PORTUGAL TELECOM SGPS SA
Form 6-K
December 01, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

Securities Exchange Act of 1934

For the month of November 2009

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__

Portugal Telecom

Consolidated report

First nine months 2009

01 Financial review 4

02 Business performance 17

Domestic operations 17

International businesses 27

Consolidated financial statements 32

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 1,446 million (revenues)	> Retail, large corporates voice and data, ISP and broadband services [PT Comunicações 100%] > SMEs voice and data [PT Prime 100%]
Mobile Euro 1,135 million (revenues)	> TMN 100%

Main international assets

			Revenues (Euromillion)
Vivo 29.71%	> Brazil	> Mobile	2,262
Unitel 25% (*)	> Angola	> Mobile	836
CTM 28%	> Macao	> Wireline, mobile, Internet and data	166
MTC 34% (*)	> Namibia	> Mobile	91
CVT 40% (*)	> Cape Verde	> Wireline, mobile, Internet and data	53
Timor Telecom 41.12%	> East Timor	> Wireline, mobile, Internet and data	25
CST 51% (*)	> São Tomé e Príncipe	> Wireline, mobile, Internet and data	9
UOL 29%	> Brazil	> ISP, contents and Internet	411

(*) These stakes are held by Africatel, which is controlled 75% 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%]

01

Financial review

Consolidated income statement

Consolidated income statement(1)						Euro million
	3Q09	3Q08	y.o.y	9M09	9M08	y.o.y
Operating revenues	**1,741.9**	**1,783.4**	**(2.3%)**	**4,973.4**	**5,023.5**	**(1.0%)**
Wireline(2)	481.1	482.6	(0.3%)	1,446.4	1,436.3	0.7%
Domestic mobile • TMN(2)	397.9	409.0	(2.7%)	1,135.0	1,182.0	(4.0%)
Brazilian mobile • Vivo(1)	819.9	854.0	(4.0%)	2,262.3	2,285.3	(1.0%)
Other and eliminations	43.1	37.8	14.0%	129.7	119.9	8.2%
Operating costs, excluding PRBs and D&A	**1,085.1**	**1,108.4**	**(2.1%)**	**3,119.1**	**3,157.1**	**(1.2%)**
Wages and salaries	169.0	152.4	10.9%	507.8	463.5	9.5%
Direct costs	291.8	288.7	1.1%	826.5	807.0	2.4%
Commercial costs	283.9	316.2	(10.2%)	808.2	894.9	(9.7%)
Other operating costs	340.4	351.1	(3.0%)	976.7	991.7	(1.5%)
EBITDA(3)	**656.8**	**675.0**	**(2.7%)**	**1,854.2**	**1,866.4**	**(0.7%)**
Post retirement benefits	22.4	10.9	106.3%	67.2	32.7	105.4%
Depreciation and amortisation	349.7	334.2	4.6%	1,018.0	943.8	7.9%
Income from operations(4)	**284.7**	**329.9**	**(13.7%)**	**769.0**	**889.9**	**(13.6%)**
Other expenses (income)	**15.2**	**22.8**	**(33.5%)**	**32.8**	**102.2**	**(67.9%)**
Curtailment costs, net	0.6	14.9	(96.0%)	4.1	92.9	(95.6%)
Net losses (gains) on disposal of fixed assets	0.1	0.8	(88.2%)	0.2	(12.4)	n.m.
Net other costs (gains)	14.5	7.1	104.2%	28.5	21.7	31.2%
Income before financial & income taxes	**269.5**	**307.1**	**(12.2%)**	**736.3**	**787.7**	**(6.5%)**
Financial expenses (income)	**55.2**	**8.4**	**n.m.**	**109.6**	**81.4**	**34.6%**
Net interest expenses	74.7	76.0	(1.7%)	219.5	191.6	14.6%
Equity in earnings of affiliates, net	(56.1)	(44.2)	26.9%	(158.3)	(118.7)	33.4%
Net other financial losses (gains)	36.6	(23.4)	n.m.	48.4	8.5	n.m.
Income before income taxes	**214.3**	**298.7**	**(28.3%)**	**626.7**	**706.3**	**(11.3%)**
Provision for income taxes	(64.3)	(87.3)	(26.4%)	(182.1)	(201.5)	(9.6%)
Income from continued operations	**150.0**	**211.4**	**(29.1%)**	**444.5**	**504.8**	**(11.9%)**
Losses (income) attributable to minority interests	(34.1)	(29.7)	14.8%	(72.6)	(71.3)	1.8%
Consolidated net income	**115.9**	**181.7**	**(36.2%)**	**371.9**	**433.5**	**(14.2%)**

(1) Considering a Euro/Real average exchange rate of 2.5616 in 9M08 and 2.8345 in 9M09. (2) Wireline and domestic mobile operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN this impact amounted to Euro 57.3 million in 9M09 and Euro 17.1 million in 3Q09 (3) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (4) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + other costs (gains).

