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 September, 2005

Commission File Number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of registrant as specified in its charter)

Av. Fontes Pereira de Melo, 40
1069 - 300 Lisboa, Portugal
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No ___X____

RELEASE

Portugal Telecom
2005 First Half Results

Lisbon, Portugal, 15 September 2005 Portugal Telecom announced today its audited results for the first half ending 30 June 2005.

Consolidated operating revenues amounted to Euro 3,024 million in the first half of 2005. EBITDA reached Euro 1,149 million, equivalent to a margin of 38.0% . EBITDA minus Capex reached Euro 780 million. Net income for the period amounted to Euro 259 million. Net debt reached Euro 4,256 million at the end of the first half of 2005, which includes an extraordinary contribution of Euro 300 million to fund post retirement healthcare obligations.

PT s audited financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) as from 1 January 2005. Financial information for prior periods has been restated in accordance with IFRS for comparative purposes. Having announced the disposal of Lusomundo Serviços (PTM s media business) and PrimeSys, these businesses were disclosed as discontinued operations in the consolidated income statements for the first half of 2004 and 2005, in accordance with IFRS rules.

Table 1 Consolidated Financial Highlights

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y
Operating Revenues	1,568.1	1,470.1	6.7%	3,024.2	2,881.2	5.0%
Recurring Operating Costs, excluding D&A	1,028.5	892.2	15.3%	1,875.5	1,715.1	9.4%
EBITDA (1)	539.6	577.9	(6.6%)	1,148.7	1,166.1	(1.5%)
Recurring Operating Income	279.1	343.8	(18.8%)	654.9	705.0	(7.1%)
Net Income	84.6	201.2	(58.0%)	259.0	385.7	(32.8%)
Capex	201.5	147.6	36.5%	368.3	233.5	57.7%
Capex as % of Revenues (%)	12.8	10.0	2.8pp	12.2	8.1	4.1pp
EBITDA minus Capex	338.1	430.3	(21.4%)	780.5	932.6	(16.3%)
Net Debt	4,255.6	3,621.3	17.5%	4,255.6	3,621.3	17.5%
EBITDA Margin (2) (%)	34.4	39.3	(4.9pp)	38.0	40.5	(2.5pp)
Net Debt / EBITDA (x)	2.0	1.5	0.5x	1.9	1.5	0.4x
EBITDA / Net Interest (x)	8.6	11.0	(2.5x)	9.9	12.2	(2.3x)

(1) EBITDA = Recurring Operating Income + Depreciation and Amortisation.
(2) EBITDA Margin = EBITDA / Operating Revenues.

1. FINANCIAL HIGHLIGHTS

Operating revenues increased by 5.0% y.o.y in the first half of 2005 to Euro 3,024 million, underpinned by the growth in Vivo and in PTM. In the second quarter of 2005, operating revenues increased by 6.7% y.o.y to Euro 1,568 million.

Operating revenues of the domestic businesses (wireline, TMN and PT Multimedia) decreased by 0.2% y.o.y in the first half of 2005, with the increase in PTM and TMN offsetting by Euro 25 million the decline in wireline revenues of Euro 29 million.

Domestic retail revenues (wireline, Pay-TV and broadband) increased by 0.7% y.o.y to Euro 916 million in the first half of 2005, with the strong growth in broadband and Pay-TV revenues more than compensating for the fall in wireline traffic revenues, which were negatively impacted by traffic volume declines and lower interconnection rates.

Wireline net retail revenues, calculated as wireline retail revenues less corresponding telecom costs, increased by 2.8% y.o.y in the first half of 2005 to Euro 582 million, as a result of the aggressive rollout of ADSL and new pricing plans.

EBITDA reached Euro 1,149 million in the first half of 2005, a decrease of 1.5% y.o.y, equivalent to an EBITDA margin of 38.0% .

EBITDA of the domestic businesses increased by 1.5% y.o.y in the first half of 2005, underpinned by a strong performance and margin improvement in the wireline and multimedia businesses.

Recurring operating income decreased by 7.1% y.o.y in the first half of 2005 to Euro 655 million, equivalent to a margin of 21.7% .

Net income totalled Euro 259 million in the first half of 2005 compared to Euro 386 million in the first half of 2004, representing a decrease of 32.8% y.o.y, primarily due to higher curtailment charges which reached Euro 97 million in the first half of 2005.

Capex increased by 57.7% y.o.y in the first half of 2005 to Euro 368 million, equivalent to 12.2% of operating revenues, as a result of higher spend on broadband and 3G in Portugal, the investment in a fifth transponder in the Pay-TV business, and network expansion and CDMA overlay investments at Vivo in Brazil.

EBITDA minus Capex decreased by 16.3% y.o.y to Euro 780 million in the first half of 2005, equivalent to 25.8% of operating revenues. Approximately 93% of PT s EBITDA minus Capex was generated by its domestic businesses (wireline, TMN and PT Multimedia).

Free cash flow decreased from Euro 392 million in the first half of 2004 to negative Euro 38 million in the first half of 2005, primarily as a result of an extraordinary contribution of Euro 300 million to fund post retirement healthcare obligations, the decrease in EBITDA minus Capex, and a higher investment in working capital mainly due to higher receivables.

Net debt amounted to Euro 4,256 million at the end of the first half of 2005, an increase of Euro 724 million from the end of 2004, primarily as a result of the dividends paid and the share buybacks made in the period, as well as the Euro 300 million extraordinary contribution made to fund post retirement healthcare obligations.

