreads of PT bonds tightened gradually until the end of May.

In July, the decline in the housing market in the United States, mainly linked to defaults on subprime loans, resulted in credit spreads widening across the market. This, together with its impacts on financial markets, has been the main driver for the performance of PT bonds until the end of 2007.

Source: Bloomberg

On 3 July 2007, PT launched and priced exchangeable bonds in the amount of Euro 750,000,000, due 2014, exchangeable into fully paid ordinary shares of PT. These bonds were issued by Portugal Telecom International Finance BV on 28 August 2007, carrying a coupon of 4.125% , with an exchange price of Euro 13.9859. Effective 30 October 2007, the exchange price was adjusted to Euro 11.60 as a result of the spin-off of PT Multimédia, according to the terms and conditions of the bonds.

Until the end of 2007, the price of the exchangeable bonds followed the change in the price of PT shares, reaching 105.5 at the end of the year.

Investor relations activities

PT has a policy of providing its shareholders and other members of the international financial community with clear, transparent, regular, two-way communications.

During 2007, the Company participated in several investor events, including investor roadshows, analyst and investor presentations, one-on-one meetings and conference calls, as well as investor conferences in Europe and in the US.

In 2007, PT held a total of over 200 meetings with analysts and investors. Additionally, PT held meetings in its offices, as well as conference-calls with investors and analysts on a regular basis.

During 2007, PT held three roadshows in Europe and the US. The two most significant were held in February (after the announcement of the full-year results), as well as the roadshow held between the end of November and the beginning of December.

The domestic and international financial community continued to recognise PT s efforts in terms of investor relations. This was recognised internationally by the two awards PT received at the 2007 IR Magazine Continental Europe Awards:

- Best Investor Relations Officer (Small and Medium Cap)
- Best Investor Relations in Portugal

Domestically, PT received three prizes at the 2007 Investor Relations Awards, promoted by Deloitte, Diário Económico and Semanário Económico, as follows:

- Best CEO in the Investor Relations area
- Annual Report (non-financial sector) - Honourable Mention
- Best Investor Relations Officer - Honourable Mention

05 Main events

Events of the year

Shareholder remuneration

27.APR.07 PT s shareholders approved at the Annual General Meeting (AGM) the following proposals related to the shareholder remuneration package:

- The payment of a cash dividend of Euro 0.475 per share for the fiscal year 2006. The dividend was paid on 18 May 2007.
- The free attribution (spin-off) of all the ordinary shares of PT Multimédia held by PT to its shareholders.
- The acquisition of PT s own shares, in connection with the share buyback programme announced.

28.SEP.07 Following the approval of the proposal above mentioned, PT acquired 103,056,500 own shares, corresponding to 9.13% of its share capital, by a total amount of Euro 1.05 billion, through the the exercise of the physical settlement of equity swap contracts.

Share capital

27.APR.07 PT s shareholders approved at the AGM a share capital increase to Euro 474,119,730, to be carried out by means of incorporation of legal reserve in the amount of Euro 79,019,955. At the same meeting, the shareholders approved a share capital reduction in the amount of Euro 440,254,035 to Euro 33,865,695, to be carried out through a reduction in the par value of PT shares to 3 cents.

22.MAY.07 PT executed the public deed for the referred share capital increase and reduction operations, with the resulting share capital amounting to Euro 33,865,695, comprised by 1,128,856,500 shares with a par value of 3 cents each.

20.DEC.07 As part of the execution of the share buyback programme, PT registered the reduction of its share capital in the amount of Euro 3,091,695 through the cancellation of 103,056,500 treasury shares. As a result, PT s share capital is now equivalent to Euro 30,774,000, comprised by 1,025,800,000 shares with a par value of 3 cents each.

Spin-off of PT Multimédia

21.SEP.07 PT announced that its Board of Directors approved the execution of the PT Multimédia spin-off by the end of October 2007, which was within the expected timeframe and in accordance with the terms approved by the Annual General Shareholders Meeting of 27 April 2007.