Consolidated operating revenues

In 9M09, **consolidated operating revenues** decreased by 1.0% y.o.y to Euro 4,973 million, as a result of the negative impact of the 41% decline in MTRs in the period from 30 June 2008 to 30 September 2009 at domestic operations and the negative impact of the Real devaluation, which more than offset the revenue growth in wireline and Vivo. Adjusting for the effects of the consolidation of Telemig, lower MTRs and using constant exchange rate, consolidated operating revenues would have increased by 3.4% y.o.y.

01 Financial review

In 9M09, revenues from domestic operations (wireline and TMN) decreased by 1.4% y.o.y over the same period last year. The financial performance of the domestic operations was negatively impacted by lower MTRs. Excluding this adverse impact, revenues from the domestic operations would have increased by 0.8% y.o.y.

In 9M09, wireline operating revenues increased by 0.7% y.o.y, supported by the inflection of retail revenues, which posted a 1.2% increase y.o.y (Euro 727 million versus Euro 719 million), and 1.1% y.o.y in the 3Q09, as a result of the continued strong performance of triple-play (voice, data, video), and its positive impact in the improvement in the trend of fixed line disconnections, which fell to 14 thousand in 3Q09, the best performance since 4Q04.

Retail net additions reached 216 thousand in 9M09, driven by the success of PT s triple-play offer (Meo) as well as decelerating fixed line disconnections. Retail RGU per access increased by 12.7% in 9M09 from 1.31 to 1.48. Fixed line disconnections fell to 80 thousand in 9M09 from 143 thousand in 9M08. At the same time, PT continued to gain broadband market share and saw a 19.6 % growth in ADSL retail customers in 9M09 compared to the same period of last year, to 812 thousand. Broadband retail net additions reached 103 thousand in 9M09 compared to 42 thousand in 9M08. PT s Meo offer continues to see strong demand in the market. Pay-TV net additions reached 193 thousand in 9M09 and total pay-TV customers stood at 505 thousand, equivalent to 62.2% penetration of the ADSL retail customer base.

In 9M09, TMN s operating revenues decreased by 4.0% y.o.y (Euro 1,135 million versus Euro1,182 million) due to the negative impact of lower MTRs (Euro 57 million), which more than offset the continued growth in customer revenues (+1.6% y.o.y in 9M09). Non-SMS data revenues continued to be an important source of growth, on the back of increasing penetration of smartphones and continued growth in wireless data cards. Excluding the impact of lower MTRs, TMN s operating revenues would have increased by 0.9% y.o.y in 9M09. In 3Q09, TMN s operating revenues decreased by 2.7% y.o.y (Euro 398 million versus Euro 409 million) due to the negative impact of lower MTRs (Euro 17 million). Excluding this adverse impact, service revenues would have been flat and operating revenues would have increased by 1.4% y.o.y. In 3Q09, customer revenues grew by 1.1% y.o.y.

With a 15.5% y.o.y. increase in the number of customers, Vivo s 9M09 operating revenues increased by 9.5% y.o.y in Reais but decreased by 1.0% y.o.y. on translation into Euros. Excluding the consolidation of Telemig and using constant exchange rate, Vivo s operating revenues would have increased by 5.9% y.o.y, with service revenues growing by 8.7% y.o.y. In 3Q09, Vivo s operating revenues increased by 2.7% y.o.y (R$ 4,397 million versus R$ 4,281 million) and service revenues increased by 7.2% y.o.y.

01 Financial review

Other revenues, including intra-group eliminations, increased by 8.2% y.o.y in 9M09, mainly due to the improved revenue performance of PT s call centre business in Brazil, MTC in Namibia and Timor Telecom, which more than offset the loss of fees resulting from the termination of the management contract with Vivo in August 2008.

Revenues by region						Euro million
	3Q09	3Q08	y.o.y	9M09	9M08	y.o.y
Domestic operations (1)	841.3	852.7	(1.3%)	2,474.2	2,510.3	(1.4%)
Brazil (2)	845.6	874.6	(3.3%)	2,334.8	2,344.6	(0.4%)
Other and eliminations (3)	55.0	56.1	(1.9%)	164.4	168.7	(2.5%)
Total operating revenues	**1,741.9**	**1,783.4**	**(2.3%)**	**4,973.4**	**5,023.5**	**(1.0%)**

(1) Domestic operations include the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro and PT Contact. (2) Considering a Euro/Real average exchange rate of 2.5616 in 9M08 and 2.8345 in 9M09. Includes mainly Vivo and Dedic. (3) Includes fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

The contribution from fully and proportionally consolidated international assets to operating revenues is now above 50% and Brazil accounted for 46.9% of consolidated operating revenues.

Consolidated operating costs, excluding PRBs and depreciation and amortization

Consolidated operating costs excluding post retirement benefits (PRBs) and depreciation and amortization (D&A), decreased by 1.2% y.o.y to Euro 3,119 million in 9M09, as compared to Euro 3,157 million in the same period of last year, primarily explained by lower contributions (1) from Vivo (Euro 99 million), reflecting the impact of the depreciation of the Real (Euro 163 million) partially offset by the impact of the consolidation of Telemig (Euro 57 million), and (2) from TMN, mainly due to the reduction in MTRs. These effects were partially offset by an increase in the wireline business (Euro 82 million) due to increased commercial activity, in line with the roll-out of its pay-TV service which led to higher programming costs. Adjusting for the effects of the consolidation of Telemig (Euro 57 million) and lower MTRs and using a constant exchange rate (Euro 169 million), operating costs would have increased by 3.7% y.o.y.