Disposals of financial investments during August 2005 will generate cash inflows of Euro 174 million regarding the sale of Lusomundo Serviços (which holds 80.91% of Lusomundo Media) to Controlinveste, and R$ 231 million regarding the sale of PrimeSys to Embratel. In addition, the disposal of PrimeSys, which has already been considered as a

discontinued operation in the consolidated income statement for the first half of 2005, will result in a reduction in costs with operating leases, which in 2004 reached R$ 78 million.

PT issued Euro 2 billion of Eurobonds in the first half of 2005, Euro 1.5 billion on 24 March 2005, with maturities of 7 years (Euro 1 billion) and 12 years (Euro 500 million), and a further Euro 500 million on 16 June 2005, with a 20 year maturity, as part of its balance sheet refinancing. In February 2005, PT had also drawn Euro 250 million from two 10 year loans entered into with the European Investment Bank. In addition, the maturity of certain stand-by facilities totalling Euro 750 million was extended by two years. All these operations allowed PT s cost of debt (excluding Brazilian debt) to decrease to 4.2% and PT s debt maturity (excluding Brazilian debt) to increase to 9.5 years. Considering Brazilian debt, PT s consolidated cost of debt decreased to 5.9%, with the consolidated debt maturity being extended to 8.9 years.

Net exposure (assets minus liabilities) to Brazil amounted to R$ 7,703 million, or Euro 2,704 million at the Euro/Real exchange rate prevailing as at 30 June 2005. Assets denominated in Reais in PT s consolidated balance sheet as at 30 June 2005 represented approximately 35% of total assets and PT s share in Vivo s net debt amounted to Euro 526 million as at 30 June 2005.

Pursuant to the announced 10% share buyback programme, PT cancelled 7% of its share capital at the end of 2004, reducing total share capital to Euro 1,166,485,050. Additionally, PT repurchased 37,628,550 PT shares, equivalent to 3.0% of the initial share capital prior to the 7.0% cancellation, thus completing the 10% share buyback announced in September 2003. In the shareholders meeting of April 2005, PT was granted authorisation to acquire an additional 10% of its share capital. PT s Board has committed to undertake a 3% share buyback, subject to market and financial conditions of the company.

2. OPERATING HIGHLIGHTS

Table 2 Key Performance Indicators

	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y
Customer Base ('000)						
Wireline	4,445	4,282	3.8%	4,445	4,282	3.8%
Mobile	33,554	28,386	18.2%	33,554	28,386	18.2%
Pay-TV	1,465	1,487	(1.5%)	1,465	1,487	(1.5%)
Broadband (Retail ADSL + Cable)	833	529	57.3%	833	529	57.3%
Wireline						
Main Lines ('000)	4,445	4,282	3.8%	4,445	4,282	3.8%
PSTN/ISDN	3,871	3,985	(2.8%)	3,871	3,985	(2.8%)
Carrier Pre-Selection	540	485	11.4%	540	485	11.4%
ADSL Retail	500	260	92.1%	500	260	92.1%
ADSL Wholesale	46	33	40.3%	46	33	40.3%
Unbundled Local Loops	28	5	n.m.	28	5	n.m.
Net Additions ('000)	18	45	(59.3%)	68	56	20.5%
PSTN/ISDN	(43)	(14)	n.m.	(77)	(52)	48.6%
Carrier Pre-Selection	32	22	46.7%	55	46	19.6%
ADSL Retail	49	56	(11.9%)	120	99	20.8%
ADSL Wholesale	0	1	(70.5%)	5	5	2.9%
Unbundled Local Loops	12	2	n.m.	19	3	n.m.
Pricing Plans ('000)	1,330	470	183.1%	1,330	470	183.1%
Total Traffic (mn min.)	3,778	4,282	(11.8%)	7,587	8,617	(12.0%)
ARPU (Euro)	34.3	34.5	(0.8%)	34.0	34.3	(0.8%)
Domestic Mobile (TMN)						
Customers ('000)	5,108	4,872	4.8%	5,108	4,872	4.8%
Net Additions ('000)	21	(52)	n.m.	54	(15)	n.m.
Total Churn (%)	23.3	29.5	(6.1pp)	23.2	26.0	(2.8pp)
MOU (min.)	122.4	122.1	0.2%	119.5	119.2	0.2%
ARPU (Euro)	22.6	24.5	(7.7%)	22.6	23.8	(4.9%)
Data as % of Service Revenues (%)	11.0	9.1	1.8pp	10.9	9.3	1.6pp
CCPU (1) (Euro)	11.3	11.5	(1.8%)	11.3	11.1	2.0%
ARPU minus CCPU (Euro)	11.4	13.1	(12.9%)	11.4	12.8	(10.9%)
Brazilian Mobile (Vivo)						
Customers ('000)	28,446	23,514	21.0%	28,446	23,514	21.0%
Market Share in Areas of Operation (%)	47.6	54.5	(6.9pp)	47.6	54.5	(6.9pp)
Net Additions ('000)	1,487	1,639	(9.3%)	1,903	2,858	(33.4%)
MOU (min.)	78.7	90.4	(12.9%)	80.1	91.7	(12.6%)
ARPU (R$)	28.6	33.3	(14.2%)	28.7	34.0	(15.5%)
Data as % of Service Revenues (%)	6.1	3.8	2.3pp	5.8	4.1	1.7pp
CCPU (1) (R$)	19.6	19.2	2.4%	17.5	18.3	(4.2%)
ARPU minus CCPU (R$)	9.0	14.2	(36.7%)	11.2	15.7	(28.7%)

