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 May 2011

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

Consolidated report

First quarter 2011

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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

Wireline Euro 456 million (revenues)	> Retail, large corporates voice and data, ISP and broadband services [PTComunicações100%] > SMEs voice and data [PT Prime 100%]
Mobile Euro 303 million (revenues)	> TMN 100%

Main international assets

			Revenues (Euro million)
Oi 25.6% (a)	> Brazil	> Wireline, mobile, other	(c)
Contax 42.0% (a)	> Brazil	> Contact centre	(c)
Unitel 25% (b)	> Angola	> Mobile	290
CTM 28%	> Macao	> Wireline, mobile	83
MTC 34% (b)	> Namibia	> Mobile	38
CVT 40% (b)	> Cape Verde	> Wireline, mobile	17
Timor Telecom 41.12%	> East Timor	> Wireline, mobile	11
CST 51% (b)	> São Tomé e Príncipe	> Wireline, mobile	3

(a) These stakes represent the percentages used in the proportional consolidation of Oi and Contax, corresponding to the stakes held, directly and indirectly, in Telemar Participações and CTX Participações, respectively. The effective stakes held in Oi and Contax are 25.3% and 14.1%, respectively.

(b) These stakes are held by Africatel, which is controlled 75% by PT.

(c) Assets and liabilities of Oi and Contax were proportionally consolidated as at 31 de March 2011, while its earnings will be proportionally consolidated as from 1 April 2011.

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**

	1Q11	1Q10	y.o.y
Operating revenues	**871.1**	**906.9**	**(3.9)%**
Wireline (2)	456.2	488.2	(6.6)%
Mobile • TMN (2)	303.0	345.9	(12.4)%
Other and eliminations	111.9	72.8	53.7%
Operating costs, excluding PRBs and D&A	**513.7**	**529.8**	**(3.0)%**
Wages and salaries	156.8	149.6	4.8%
Direct costs	124.9	133.7	(6.6)%
Commercial costs	72.8	84.5	(13.9)%
Other operating costs	159.3	161.9	(1.6)%
EBITDA (3)	**357.4**	**377.1**	**(5.2)%**
Post retirement benefits	12.0	17.8	(32.4)%
Depreciation and amortisation	196.4	172.4	13.9%
Income from operations (4)	**149.0**	**186.9**	**(20.2)%**
Other expenses (income)	**7.1**	**9.1**	**(21.3)%**
Curtailment costs, net	4.4	5.2	(15.0)%
Net losses (gains) on disposal of fixed assets	(0.1)	(0.6)	(85.9)%
Net other costs (gains)	2.8	4.5	(37.3)%
Income before financ. & inc. taxes	**141.9**	**177.8**	**(20.2)%**
Financial expenses (income)	**(55.6)**	**25.2**	**n.m.**
Net interest expenses (income)	(17.3)	59.1	n.m.
Equity in earnings of affiliates, net	(80.2)	(38.8)	106.8%
Net other financial losses (gains)	41.9	4.9	n.m.
Income before income taxes	**197.5**	**152.6**	**29.4%**
Provision for income taxes	(48.0)	(38.7)	23.9%
Income from continued operations	**149.5**	**113.9**	**31.3%**
Income from discontinued operations	0.0	15.3	n.m.
Income before non-controlling interests	**149.5**	**129.1**	**15.8%**
Losses (income) attributable to non-controlling interests	(19.8)	(28.8)	(31.3)%
Consolidated net income	**129.7**	**100.3**	**29.3%**

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(1) 2010 figures were adjusted in order to recognise Vivo business line as a discontinued operation. Following PT s strategic investment in Oi and Contax on 28 March 2011, PT proportionally consolidated the assets and liabilities of these investments in its statement of financial position as at 31 March 2011, while net income of Oi and Contax will be proportionally consolidated as from 1 April 2011.

(2) Wireline and TMN operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN, this impact amounted to Euro 7 million in 1Q11.

(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 1Q11, consolidated operating revenues decreased by 3.9% y.o.y to Euro 871 million, against a backdrop of challenging conditions in Portugal and significant revenue growth in international businesses, namely MTC in Namibia, Timor Telecom and Dedic / GPTI.

In 1Q11, revenues from Portuguese businesses decreased by 7.8% y.o.y (Euro 62 million), negatively impacted by: (1) lower equipment sales (Euro 9 million); (2) lower MTRs (Euro 7 million); (3) lower revenues from the directories business (Euro 6 million); (4) lower wholesale and data and corporate revenues (Euro 20 million), and (5) lower customer revenues at TMN (Euro 27 million).