Wages and salaries increased by 9.5% y.o.y in 9M09 to Euro 508 million, primarily explained by higher contributions from Vivo and from our call centre operation in Brazil. Wages and salaries accounted for

10.2% of consolidated operating revenues.

Direct costs increased by 2.4% y.o.y to Euro 827 million in 9M09 and accounted for 16.6% of consolidated operating revenues. This growth is primarily explained by higher contributions from: (1) the wireline business (Euro 23 million), with the increase in programming costs (Euro 43 million) related to the pay-TV service being partially offset by the impact of the decline in MTRs; and (2) Vivo (Euro 14 million), reflecting increases in interconnection costs and lease costs 3G related and also the impact of the consolidation of Telemig (Euro 19 million), which more than offset the effect of the depreciation of the Real (Euro 45 million). These effects were

01 Financial review

partially offset by a reduction in direct costs from our domestic mobile business (Euro 20 million), primarily explained by the decrease in MTRs (Euro 29 million).

Commercial costs decreased by 9.7% y.o.y. to Euro 808 million in 9M09 and accounted for 16.2% of consolidated operating revenues. The decreases at TMN (Euro 22 million) and Vivo (Euro 73 million) are primarily explained by lower equipment sales, while Vivo s commercial costs were also impacted by the net effects of the depreciation of the Real (Euro 54 million) and consolidation of Telemig (Euro 15 million).

Other operating costs, which mainly include support services, supplies and external services, indirect taxes and provisions and adjustments, decreased by 1.5% y.o.y to Euro 977 million in 9M09. Adjusting for the effect of the consolidation of Telemig (Euro 16 million) and on a constant currency basis (Euro 51 million), other operating costs would have increased by 2.0% y.o.y in 9M09 to Euro 1,012 million, primarily explained by a higher contribution from the wireline business, due to increased commercial activity and higher support services related to the strong take up of the pay-TV service. Regarding Vivo and also adjusting for the effect of the consolidation of Telemig and on a constant currency basis, other operating costs remained broadly stable, with the reduction in adjustments for trade receivables and the impact of the termination of the management fee contract with Vivo in August 2008 being offset by increases in electricity, commercial support and billing expenses, primarily explained by increased commercial activity and the take-up of the GSM and 3G services.

EBITDA

EBITDA decreased by 0.7% y.o.y in 9M09, to Euro 1,854 million, equivalent to a margin of 37.3%. Excluding the effects of the consolidation of Telemig and lower MTRs and using constant exchange rate, consolidated EBITDA would have increased by 3.0% y.o.y. EBITDA performance in the period was supported by growth at Vivo and other international assets, which was largely offset by the decrease in the domestic businesses, as a result of lower MTRs, the roll-out of triple-play and wireless broadband and the termination of Vivo s management fee contract.

Wireline EBITDA amounted to Euro 604 million in 9M09, equivalent to a 41.8% margin. EBITDA margin continued to be impacted primarily by higher programming, customer care and support service costs in connection with the roll-out of the pay-TV service. In 9M09, wages and salaries in the wireline segment increased by 2.6% y.o.y as a result of the decision to halt the redundancy programme and focus on insourcing. As a result of the halting of the redundancy programme, the projected benefit obligations related to salaries payable to pre-retired and suspended employees were reduced by Euro 90 million and the corresponding cash outflow was Euro 9 million lower in the period.

01 Financial review

In 9M09, TMN s EBITDA decreased by 2.0% y.o.y to Euro 507 million as a result of the decrease in MTRs. Excluding the negative impact of Euro 28 million due to lower MTRs, TMN s EBITDA would have increased by 3.5% y.o.y in 9M09. EBITDA margin stood at 44.7%, an increase of 0.9pp compared to 9M08 as a result of continued growth in customer revenues and strict cost discipline.

In 9M09, Vivo s EBITDA increased by 12.6% y.o.y, underpinned namely by customer growth. Excluding the consolidation of Telemig and using constant exchange rate, Vivo s EBITDA would have increased by 21.1% y.o.y. Vivo s EBITDA margin reached 30.0% in 9M09, an improvement of 3.6pp versus 9M08.

Other EBITDA decreased by 8.0% y.o.y to Euro 64 million in 9M09, mainly as a result of the loss of fees due to the termination of Vivo s management contract as from August 2008, notwithstanding the improved performance of MTC, in Namibia, and Timor Telecom.