Multimedia (PT Multimedia) (2)						
Homes Passed ('000)	2,606	2,514	3.7%	2,606	2,514	3.7%
Bi-directional ('000)	2,484	2,283	8.8%	2,484	2,283	8.8%
Pay-TV Customers ('000)	1,465	1,487	(1.5%)	1,465	1,487	(1.5%)
Pay-TV Net Additions ('000)	9	21	(58.2%)	16	45	(64.7%)
Cable Broadband Accesses ('000)	333	269	23.7%	333	269	23.7%
Cable Broadband Net Additions ('000)	13	19	(29.4%)	27	39	(29.3%)
Pay-TV Blended ARPU (Euro)	28.1	25.3	10.8%	27.6	25.0	10.3%

(1) CCPU (Cash cost per user) = Operating costs minus provisions, depreciation and amortisation and sales of equipment per user.
(2) As a result of a database cleanup, following the migration to new CRM, provisioning and billing systems, the number of Pay-TV customers at the end of 2Q05, 1Q05 and 4Q04 was 1,465 thousand, 1,456 thousand and 1,449 thousand respectively. The adjusted number of cable broadband customers at the end of 2Q05, 1Q05 and 4Q04 was 333 thousand, 319 thousand and 305 thousand respectively.

Customers

> Wireline main lines increased by 3.8% y.o.y in the second quarter of 2005 to 4,445 thousand, on the back of strong growth in ADSL.

> Mobile customers increased by 1,509 thousand in the second quarter of 2005 to 33,554 thousand, underpinned by robust growth in Brazil.

> Pay-TV customers increased by 9 thousand in the second quarter of 2005, totalling 1,465 thousand as at 30 June 2005, after the completion of a database cleanup, following the migration to new CRM, provisioning and billing systems.

> Retail broadband customers reached 833 thousand in the second quarter of 2005 compared to 770 thousand at the end of the March 2005, equivalent to a penetration of 16.8% of access lines (PSTN/ISDN and cable). Retail broadband net additions were 63 thousand in the second quarter of 2005.

Wireline

> Total main lines increased by 3.8% y.o.y in the second quarter of 2005 to 4,445 thousand, of which 3,871 thousand were PSTN/ISDN, 500 thousand were ADSL retail, 46 thousand were ADSL wholesale and 28 thousand were unbundled local loops.

> The number of pricing plans increased by 131 thousand in the second quarter of 2005 to 1,330 thousand, equivalent to a penetration of 36.5% of PSTN retail residential lines.

> In the second quarter of 2005, total traffic fell by 11.8% y.o.y. Excluding the impact of last year s Sunday free traffic campaign, total traffic would have fallen by 9.5% y.o.y. Retail traffic fell by 13.7% y.o.y, primarily as a result of continued fixed to mobile substitution and rising competition, while wholesale traffic fell by 10.2% y.o.y, mainly due to the migration of narrowband internet to broadband.

> Total ARPU decreased by 0.8% y.o.y in the second quarter of 2005 to Euro 34.3. Subscription and voice ARPU decreased by 4.8% y.o.y to Euro 29.8, as a result of declining traffic revenues, whilst data ARPU increased by 38.1% y.o.y, representing already 13.0% of total ARPU in the second quarter of 2005.

Domestic Mobile (TMN)

> Net additions totalled 21 thousand in the second quarter of 2005. At the end of June 2005, TMN had 5,108 thousand customers, an increase of 4.8% over the same period of last year. Churn decreased by 6.1pp y.o.y to 23.3% in the second quarter 2005. Postpaid customers represented more than 74% of net additions in the period, which compares with 61% in the first quarter of 2005.

> Data services accounted for 11.0% of service revenues in the second quarter of 2005, an improvement of 1.8pp over the second quarter of 2004, underpinned by the growth in non-SMS data revenues that already account for 21.3% of total data revenues.

> Minutes of usage (MOU) remained broadly flat in the second quarter of 2005 when compared to the same period of last year, reaching 122.4 minutes, although MOU in the second quarter of 2004 was positively impacted by the one-off effect of the Euro 2004 championship held in Portugal.

> ARPU in the second quarter of 2005 decreased by 7.7% y.o.y to Euro 22.6, mainly as a result of the reduction in interconnection rates in July 2004 and March 2005. Customer ARPU decreased by 1.2% y.o.y, reflecting the continued

traffic promotions aimed at stimulating on-net traffic and the one-off positive impact of the Euro 2004 championship in the second quarter of 2004.

Brazilian Mobile (Vivo)

> Net additions reached 1,487 thousand in the second quarter of 2005. At the end of June 2005, Vivo had 28,446 thousand customers, an increase of 21.0% y.o.y. Vivo s market share at the end of June 2005 was 47.6% in its areas of operation and 37.7% in the whole of Brazil.

> Data revenues represented 6.1% of total service revenues in the second quarter of 2005, with more than 30% already being generated by non-SMS data services.

> MOU dropped by 12.9% y.o.y in the second quarter of 2005 to 78.7 minutes, due to the changing mix of the customer base towards prepaid and the negative evolution of incoming traffic.

> ARPU decreased by 14.2% y.o.y in the second quarter of 2005 to R$ 28.6, primarily as a result of the changing mix of the customer base towards prepaid, the decrease in incoming traffic, and the impact of the repositioning of postpaid pricing plans (right planning).

Multimedia (PT Multimedia)

> The Pay-TV business undertook a database cleanup of inactive and bad debt customers following the migration to new CRM, provisioning and billing systems, after 10 years of operations. The database cleanup totalled 143 thousand customers, equivalent to 8.8% of the customer base. In accordance with IFRS rules, the operating revenues were adjusted accordingly.