12.OCT.07 PT announced that the execution of the spin-off of its 58.43% holding in PT Multimédia would be completed on 7 November 2007, under the following terms:

- Timetable - ex-righ date: 30 October; record date: 1 November and credit date of PT Multimédia shares to PT s shareholders accounts: 7 de November.

- The allotment to each shareholder of the number of PT Multimédia shares resulting from the application of the ratio 0.176067 to the number of PT shares held on 1 November (record date), rounded down, with a cash payment for the corresponding difference.

- For tax and accounting purposes, the spin-off was considered a dividend in kind and therefore each PT shareholder was subject to withholding tax in accordance with applicable legislation.

06.NOV.07 PT announced that the reference price, to determine the cash amounts in connection with the withholding tax and the compensation for fractional shares resulting from the application of the spin-off ratio, corresponding to the weighted average market price of PT Multimédia shares on the Euronext Lisbon on 6 November 2007 was Euro 9.18 per share.

07.NOV.07 PT announced the completion of the spin-off of PT Multimédia, with a total of 154.9 million shares being transferred to the shareholders accounts, representing 50.1% of the share capital and voting rights in PT Multimédia. As a result of the application of the withholding tax and the fractional shares mechanisms, PT retained an interest of 8.3% of PT Multimédia s share capital, corresponding to 25.7 million shares. Following the sale of these PT Multimédia shares, on 13 November 2007, PT no longer holds PT Multimédia shares in its balance sheet. The buyers of such PT Multimédia shares have agreed to a 6-month lock-up period, as per US legal requirements.

Acquisition of Telemig Participações and Tele Norte Participações

O2.AUG.07 Vivo announced the signature of a stock purchase agreement with Telpart Participações to acquire control of Telemig Celular Participações and Tele Norte Celular Participações, corresponding to 22.72% and 19.34% of total share capital respectively, for an aggregate amount of R$ 1.2 billion. Assuming full acceptance of all mandatory and voluntary offers, Vivo will have acquired a beneficial interest of 58.2% in Telemig Celular and 54.6% in Amazônia Celular, for an aggregate consideration of approximately R$ 2.9 billion (including the value of the subscription rights of R$ 87 million to be acquired from Telpart). Anatel has already approved the acquisition of Telemig Celular. With this transaction Vivo reaffirms its leadership in the wireless market.

20.DEC.07 Vivo reached an agreement with Oi (Telemar Norte Leste) to sell Tele Norte Celular, the controlling company of Amazonia Celular.

Debt

05.MAR.07 Moody s confirmed its rating for PT at Baa2, with stable outlook, following the failure of the tender offer. Fitch Ratings also confirmed its rating for PT at BBB, with negative outlook.

16.MAR.07 Standard & Poor s confirmed its rating for PT at BBB-, with stable outlook, following the failure of the tender offer.

03.JUL.07 PT successfully issued a Euro 750 million exchangeable bond with a maturity of 7 years. The coupon was fixed at 4.125% and the exchange price at Euro 13.9859, which was adjusted, on 30 October 2007, to Euro 11.60 following the spin-off of PT s interest in PT Multimédia.

Corporate bodies

02.MAR.07 Approval at the Shareholders Meeting of the election of the Vice-Chairman of the General Meeting of Shareholders, Daniel Proença de Carvalho, and of the Secretary of the General Meeting of Shareholders, Francisco Leal Barona, following the termination of the term of office of the former holders of these positions, as well as the ratification of the appointment of the Director, Nuno Rocha dos Santos de Almeida, to complete the 2006/2008 term of office in both cases.

22.JUN.07 Approval at the Shareholders Meeting of the following proposals:

- Amendment to the articles of association of PT in light of the amendments to the Portuguese Companies Code, which, notably, aims at the implementation of the Anglo-Saxon governance model in PT, with the Company s supervision to be carried out by an

Audit Committee composed of members of the Board of Directors and by a statutory auditor.

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

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

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

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

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

21.SET.07 PT s Board of Directors announced the appointment of Zeinal Bava, Deputy CEO of PT, as CEO of PT Portugal and of PT Comunicações, in addition to his role as CEO of TMN, following the resignation of Rodrigo Costa as Vice-President of PT and CEO of the Wireline division.The Chairman and CEO of PT, Henrique Granadeiro, announced that he will propose to the Board of Directors, following the Annual General Meeting to approve accounts, the appointment of Zeinal Bava as CEO of PT, while remaining as Chairman of the Board.