EBITDA by business segment (1) (2)						**Euro million**
	3Q09	**3Q08**	**y.o.y**	**9M09**	**9M08**	**y.o.y**
Wireline	195.7	217.1	(9.9%)	604.4	676.9	(10.7%)
Domestic mobile TMN	175.9	180.2	(2.4%)	507.4	517.6	(2.0%)
Brazilian mobile Vivo (1)	260.4	255.2	2.0%	678.6	602.6	12.6%
Other and eliminations	24.7	22.4	10.5%	63.9	69.4	(8.0%)
EBITDA (2)	**656.8**	**675.0**	**(2.7%)**	**1,854.2**	**1,866.4**	**(0.7%)**
EBITDA margin (%)	37.7	37.8	(0.1pp)	37.3	37.2	0.1pp
Domestic operations (3)	370.0	395.7	(6.5%)	1,107.0	1,189.5	(6.9%)
Brazil (1)(4)	266.0	258.9	2.7%	688.6	613.7	12.2%
Other (5)	20.7	20.4	1.8%	58.6	63.3	(7.4%)

(1) Considering a Euro/Real average exchange rate of 2.5616 in 9M08 and 2.8345 in 9M09. (2) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (3) Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro and PT Contact. (4) Includes mainly Vivo and Dedic. (5) Includes only fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

Fully and proportionally consolidated international assets contributed to 42.9% of PT s consolidated EBITDA in 9M09. Brazilian businesses accounted for 37.1% of EBITDA in 9M09. Fully consolidated African businesses accounted for 4.7% of EBITDA in 9M09.

Net income

Post retirement benefit costs amounted to Euro 67 million in 9M09, compared to Euro 33 million in 9M08, primarily as a result of lower expected return on assets (Euro 30 million), following the decline in the values of the assets under management in 2008.

Depreciation and amortisation costs increased by 7.9% y.o.y to Euro 1,018 million, reflecting higher contributions from: (1) Vivo, which accounted for approximately 70% of the increase in D&A, as a result of the inclusion of the impact of the consolidation of Telemig, the amortisation of 3G licenses, and higher depreciation rates for the CDMA network following the GSM network rollout, and (2) wireline in Portugal,

01 Financial review

resulting from the investments in the rollout of pay-TV service, and also from the revaluation of ducts and certain real estate assets undertaken during 2008.

Curtailment costs amounted to Euro 4 million in 9M09, as compared to Euro 93 million in the same period of last year, due to the halting of the redundancy programme.

Net losses on disposal of fixed assets amounted to Euro 0.2 million in 9M09, as compared to net gains of Euro 12 million in the same period of last year. Gains recorded in 9M08 were related to real estate disposals, which generated a cash inflow of Euro 14 million in the period.

Net interest expenses increased to Euro 219 million in 9M09, equivalent to an increase of 14.6% y.o.y, of which: (1) Euro 24 million was due to the increase in PT s average net debt in the period, post completion of the share buyback programme undertaken in 2008 and the acquisitions of Telemig and 3G licences in Brazil, and (2) Euro 3 million was due to the increase in PT s average cost of debt due to higher average cost of debt in Brazil. In 9M09, consolidated average cost of debt was 4.9%. Excluding Brazil, the average cost of debt was 4.1% versus 4.3% in 9M08.

Equity in earnings of affiliates includes primarily PT s share in the earnings of Unitel, CTM, Médi Télécom and UOL, and amounted to Euro 158 million in 9M09, compared to Euro 119 million in 9M08, up by 33.4% y.o.y. In 9M08, equity in earnings of affiliates included a Euro 9 million gain related to the disposal of PT s interest in Banco Best.

On 1 September 2009, PT entered into a definitive agreement, with the local shareholders, for the sale of its 32.18% equity stake in Médi Télécom together with its outstanding shareholder loans. This sale is conditional upon the approval of Agence Nationale de Règlementation des Télécommunications (ANRT), the Moroccan telecommunications regulator. The total proceeds of the sale will be Euro 400 million, of which Euro 20 million was received in cash during 3Q09.

Net other financial losses, which include foreign currency losses, net gains on financial assets and other financial expenses, amounted to Euro 48 million in 9M09, compared to Euro 9 million in 9M08. Net foreign currency losses amounted to Euro 4 million in 9M09, compared to Euro 5 million in 9M08, and were mainly related to the impact of the depreciation of the US Dollar against the Euro on net assets denominated in US Dollars. Net gains on financial assets amounted to Euro 7 million in 9M09, due to the change in the fair value of free-standing cross-currency derivative instruments, primarily explained by the appreciation of the US Dollar against the Euro until April 2009, when these derivatives were settled. In 9M08, net gains on financial assets amounted to Euro 18 million and included primarily: (1) the change in fair value of free-standing cross currency derivatives, which resulted in a gain of Euro 8 million, primarily related to the appreciation of the US Dollar against the Euro and the Real, and (2) the gain obtained from the disposal of a 3% stake in Africatel in

01 Financial review

3Q08 amounting to Euro 9 million. Other financial expenses, which include banking services, financial discounts and other financing costs, increased to Euro 51 million in 9M09, compared to Euro 22 million in 9M08. The increase in 9M09 is largely related to a debt restructuring in 2009 in connection with acquisition of 3G licenses in Brazil, and early repayment of certain loans.