> Following this database cleanup, Pay-TV customers totalled 1,465 thousand at 30 June 2005, with 9 thousand net additions in the second quarter of 2005.

> Pay-TV s blended ARPU in the second quarter of 2005 increased by 10.8% to Euro 28.1, reflecting higher penetration of broadband services and the increase in Pay-TV prices.

> Broadband cable modem customers reached 333 thousand at the end of June 2005, an increase of 23.7% y.o.y, with net additions of 13 thousand in the second quarter of 2005.

3. CONSOLIDATED RESULTS

Table 3 Consolidated Income Statement

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y
Operating Revenues	1,568.1	1,470.1	6.7%	3,024.2	2,881.2	5.0%
Wireline	522.6	536.6	(2.6%)	1,035.0	1,064.4	(2.8%)
Domestic Mobile (TMN)	349.2	354.1	(1.4%)	694.7	689.8	0.7%
Brazilian Mobile (Vivo) (1)	499.2	391.7	27.5%	896.5	764.1	17.3%
Multimedia (PT Multimedia)	148.7	141.9	4.8%	305.4	285.7	6.9%
Other	48.4	45.8	5.6%	92.6	77.2	20.0%
Recurring Operating Costs excluding D&A	1,028.5	892.2	15.3%	1,875.5	1,715.1	9.4%
Wages and Salaries	173.8	154.6	12.4%	336.2	307.0	9.5%
Post Retirement Benefits	36.1	38.1	(5.2%)	72.2	79.8	(9.6%)
Direct costs	216.7	213.1	1.7%	426.2	415.1	2.7%
Costs of Telecommunications	149.7	151.1	(0.9%)	291.2	291.4	(0.1%)
Programming Costs	31.0	28.2	9.9%	62.5	57.4	9.0%
Directories	20.9	22.2	(5.7%)	41.6	44.0	(5.5%)
Other	15.1	11.7	29.3%	30.9	22.4	38.3%
Costs of Products Sold	181.6	130.0	39.7%	288.0	237.8	21.1%
Marketing and Publicity	46.5	40.9	13.6%	79.1	74.3	6.5%
Support Services	53.5	43.0	24.5%	97.8	82.4	18.6%
Maintenance and Repairs	40.1	38.0	5.5%	78.1	74.6	4.8%
Supplies and External Expenses	195.3	164.5	18.7%	356.3	313.5	13.7%
Provisions	32.0	31.2	2.7%	40.1	58.6	(31.6%)
Taxes Other than Income Taxes	39.1	31.2	25.3%	76.3	58.5	30.5%
Other Operating Costs	13.8	7.6	82.6%	25.2	13.5	86.5%
EBITDA	539.6	577.9	(6.6%)	1,148.7	1,166.1	(1.5%)
Depreciation and Amortisation	260.5	234.1	11.3%	493.8	461.1	7.1%
Recurring Operating Income	279.1	343.8	(18.8%)	654.9	705.0	(7.1%)
Other Expenses (Income)	87.9	6.4	n.m.	105.7	18.7	n.m.
Work Force Reduction Programme Costs	81.5	1.8	n.m.	96.8	3.9	n.m.
Losses (Gains) on Disp. of Fixed Assets	(0.2)	1.4	n.m.	0.4	2.5	(82.6%)
Other Non-Recurring Costs	6.5	3.2	102.3%	8.4	12.3	(31.4%)
Income bef. Financials & Inc. Taxes	191.2	337.4	(43.3%)	549.3	686.3	(20.0%)
Financial Expenses (Income)	45.8	32.3	41.9%	103.7	66.6	55.7%
Net Interest Expenses	63.1	52.4	20.4%	116.2	95.9	21.2%
Net Foreign Currency Losses (Gains)	(26.3)	6.2	n.m.	(35.9)	(0.5)	n.m.
Net Losses (Gains) on Financial Assets	14.4	(37.2)	n.m.	22.0	(51.1)	n.m.
Equity in Losses (Earnings) of Affiliates	(21.8)	(0.1)	n.m.	(29.1)	(5.9)	n.m.
Other Financial Expenses	16.4	10.9	50.9%	30.4	28.2	7.8%
Income before Income Taxes	145.4	305.2	(52.3%)	445.6	619.8	(28.1%)
Provision for Income Taxes	(73.1)	(82.0)	(10.8%)	(176.4)	(183.6)	(3.9%)

Income from Continued Operations	72.4	223.2	(67.6%)	269.2	436.1	(38.3%)
Income from Discontinued Operations	2.5	0.9	181.0%	1.6	(2.7)	n.m.
Income Applicable to Minority Interests	9.7	(22.9)	n.m.	(11.8)	(47.8)	(75.3%)
Consolidated Net Income	84.6	201.2	(58.0%)	259.0	385.7	(32.8%)

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

Consolidated Operating Revenues

Table 4 Consolidated Operating Revenues - Contribution by Segment

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y
Wireline	522.6	536.6	(2.6%)	1,035.0	1,064.4	(2.8%)
Domestic Mobile (TMN)	349.2	354.1	(1.4%)	694.7	689.8	0.7%
Brazilian Mobile (Vivo) (1)	499.2	391.7	27.5%	896.5	764.1	17.3%
Multimedia (PT Multimedia)	148.7	141.9	4.8%	305.4	285.7	6.9%
Other	48.4	45.8	5.6%	92.6	77.2	20.0%
Total Operating Revenues	1,568.1	1,470.1	6.7%	3,024.2	2,881.2	5.0%
Domestic Retail Revenues	451.7	456.7	(1.1%)	915.9	909.4	0.7%
Wireline	332.9	342.5	(2.8%)	670.2	685.3	(2.2%)
Pay-TV and Cable Internet	118.8	114.2	4.0%	245.7	224.0	9.7%
Average Revenue per Household (ARPH)	41.2	41.7	(1.1%)	41.8	41.5	0.7%

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

Consolidated operating revenues increased by 5.0% y.o.y in the first half of 2005 to Euro 3,024 million, reflecting the higher contributions from Vivo, in part as a result of the Real appreciation during the period, and PTM. In the second quarter of 2005, consolidated operating revenues rose by 6.7% y.o.y to Euro 1,568 million.