Competition Authority fine

02.AUG.07 The Portuguese Competition Authority sanctioned PT for alleged abuse of dominant position by refusing to provide access to its ducts and applied a fine of Euro 38 million. Supported by legal opinions, PT has decided not to accrue for this contingency, as it considers that the outcome will be ultimately favourable for PT.

Public tender offer

12.JAN.07 PT published an update to the report of the Board of Directors regarding the public tender offer announced by Sonaecom. On the same date, PT was notified by the Portuguese Securities Commission (CMVM) of its decision to register the offer.

20.FEB.07 PT published an update to the report of the Board of Directors, following the revision of the offer price announced by Sonaecom on 15 February 2007.

27.FEB.07 PT issued a clarification on the shareholder remuneration package included in the update to the Board of Directors report on the revision of the offer price published on 20 February 2007.

01.MAR.07 Following the amendment to the prospectus on the tender offer launched by Sonaecom SGPS and Sonaecom BV, the Board of Directors of PT considered that the offerors amendments to the prospectus did not change the consideration and terms of the revised offer that has been announced, only clarified the conditions of the financing of the offer, namely the sale of assets and the allocation of PT s results through dividends to service the debt assumed by the offerors. Therefore, the Board of Directors reiterated the position and the commitments expressed in its report of 20 February 2007.

02.MAR.07 PT s shareholders rejected, by the majority of the votes cast at the general meeting, the proposal related to the removal of the voting limitation in the bylaws of the Company, whose approval was a condition of the tender offer launched by Sonaecom. Thus, and in accordance with the understanding of the CMVM, the tender offer launched by Sonaecom for PT and PT Multimédia shares, and their effects, lapsed.

Subsequent events

Corporate bodies

18.JAN.08 PT announced that Armando António Martins Vara resigned from his office as non-executive member of the company s Board of Directors.

31.JAN.08 PT announced that António Viana-Baptista and Fernando Abril-Martorell resigned from their office as non-executive members of the company s Board of Directors.

12.FEB.08 PT announced the appointment of Francisco Manuel Marques Bandeira, José María Álvarez-Pallete López and Santiago Fernández Valbuena as non-executive members of the Company s Board of Directors, to complete the 2006-2008 term of Office, thus replacing Armando António Martins Vara, António Viana-Baptista and Fernando Abril-Martorell respectively.

Shareholder remuneration

13.FEB.08 PT announced that, as part of the share buyback programme, it has the right to acquire 63,391,786 shares through equity swap agreements, which includes 20,640,000 shares contracted under the previous share buyback programme. As a result,as part of the share buyback programme under execution, PT has acquired a total of 145,808,286 own shares, equivalent to 12.92% of PT s share capital prior to the share capital reduction executed on 20 December 2007, by a total amount of Euro 1,434 million.

06 Outlook

Portugal Telecom will continue to explore the growth potential of its asset portfolio, both domestically and internationally. In the domestic market, PT aims to explore full telecommunications and multimedia opportunities through fixed-mobile convergent offers and through multimedia integrated propositions. Internationally, PT intends to continue developing its mobile asset in Brazil, taking advantage of the potential growth of the Brazilian market, and to exploit opportunities in growth markets where PT has clear competitive advantages.

PT will continue to operate in a highly competitive and regulated environment that will pose continued risks and threats to its existing businesses, placing the profitability of its assets under pressure.

In order to anticipate these challenges, PT s strategy in the domestic market will be based upon the development of fixed-mobile convergent services for all segments of the market aimed at improving customer loyalty and decreasing retention costs, while using the various brands in an integrated manner. PT s strategy will also be based on the deployment of new services aimed at providing a pay-TV offering with distinctive and customised content tailored to meet the customer needs. A multi-platform strategy will be designed to provide nationwide coverage of these services. PT will continue to contribute to the development of the information society in Portugal and to promoting the info-inclusion of all Portuguese citizens not only in the urban