Provision for income taxes decreased from Euro 202 million in 9M08 to Euro 182 million in 9M09 corresponding to an effective tax rate of 28.5% in 9M08 and 29.1% in 9M09.

Income attributable to minority interests increased to Euro 73 million in 9M09 from Euro 71 million in 9M08. The growth in this caption is primarily attributable to the increase in minority interests from Vivo, which amounted to Euro 29 million in 9M09 compared to Euro 28 million in 9M08, and Timor Telecom which amounted to Euro 5 million in 9M09 compared to Euro 3 million in 9M08.

Net income decreased by 14.2% y.o.y in 9M09 to Euro 372 million, compared to Euro 434 million in 9M08 due to higher post retirement benefit, depreciation and amortisation and interest costs. In 9M08, net income included Euro 33 million of extraordinary gains, namely Euro 15 million related to real estate disposals, Euro 9 million related to the disposal of a 3% stake in Africatel and Euro 9 million related to the disposal of PT s interest in Banco Best.

Earnings per Share

In 9M09 diluted earnings per share decreased by 8.3% y.o.y to Euro 42 cents from Euro 46 cents in 9M08. The average number of shares outstanding decreased by 6.1% to 876 million in 9M09, whilst the diluted average number of shares outstanding over the same period declined by 5.7% to 941 million. At the end of September 2009, the number of shares outstanding, in the statement of financial position, was 876 million.

Earnings per share				**Million (shares outstanding); Euro (per share data)**		
	3Q09	**3Q08**	**y.o.y**	**9M09**	**9M08**	**y.o.y**
Average number of shares oustanding						
Basic (1)	875.9	890.4	(1.6%)	875.9	932.3	(6.1%)
Diluted (2)	940.5	955.1	(1.5%)	940.5	997.0	(5.7%)
Earnings per share						

Basic	0.13	0.20	(33.3%)	0.42	0.47	(8.7%)
Diluted (3)	0.13	0.19	(32.0%)	0.42	0.46	(8.3%)

(1)Adjusted for the 20.6 million own shares held through equity swaps. (2) Diluted shares are calculated assuming the full exercise of convertible bonds. (3) Diluted earnings are computed adjusting for the costs of convertible bonds.

Capex

Capex increased by 17.7% y.o.y (+Euro 122 million) in 9M09 to Euro 813 million, equivalent to 16.3% of revenues, as a result of growth in wireline, which more than offset capex reduction at TMN and Vivo.

01 Financial review

Wireline capex increased from Euro 227 million in 9M08 to Euro 358 million in 9M09, primarily as a result of the FTTH rollout, which allows for increased bandwidth for both residential and corporate customers, and investment in IPTV services.

TMN s capex decreased by 16.6% y.o.y to Euro 106 million in 9M09. The decrease in TMN s capex is explained by the investments in the continued deployment of 3G/3.5G networks, both in terms of capacity and coverage, carried out in 2008, which resulted in improved quality of mobile voice and data services in Portugal. As a result, in a recent study undertaken by the Portuguese telecoms regulator, TMN was considered as having the most reliable and stable network performance in Portugal.

Capex at Vivo has remained broadly flat at Euro 293 million in 9M09. Excluding the consolidation of Telemig (Euro 7 million) and the depreciation of the Real against the Euro (Euro 30 million), capex at Vivo would have increased by 7.3% y.o.y. Capex at Vivo was primarily towards: (1) increasing network capacity to support the accelerated growth experienced by Vivo, namely in GSM / EDGE; (2) expanding coverage of the WCDMA / HSUPA network; (3) continued expansion of coverage in the Northeast states following the launch of the service in October 2008, and (4) continued improvement in network quality to comply with the requirements set forth by the local regulator.

In 9M09, other capex increased to Euro 56 million, compared to Euro 42 million in 9M08, as a result of investments in Africa, namely MTC and CVT, and in the call centre business in Brazil.

Capex by business segment (1)						**Euro million**
	3Q09	**3Q08**	**y.o.y**	**9M09**	**9M08**	**y.o.y**
Wireline	130.7	101.4	28.9%	358.0	227.1	57.6%
Domestic mobile TMN(2)	48.1	47.1	2.1%	106.1	127.3	(16.6%)
Brazilian mobile Vivo(1)(3)	101.4	165.9	(38.9%)	292.7	294.1	(0.5%)
Other	26.7	17.9	49.2%	56.0	42.3	32.6%
Total capex	307.0	332.4	(7.6%)	812.8	690.8	17.7%
Capex as % of revenues (%)	17.6	18.6	(1.0pp)	16.3	13.8	2.6pp

(1) Considering a Euro/Real average exchange rate of 2.5616 in 9M08 and 2.8345 in 9M09. (2) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 9M09). (3) Excludes the acquisition of 3G licences in Brazil (Euro 227 million in 2Q08).