In the first half of 2005, operating revenues from the domestic businesses decreased by 0.2% y.o.y, with the increase in PTM and TMN offsetting the decrease in wireline. Revenues in the wireline business were down 2.8% y.o.y, in part as a result of the decrease in fixed to mobile termination rates, which impacted revenues by Euro 7 million.

In the first half of 2005, domestic retail revenues (wireline + pay-TV) increased by 0.7% y.o.y to Euro 916 million, with the average revenue per household (ARPH) amounting to Euro 41.8 per month. The aggressive rollout of broadband services and video products continue to change steadily the mix of the ARPH. In the first half of 2005, data and video revenues represented 12.9% and 21.7% of ARPH, respectively, as compared to 8.9% and 20.3% in the same period of last year. Wireline net retail revenues, calculated as wireline retail revenues less corresponding telecommunications costs, increased by 2.8% y.o.y in the first half of 2005 to Euro 582 million, reflecting the successful rollout of ADSL and new pricing plans.

The contribution to consolidated operating revenues from the mobile businesses rose by 2.2pp y.o.y to 52.6% in the first half of 2005, despite the negative impact of the strong adjustment in interconnection rates in Portugal, which fell to Euro 18.5 cents in July 2004 and Euro 14.0 cents in March 2005. Vivo represented 29.6% of consolidated operating revenues in the first half of 2005, an increase of 3.1pp over the same period of last year.

Table 5 Consolidated Operating Revenues Standalone Revenues by Segment

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y

Wireline	563.0	576.3	(2.3%)	1,116.1	1,144.6	(2.5%)
Domestic Mobile (TMN)	373.8	393.3	(5.0%)	748.1	765.7	(2.3%)
Brazilian Mobile (Vivo) (1)	499.1	391.7	27.4%	896.4	764.1	17.3%
Multimedia (PT Multimedia)	149.2	141.8	5.2%	305.8	285.9	7.0%
Other and Eliminations	(17.1)	(33.0)	(48.2%)	(42.2)	(79.1)	(46.7%)
Total Operating Revenues	1,568.1	1,470.1	6.7%	3,024.2	2,881.2	5.0%

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

The difference in the growth rates of the standalone revenues and the contribution to consolidated revenues of the domestic mobile business is related to the decline in F2M interconnection rates during the period in analysis.

EBITDA

Table 6 EBITDA by Business Segment

Euro million	2Q05	2Q04	y.o.y	2Q05 Margin	1H05	1H04	y.o.y	1H05 Margin
Wireline	237.0	234.0	1.3%	42.1	494.2	465.5	6.2%	44.3
Domestic Mobile (TMN)	165.4	180.3	(8.3%)	44.2	334.2	358.1	(6.7%)	44.7
Brazilian Mobile (Vivo) (1)	98.8	121.5	(18.7%)	19.8	241.0	263.3	(8.5%)	26.9
Multimedia (PT Multimedia)	46.2	44.6	3.8%	31.0	94.8	86.2	10.0%	31.0
Other	(7.8)	(2.5)	209.4%	n.m.	(15.5)	(7.0)	120.3%	n.m.
Total EBITDA	539.6	577.9	(6.6%)	34.4	1,148.7	1,166.1	(1.5%)	38.0
EBITDA Margin (%)	34.4	39.3	(4.9pp)		38.0	40.5	(2.5pp)	

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

EBITDA decreased by 1.5% y.o.y in the first half of 2005 to Euro 1,149 million, equivalent to an EBITDA margin of 38.0%, as a result of the reduction in the EBITDA of the mobile businesses, TMN and Vivo.

In the first half of 2005, EBITDA of the domestic businesses increased by 1.5% y.o.y. Adjusting for the one-off impact of the Euro 23 million receivable from Angola Telecom, which was fully provisioned in previous years, EBITDA of the domestic businesses would have decreased by 1.1% y.o.y, as a result of the decrease in TMN s EBITDA which reflects the investment in the rollout of 3G and negative impact of lower fixed to mobile termination rates.

In the first half of 2005, the contribution of the wireline business to consolidated EBITDA increased by 3.1pp y.o.y to 43.0% . Excluding the impact of the receivable of Euro 23 million from Angola Telecom, the contribution to consolidated EBITDA from this business segment would have increased by 1.1pp to 41.0% .

PTM s contribution to consolidated EBITDA improved by 0.9pp y.o.y to 8.3% in the first half of 2005, underpinned by continued top line growth and margin expansion in the period.

The contribution to consolidated EBITDA from the mobile businesses decreased by 3.2pp y.o.y to 50.1% in the first half of 2005. The contribution of TMN to consolidated EBITDA decreased by 1.6pp y.o.y to 29.1% and Vivo s contribution decreased by 1.6pp y.o.y to 21.0% . TMN s EBITDA and margin performance in the period reflects the investment in the rollout of 3G and the negative impact of lower fixed to mobile termination rates, while Vivo s margin compression is explained by strong customer growth and continued intensification of competitive pressures.