Cash flow

Operating cash flow decreased to Euro 810 million in 9M09, compared to Euro 1,031 million in 9M08, due to the reduction in EBITDA minus Capex, as a result of the 17.7% increase in capex, and increased investment in working capital. The increase in working capital investments (+Euro 70 million) is mainly explained by: (1) one-off cash receipts from Zon in 9M08; (2) reimbursements from the Portuguese State in 9M08 in connection with discounts on services rendered to retirees; (3) higher management fees received from Vivo

01 Financial review

in 9M08, and (4) a higher level of capex in 4Q08, in domestic businesses and Vivo, leading to increased payments to fixed asset suppliers in 1Q09.

Free cash flow amounted to Euro 263 million in 9M09, which compares to minus Euro 35 million in 9M08. This improved performance is explained by the investment in the acquisition of Telemig in 9M08 (Euro 517 million) and the decrease of Euro 88 million in income taxes paid . These effects more than offset: (1) the Euro 222 million reduction in operating cash flow described above, and (2) the increase in interest paid amounting to Euro 52 million, due to higher average net debt and an increase in the average cost of debt in Brazil.

Free cash flow						**Euro million**
	3Q09	**3Q08**	**y.o.y**	**9M09**	**9M08**	**y.o.y**
EBITDA minus Capex	349.8	342.6	2.1%	1,041.4	1,175.6	(11.4%)
Non-cash items	21.4	24.7	(13.2%)	71.3	88.5	(19.5%)
Change in working capital	(37.3)	(53.0)	(29.6%)	(303.1)	(233.0)	30.1%
Operating cash flow	**333.9**	**314.2**	**6.3%**	**809.5**	**1,031.2**	**(21.5%)**
Acquisition of Telemig	0.0	(190.2)	n.m.	0.0	(517.0)	n.m.
Interest	(84.4)	(54.7)	54.2%	(309.5)	(257.1)	20.4%
Contributions and payments related to PRBs	(56.1)	(38.4)	46.2%	(142.6)	(139.2)	2.5%
Income taxes (1)	(71.4)	(93.7)	(23.8%)	(99.3)	(187.4)	(47.0%)
Dividends received	10.4	10.0	3.9%	18.4	19.1	(3.6%)
Other cash movements (2)	(4.4)	10.6	n.m.	(13.7)	15.0	n.m.
Free cash flow	**128.0**	**(42.1)**	**n.m.**	**262.8**	**(35.4)**	**n.m.**

(1) In 9M08, PT paid Euro 64 million in Portugal regarding the last instalment of income taxes related to 2007. In 9M09, PT received Euro 11 million in Portugal, which resulted from payments on account made during 2008 higher than the tax payable. (2) In 3Q09, this caption included Euro 20 million related to the disposal of the investment in Médi Télécom, while in 3Q08 included Euro 13 million related to the disposal of a 3% stake in Africatel. In 9M08, this caption also included Euro 16 million related to the disposal of the investment in Banco Best and Euro 14 million of cash proceeds from real estate asset disposals.

Consolidated net debt

Consolidated net debt amounted to Euro 6,085 million as at 30 September 2009, compared to Euro 5,571 million as at 31 December 2008, an increase of Euro 514 million mainly due to the dividends paid by PT, amounting to Euro 504 million, and the appreciation of the Brazilian Real against the Euro, which resulted in an increase in net debt of Euro 170 million, thus offsetting the free cash flow generated in the period.

As at 30 September 2009, total consolidated gross debt amounted to Euro 7,539 million, of which 84.3% was medium/long-term and 62.5% was set at fixed rates. As at 30 September 2009, 87.2% of total debt was denominated in Euros and 12.8% in Brazilian Reais. Vivo s debt is either Real-denominated or has been hedged into Reais. In April 2009, PT repaid Euro 880 million of an existing bond. During 9M09, PT issued Euro 1,700 million, which includes a 4-year bond amounting to Euro 1 billion, a tap of the 2012 Euro Bond, new bilateral lines and private placements.

01 Financial review

Change in net debt				Euro million
	3Q09	**3Q08**	**9M09**	**9M08**
Net debt (initial balance)	6,156.2	5,800.0	5,571.3	4,381.8
Less: free cash flow	128.0	(42.1)	262.8	(35.4)
Translation effect on foreign currency debt	41.7	(105.7)	169.9	(57.4)
Settlement of currency forwards derivatives (1)	0.0	0.0	37.6	0.0
Dividends paid by PT	0.0	0.0	503.6	533.2
Acquisition of own shares (2)	0.0	179.2	0.0	910.3
Impact of Telemig consolidation	0.0	0.0	0.0	(128.9)
Acquisition of 3G licenses by Vivo	0.0	0.0	0.0	227.2
Commitments under the terms of the UMTS license	0.0	0.0	11.5	0.0
Other (3)	15.0	7.9	53.8	21.8
Net debt (final balance)	6,084.9	5,923.4	6,084.9	5,923.4
Change in net debt	(71.3)	123.5	513.6	1,541.6
Change in net debt (%)	(1.2%)	2.1%	9.2%	35.2%

(1) PT settled an Euro-Dollar derivative in 7 April, which resulted in a payment of Euro 38 million. As such, PT no longer holds any free standing foreign exchange derivatives on its domestic businesses. (2) In 9M08, PT contracted equity swaps over 114.7 million own shares under the share buyback programme concluded in December 2008. (3) In 9M09, this caption includes mainly Euro 58 million related to dividends paid by PT s fully consolidated subsidiaries to minority shareholders (Euro 12 million in 9M08), net of Euro 13 million related to the cash contribution of minority shareholders to a share capital increase at Vivo Participações.

The amount of cash available in the domestic operations plus the undrawn amount of committed commercial paper lines and standby facilities totalled Euro 1,891 million at the end of September 2009, of which Euro 815 million was undrawn committed commercial paper and standby facilities. Additionally, in November 2009, PT issued a Euro 750 million Eurobond with a maturity of 10 years and a spread of 145bp over the mid swaps of similar maturity, equivalent to an annual coupon of 5.0%, thus increasing its liquidity position and the average maturity of its debt.

PT s average cost of debt was 4.9% in 9M09, with a maturity of 5.1 years as at 30 September 2009. Excluding Brazil, PT s average cost of debt was 4.1% in 9M09, with a maturity of 5.2 years as at 30 September 2009. In 9M09, the net debt to EBITDA ratio was 2.5x (2.4x in 9M08) and EBITDA cover stood at 8.4x. Adjusting for the bond issued in November 2009, average maturity increased to 6.1 years and to 6.4 years, excluding Brazil.

Post retirement benefits

As at 30 September 2009, the projected post retirement benefits obligations (PBO) related to pensions and healthcare amounted to Euro 3,039 million and the market value of assets under management amounted to Euro 2,268 million. In addition, also as at 30 September 2009 PT had liabilities in the form of salaries due to suspended and pre-retired employees amounting to Euro 817 million, which are not subject to any legal funding requirement. These monthly salaries are paid directly by PT to the beneficiaries until retirement age. As a result, gross unfunded total obligations amounted to Euro 1,588 million, while after-tax unfunded obligations amounted to Euro 1,167 million. PT s post retirement benefits plans for pensions and healthcare are closed to new participants. PT kept the actuarial assumptions used in December 2008 unchanged in order to compute the PT s post retirement obligations in September 2009.

01 Financial review

Post retirement benefits obligations		Euro million
	30 September 2009	**31 December 2008**
Pensions obligations	2,610.7	2,607.5
Healthcare obligations	428.2	426.3
PBO of pension and healthcare obligations	3,038.9	3,033.8
Market value of funds (1)	(2,268.4)	(2,131.6)
Unfunded pensions and healthcare obligations	770.5	902.1
Salaries to suspended and pre-retired employees	817.4	907.7
Total gross unfunded obligation	1,587.8	1,809.9
After-tax unfunded obligations	1,167.0	1,330.2
Unrecognised prior years service gains	24.0	25.4
Accrued post retirement benefits	1,611.8	1,835.3

(1) The change in the market value of funds resulted from the positive performance of assets under management of Euro 251 million (equivalent to 12.23% in 9M09) and the contributions made by beneficiaries and by PT totalling Euro 13 million, which were partially offset by the payment of pensions and supplements of Euro 117 million and healthcare benefits of Euro 10 million

Total gross unfunded obligations decreased by Euro 222 million to Euro 1,588 million as at 30 September 2009, as a result of lower liabilities related to salaries payable to suspended and pre-retired employees and lower liabilities in the form of pension and healthcare benefits, as the positive performance of assets under management (12.2% in 9M09) more than offset the time value effect on the unfunded balance. The decrease in the liability relating to salaries to suspended and pre-retired employees stem from the halting of the redundancy programme. As at 6 November 2009, PT made an extraordinary contribution of Euro 33 million to the pension fund, through the transfer of certain real estate assets.

Change in gross unfunded obligations		Euro million
	9M09	**9M08**
Gross unfunded obligations (initial balance)	1,809.9	1,304.0
Post retirement benefits costs (PRB)	68.6	34.2
Curtailment cost	4.1	92.9
Contributions and payments (1)	(142.6)	(139.2)
Net actuarial (gains) losses (2)	(152.1)	175.8
Gross unfunded obligations (final balance)	1,587.8	1,467.7
After-tax unfunded obligations	1,167.0	1,078.7

(1) In 9M09, this caption includes: (i) payments of salaries to pre-retired and suspended employees amounting to Euro 127.5 million; (ii) termination payments amounting to Euro 2.4 million; (iii) net payment of healthcare expenses made by PT amounting to Euro 7.3 million, and (iv) contributions to the pension funds of Euro 5.4 million. (2) In 9M09, this caption relates to the difference between the actual return on assets (Euro 250.8 million, or 12.2% in 9M09) and the expected return on assets (6% on an annual basis).