Consolidated Recurring Operating Costs

Table 7 Consolidated Recurring Operating Costs (1)

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y	1H05 % Rev.
Wages and Salaries	173.8	154.6	12.4%	336.2	307.0	9.5%	11.1
Post Retirement Benefits	36.1	38.1	(5.2%)	72.2	79.8	(9.6%)	2.4
Direct costs	216.7	213.1	1.7%	426.2	415.1	2.7%	14.1
Telecommunication Costs	149.7	151.1	(0.9%)	291.2	291.4	(0.1%)	9.6
Programming Costs	31.0	28.2	9.9%	62.5	57.4	9.0%	2.1
Directories	20.9	22.2	(5.7%)	41.6	44.0	(5.5%)	1.4
Other	15.1	11.7	29.3%	30.9	22.4	38.3%	1.0
Costs of Products Sold	181.6	130.0	39.7%	288.0	237.8	21.1%	9.5
Marketing and Publicity	46.5	40.9	13.6%	79.1	74.3	6.5%	2.6
Support Services	53.5	43.0	24.5%	97.8	82.4	18.6%	3.2
Supplies and External Exp.	195.3	164.5	18.7%	356.3	313.5	13.7%	11.8
Provisions	32.0	31.2	2.7%	40.1	58.6	(31.6%)	1.3
Other Operating Costs	93.0	76.8	21.2%	179.6	146.5	22.6%	5.9
Rec. Operating Costs excluding D&A	1,028.5	892.2	15.3%	1,875.5	1,715.1	9.4%	62.0
Depreciation & Amortisation	260.5	234.1	11.3%	493.8	461.1	7.1%	16.3
Total Recurring Operating Costs	1,289.0	1,126.3	14.4%	2,369.3	2,176.1	8.9%	78.3

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

Consolidated recurring operating costs amounted to Euro 2,369 million, an increase of 8.9% y.o.y over the first half of 2004.

Wages and salaries increased by 9.5% y.o.y to Euro 336 million in the first half of 2005 and represented 11.1% of consolidated operating revenues. The growth in this caption is mainly related to the operations in Brazil, which contributed with Euro 18 million to the growth in consolidated wages and salaries (Euro 7 million related to the Real appreciation during the period). At Vivo, wages and salaries in local currency decreased by 1.2% y.o.y in the first half of 2005, while at Dedic, PT s call centre operation in Brazil, wages and salaries increased from Euro 13 million in the first half of 2004 to Euro 24 million in the first half of 2005, primarily as a result of the incorporation of additional call centre employees.

Post retirement benefit costs (PRBs) decreased by 9.6% y.o.y to Euro 72 million in the first half of 2005, and accounted for 2.4% of consolidated operating revenues. This decline is primarily due to the following: (1) a gain of Euro 10 million resulting from further changes in the method of calculating the pension of an employee upon retirement, which are now computed based on the average of the last three years of salary instead of the last year of salary; (2) a decrease of Euro 3 million in the net interest cost due to the combined effect of the contributions made to the funds and the increase in PBO resulting from further curtailments; and (3) an increase of Euro 4 million in the amortisation of actuarial losses due to the changes in actuarial assumptions made at the end of 2004.

Direct costs increased by 2.7% y.o.y to Euro 426 million in the first half of 2005. This cost item represented 14.1% of consolidated operating revenues. Telecommunications costs, which are the main component of direct costs, decreased by 0.1% y.o.y to Euro 291 million in the first half of 2005, mainly as a result of lower traffic volumes in the wireline business and the decrease in fixed-to-mobile and mobile-to-mobile interconnection rates in Portugal, which more than offset the increase of 38.9% y.o.y in telecommunications costs at Vivo related to higher traffic volumes. Telecommunications costs accounted for 9.6% of consolidated operating revenues. Programming costs increased by 9.0% y.o.y to Euro 63 million, primarily as a result of the launch of the digital offer in the Pay TV business aimed at promoting analogue to digital migration.

Costs of product sold grew by 21.1% y.o.y to Euro 288 million, primarily due to higher commercial activity at Vivo and TMN.

Marketing and publicity costs increased by 6.5% y.o.y in the first half of 2005 to Euro 79 million, reflecting higher advertising spend and promotional activities in the wireline business, TMN and Vivo.

Support services costs rose by 18.6% y.o.y in the first half of 2005 to Euro 98 million, mainly due to an increase in this cost item in the wireline business and Vivo, as a result of the outsourcing of certain additional functions and higher call centre costs related to increased commercial activity. This cost item represented 3.2% of consolidated operating revenues.

Supplies and external expenses increased by 13.7% y.o.y in the first half of 2005 to Euro 356 million, primarily as a result of the increase in commissions in the mobile businesses, TMN and Vivo, on the back of higher commercial activity. Supplies and external expenses accounted for 11.8% of consolidated operating revenues.

Provisions decreased by 31.6% y.o.y to Euro 40 million in the first half of 2005. The decrease in this caption is primarily due to: (1) a reversal of a bad debt provision for international traffic in Angola in the amount of Euro 23 million, in connection with a receivable from Angola Telecom that was fully provisioned in previous years; (2) a decrease of Euro 17 million in TMN, mainly due to the initial recognition in the first half of 2004 of a provision for loyalty programmes of Euro 12 million that compares to an increase of only Euro 2 million in this provision in the first half of 2005; (3) an increase of Euro 20 million in Vivo (Euro 8 million related to the Real appreciation), mainly due to a higher level of bad debts; and (4) an increase of Euro 2 million at PTM, also due to a higher level of bad debt. This cost item accounted for 1.3% of consolidated operating revenues.