Post retirement benefits costs		Euro million
	9M09	**9M08**
Service cost	5.1	7.8
Interest cost	162.2	155.4
Expected return on assets (1)	(98.7)	(129.0)
Sub-total	68.6	34.2
Amortisation of prior year service gains	(1.4)	(1.5)
Post retirement benefits costs	**67.2**	**32.7**

(1) The decrease in the expected return on assets is explained by the devaluation of plan assets occurred in 2008.

01 Financial review

Equity (excluding minority interests)

Equity excluding minority interests amounted to Euro 905 million as at 30 September 2009. The increase of Euro 673 million in 9M09 is explained by: (1) the net income generated in the period of Euro 372 million; (2) actuarial gains, net of taxes, related to post retirement benefits amounting to Euro 112 million, and (3) positive currency translation adjustments amounting to Euro 577 million, mainly related to the appreciation of the Real against the Euro. These effects more than offset the dividends paid by PT to shareholders amounting to Euro 504 million.

Change in shareholders equity (excluding minority interests)	Euro million
	9M09
Equity before minority interests (initial balance)	**232.0**
Net income	371.9
Currency translation adjustments	576.5
Dividends (1)	(503.6)
Net actuarial gains (losses), net of taxes	111.8
Other (2)	116.0
Equity before minority interests (final balance)	**904.7**
Change in equity before minority interests	**672.7**
Change in equity before minority interests (%)	**289.9%**

(1) Dividends paid on 24 April 2009. (2) Includes Euro 104 million related to the equity gain obtained in relation to the exchange of Vivo shares for Telemig shares as part of the corporate restructuring undertaken by Vivo in 3Q09.

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 by Euro 190 million to Euro 578 million as at 30 September 2009, as the Portuguese GAAP Euro 269 million net income generated in 9M09 was more than offset by the dividends paid by PT amounting to Euro 504 million.

Change in distributable reserves	Euro million
	9M09
Distributable reserves (initial balance)	**768.0**
Dividends attributed	(503.6)

Net income under Portuguese GAAP (1)	269.3
Other (2)	44.7
Distributable reserves (final balance)	**578.3**
Change in distributable reserves in the period	**(189.7)**
Change in distributable reserves in the period (%)	**(24.7%)**

(1) The main differences between net income under Portuguese GAAP and IFRS are related to the recognition of post retirement benefits, the goodwill amortisation and the recognition of fair value of financial instruments and derivatives. (2) This caption includes a gain of Euro 50.9 million related to a corporate restructuring of certain subsidiaries.

01 Financial review

Consolidated statement of financial position

Consolidated statement of financial position	30 September 2009	31 December 2008
		Euro million
Cash and equivalents	1,454.0	1,124.6
Accounts receivable, net	1,631.2	1,393.7
Inventories, net	311.8	297.4
Financial investments	677.7	634.3
Intangible assets, net	3,979.9	3,463.0
Tangible assets, net	4,770.3	4,637.8
Accrued post retirement asset	1.8	1.6
Other assets	893.8	973.1
Deferred tax assets and prepaid expenses	1,227.2	1,188.8
Total assets	14,947.7	13,714.4
Accounts payable	1,251.9	1,373.6
Gross debt	7,538.8	6,695.9
Accrued post retirement liability	1,613.6	1,836.9
Other liabilities	1,692.1	1,777.4
Deferred tax liabilities and deferred income	868.5	834.5
Total liabilities	12,965.0	12,518.2
Equity before minority interests	904.7	232.0
Minority interests	1,078.0	964.2
Total shareholders equity	1,982.7	1,196.2
Total liabilities and shareholders equity	14,947.7	13,714.4

As at 30 September 2009, the net exposure (assets minus liabilities) to Brazil amounted to Euro 2,982 million. The assets denominated in Brazilian Reais in the consolidated statement of financial position, as at 30 September 2009, amounted to Euro 6,245 million, equivalent to 41.8% of total assets.

The increase in total assets in 9M09 is mainly due to the impact of the appreciation of the Real against the Euro, whilst the increase in total liabilities is primarily explained by the increase in gross debt resulting mainly from the dividend (Euro 504 million) attributed to shareholders following the AGM of 27 March 2009 and paid on 24 April 2009, and also the impact of the appreciation of the Real against the Euro, with these effects being partially offset by the reduction in the accrued post retirement liability, as explained below .

02

Business performance

Domestic Operations

Revenues from domestic operations, which include wireline and TMN, decreased by 1.4% y.o.y in 9M09 as a result of the severe decline in MTRs, notwithstanding the solid performance of: (1) wireline retail revenues, which increased by 1.2% y.o.y, and (2) TMN customer revenues, which increased by 1.6% y.o.y.

In 9M09, revenue performance of the domestic operations was negatively impacted by lower MTRs in the amount of Euro 57.4 million. Excluding this adverse impact, revenues from the domestic operations would have increased by 0.8%.

Domestic operations income statement (1)						**Euro million**
	3Q09	3Q08	y.o.y	9M09	9M08	y.o.y
Operating revenues	**841.3**	**852.7**	**(1.3%)**	**2,474.2**	**2,510.3**	**(1.4%)**
Wireline	481.1	482.6	(0.3%)	1,446.4	1,436.3	