Other operating costs increased by 22.6% y.o.y to Euro 180 million in the first half of 2005. This caption includes Euro 78 million of maintenance and repairs, Euro 76 million of taxes (which mainly include indirect taxes and spectrum fees) and Euro 25 million of other costs. The increase in this caption is primarily related to an increase in spectrum fees at Vivo of Euro 17 million (Euro 5 million related to the Real appreciation), mainly due to the increase in subscribers during the period.

Depreciation and amortisation costs rose by 7.1% y.o.y to Euro 494 million in the first half of 2005, due to the increase of Euro 31 million in the contribution of Vivo for the Group s D&A. This increase resulted mainly from the allocation of goodwill generated in the recent tender offer of TCO to an intangible asset related to the telecommunication licenses held by TCO, which is being amortised over the remaining period of those licences. This cost item accounted for 16.3% of consolidated operating revenues.

Net Income

Net income amounted to Euro 259 million in the first half of 2005, a decrease of 32.8% y.o.y, primarily due to higher curtailments charges and negative changes in the fair value of certain derivative instruments in the first half of 2005.

Workforce reduction programme costs amounted to Euro 97 million in the first half of 2005 (Euro 4 million in the first half of 2004), as a result of the reduction of 406 employees in the wireline business. This curtailment cost item reflects primarily the following: (1) net present value of salaries to be paid to pre-retired employees up to retirement age; (2) net present value of future service costs for early retired and pre-retired employees; and (3) proportional recognition of actuarial gains and losses related to early retired and pre-retired employees.

Net interest expenses amounted to Euro 116 million in the first half of 2005 (Euro 45 million related to loans obtained by Vivo), as compared to Euro 96 million in the same period of last year (Euro 36 million related to loans obtained by Vivo). In the first half of 2005, net interest expenses related to the net debt of PT excluding Brazil increased by 18.3% y.o.y to Euro 71

million, as a result of the increase in average net debt in the first half of 2005. In the first half of 2005, net interest expenses related to Vivo s net debt increased by 25.4% y.o.y to Euro 46 million, as a result of: (1) the appreciation of the Real in the period (Euro 3 million); and (2) the increase in average net debt and in the average CDI during the first half of 2005. The net interest expenses in the first half of 2005 were equivalent to an average cost of debt, including debt in Brazil, of approximately 5.9% .

Net foreign currency gains increased to Euro 36 million in the first half of 2005 from Euro 0.5 million in the same period of last year, primarily as a result of the evolution of the Euro/Real exchange rate over the period.

Net losses on financial assets amounted to Euro 22 million in the first half of 2005, as compared to net gains of Euro 51 million in the first half of 2004. This caption includes mainly gains and losses on certain derivative contracts, namely: (1) equity swap contracts on PTM shares (net gains of Euro 0.2 million in the first half of 2005, as compared to Euro 46 million in the first half of 2004), and (2) cross currency derivatives related to Brazil that are not hedging any specific risk (net losses of Euro 20 million in the first half of 2005 against net gains of Euro 2 million in the first half of 2004).

In the first half of 2005, equity accounting in gains of affiliated companies amounted to Euro 29 million, compared to Euro 6 million in the same period of last year. This caption included mainly PT s share in the earnings of CTM in Macau, Unitel in Angola, and UOL in Brazil, totalling Euro 31 million. The improvement in this caption of Euro 23 million is primarily explained by the increase in the earnings of: (1) Unitel from Euro 6 million to Euro 14 million; (2) UOL from Euro 1 million to Euro 9 million; and (3) Médi Télécom from a negative Euro 7 million to a positive Euro 1 million.

Other financial expenses amounted to Euro 30 million in the first half of 2005, as compared to Euro 28 million in the first half of 2004. This caption includes various financial expenses including banking commissions and related taxes.

The provision for income taxes decreased to Euro 176 million in the first half of 2005, from Euro 184 million in the same period of last year. The effective tax rate increased from 29.6% to 39.6%, mainly as a result of the increase in net losses at certain Vivo subsidiaries during the period that did not generate the recognition of related tax assets. In the first half of 2005, this caption included a non-cash component amounting to Euro 129 million (Euro 124 million in the same period of last year) that was recorded as a reduction of deferred taxes related to tax losses carried forward in previous years.

In the first half of 2005, discontinued operations included PT s share in the earnings of Lusomundo Serviços and PrimeSys. The sale of Lusomundo Serviços was concluded on 25 August 2005, while the sale of PrimeSys, which was announced on 5 August 2005, is currently pending regulatory approval by the local telecom regulator.

Income applicable to minority interests decreased to Euro 12 million, from Euro 48 million in the same period last year, primarily as a result of the Euro 25 million decrease in thenet income of Vivo s subsidiaries.

4. CAPEX

Table 8 Capex by Business Segment

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y	1H05 % Rev.
Wireline	54.3	53.5	1.5%	96.5	84.2	14.6%	8.6
Domestic Mobile (TMN)	28.9	18.5	56.0%	47.7	35.4	34.6%	6.4
Brazilian Mobile (Vivo) (1)	66.5	51.0	30.3%	143.0	68.9	107.5%	16.0
Multimedia (PT Multimedia)	39.6	12.7	210.9%	55.6	22.2	150.4%	18.2
Other	12.2	11.8	3.3%	25.5	22.7	12.3%	n.m.
Total Capex	201.5	147.6	36.5%	368.3	233.5	57.7%	12.2

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

Total capex increased by 57.7% y.o.y in the first half of 2005 to Euro 368 million, as a result of the capex increase across all businesses. Total capex was equivalent to 12.2% of consolidated operating revenues.

Wireline capex in the first half of 2005 increased by 14.6% y.o.y to Euro 97 million, equivalent to a capex to sales ratio of 8.6% . This increase is primarily related to the strong growth in broadband.

TMN s capex increased by 34.6% y.o.y to Euro 48 million in the first half of 2005, equivalent to 6.4% of operating revenues. TMN spent approximately 70% of its network capex on 3G.

PT s share of Vivo s capex increased from Euro 69 million in the first half of 2004 to Euro 143 million in the first half of 2005, which is equivalent to 16.0% of operating revenues. This increase is primarily explained by the investment in capacity expansion, CDMA overlay in the regions operated by CRT and TCO, and the rollout of 1xRTT and EV-DO.

In the first half of 2005, PTM s capex increased by 150.4% y.o.y to Euro 56 million, equivalent to 18.2% of operating revenues, in part as a result of the investment of Euro 17 million corresponding to the discounted rents of a 12 year contract for a fifth transponder to be used in the Pay-TV business for its satellite and premium services.

Other capex increased by 12.3% y.o.y to Euro 25 million in the first half of 2005. This caption included mainly capex related to IT expenditures and the rollout of Corporate SAP across all of PT s businesses in order to improve efficiency in back-office processes. This caption also includes capex related to fully consolidated businesses not included in the main segments.

5. CASH FLOW

EBITDA minus Capex

Table 9 EBITDA minus Capex by Business Segment

Euro million	2Q05	2Q04	y.o.y	1H05	1H04	y.o.y	1H05 % Rev.
Wireline	182.7	180.5	1.2%	397.7	381.3	4.3%	35.6
Domestic Mobile (TMN)	136.5	161.8	(15.7%)	286.5	322.7	(11.2%)	38.3
Brazilian Mobile (Vivo) (1)	32.3	70.5	(54.2%)	98.0	194.4	(49.6%)	10.9
Multimedia (PT Multimedia)	6.6	31.8	(79.2%)	39.2	64.0	(38.7%)	12.8
Other	(19.9)	(14.3)	39.6%	(41.0)	(29.7)	37.9%	n.m.
Total EBITDA minus Capex	338.1	430.3	(21.4%)	780.5	932.6	(16.3%)	25.8

(1) Considering a Euro/Real average exchange rate of 3.6446 in 1H04 and 3.3140 in 1H05.

EBITDA minus Capex totalled Euro 780 million in the first half of 2005, decreasing by 16.3% y.o.y, as a result of the decrease in TMN, Vivo and PTM. The domestic businesses, on a combined basis, accounted for approximately 93% of the total EBITDA minus Capex.

Free Cash Flow

Table 10 Free Cash Flow

Euro million	2Q05	2Q04	Δ y.o.y	1H05	1H04	Δ y.o.y
EBITDA minus Capex	338.1	430.3	(21.4%)	780.5	932.6	(16.3%)
Non-Cash Items included in EBITDA:						
Post Retirement Benefit Costs	36.1	38.1	(5.2%)	72.2	79.8	(9.6%)
Non-Cur. Prov., Tax Prov. & Other N.-Cash Items	36.5	13.1	179.3%	23.4	6.7	251.3%
Change in Working Capital	(40.4)	(57.3)	(29.5%)	(255.8)	(167.5)	52.7%
Operating Cash Flow	370.3	424.2	(12.7%)	620.3	851.6	(27.2%)
Acquisition of Financial Investments	(8.9)	(55.5)	(84.0%)	(10.5)	(55.5)	(81.1%)
Disposals	15.9	1.2	n.m.	15.9	5.9	169.8%
Interest Paid	(71.7)	(88.3)	(18.8%)	(138.3)	(179.5)	(23.0%)
Payments Related to Post Retirement Benefits (1)	(43.1)	(31.1)	38.7%	(483.0)	(168.5)	186.7%
Income Taxes Paid by Certain Subsidiaries	(13.4)	(26.3)	(49.1%)	(24.1)	(34.8)	(30.8%)
Other Cash Movements	(6.8)	(23.0)	(70.5%)	(18.3)	(26.8)	(31.7%)
Free Cash Flow	242.4	201.2	20.5%	(37.9)	392.4	n.m.

(1) In the first half of 2005, this caption included: (i) Euro 101 million of contributions to the pension fund, (ii) Euro 66 million related to payments of salaries to pre- retired and suspended employees, (iii) Euro 16 million related to payments to PT-ACS in connection with healthcare services provided to retired, pre-retired and suspended employees, and (iv) Euro 300 million related to a contribution to fund post retirement healthcare obligations.

In the first half of 2005, operating cash flow decreased by 27.2% y.o.y to Euro 620 million, as a result of the decrease in EBITDA minus Capex and the higher investment in working capital, mainly related to higher receivables at Vivo and at the wireline business. Free cash flow decreased from Euro 392 million in the first half of 2004 to negative Euro 38 million in the first half of 2005, primarily due to the decline in operating cash flow and the extraordinary contribution of Euro 300 million to fund post retirement healthcare obligations.

6. CONSOLIDATED BALANCE SHEET

Table 11 Consolidated Balance Sheet

Euro million	30 June 2005	31 December 2004
Current Assets	4,854.9	3,897.2
Cash and Equivalents	2,768.2	1,947.0
Accounts Receivable, net	1,572.0	1,415.4
Inventories, net	187.8	175.1
Taxes Receivable	164.1	179.4