Wireline operating revenues decreased by 6.6% y.o.y, from Euro 488 million to Euro 456 million. Nonetheless, retail revenues grew once again by 0.9% y.o.y in the period, wireline revenue performance was impacted by: (1) the continued decrease of directories business (Euro 6 million); (2) lower corporate and data revenues (Euro 10 million) due to economic conditions affecting corporate and SME/SOHO customer segments including lower revenues derived from public administration contracts (Euro 4 million), and (3) lower wholesale revenues (Euro 10 million), affected by the Euro 3 million reduction in ULL and DSL wholesale revenues. These effects more than offset the significant increase in pay-TV and retail broadband revenues. In 1Q11, retail revenues grew by 0.9% y.o.y, from Euro 244 million to Euro 246 million, a slight acceleration when compared to 4Q10, as a result of the continued strong performance of the Meo triple-play offer (voice, data and pay-TV), which is underpinning growth in fixed telephone lines and fixed broadband.

In 1Q11, the wireline business continued to benefit from a relentless effort to transform PT s residential service offering from a legacy fixed telephone telecom to a triple play offering, which is more competitive and more resilient to adverse economic conditions. Total wireline retail accesses or retail revenue generating units (RGUs) increased by 7.0% y.o.y reaching 4,578 thousand, with pay-TV and broadband accesses already accounting for 41% of total retail accesses. Retail net additions reached 52 thousand in 1Q11, driven by the success of PT s pay-TV and triple-play offers, which are contributing to steady and consecutive gains in broadband market share and record reduction in fixed telephone line net disconnections. This solid performance was also underpinned by the investment in the coverage of one million households with FTTH, carried throughout 2009 and 2010, which continues to show steady commercial traction as more households become available for commercial sales. As a result, fibre customers reached 147 thousand as at the end of 1Q11, representing a 14.7% penetration over total FTTH households passed at year-end and a 23.3% penetration over the average number of households available for commercial sales. In February 2011, PT received an Innovation Award by the FTTH Council for the planning and deployment of its fibre network, which recognises PT s execution and engineering excellence and the company s ability to work successfully with its technological partners. In 2011, PT plans to extend the FTTH coverage to an additional 600 thousand households, thus enhancing its coverage and value proposition further to residential and also corporate and SME customers.

In 1Q11, PT had 12 thousand net disconnections of fixed telephone lines, including 9 thousand net disconnections of carrier pre-selection lines. Traffic generating lines therefore only declined by 4 thousand, underpinned by fixed line net additions of 6 thousand in the residential segment. Fixed broadband retail customers increased by 13.2% y.o.y in 1Q11, with 18 thousand net additions in the quarter. According to the 4Q10 report issued by ANACOM, the Portuguese telecom regulator, PT has been increasing its fixed broadband market share for the past eleven consecutive quarters. As referred to above, the solid performance of Meo double-play and triple-play offers contributed decisively to mitigate fixed telephone line net disconnections to 12 thousand in 1Q11, thus comparing favourably to 14 thousand in 1Q10 and 30 thousand in 1Q09. As in previous quarters, this strong performance was particularly noteworthy in the residential segment, which saw positive fixed telephone line net additions and 22 thousand broadband net additions in 1Q11. PT s Meo offer continues to benefit from strong demand having reached an estimated market share of 31%. Notwithstanding significant scale back in promotions, pay-TV net additions reached 46 thousand in 1Q11. Total pay-TV customers reached 876 thousand, equivalent to 85.9% penetration of the fixed broadband retail customer base, up by 14.2pp y.o.y. Retail RGU per access increased by 9.0% y.o.y in 1Q11 to 1.71.

In 1Q11, TMN s operating revenues decreased by Euro 43 million (-12.4% y.o.y) to Euro 303 million, mainly due to: (1) lower customer revenues (Euro 27 million) against a backdrop of increased penetration y.o.y of Moche tribal plans (flat-fee prepaid tariff plans offering unlimited voice and sms traffic for customers using the same tariff plan), and lower demand particularly in the postpaid segment; (2) lower interconnection revenues (Euro 11 million), mostly as a result of the negative impact of lower MTRs (Euro 7 million), and (3) lower equipment sales (Euro 5 million). In order to enhance the value proposition of its offers, TMN launched TMN unlimited in July 2010 and all net unlimited and e nunca mais acaba in January 2011. The take up of these new offers has been encouraging as are being perceived by the market as best offers and are also ARPU accretive. Notwithstanding the significant growth in fixed broadband, data revenues at TMN increased by 1.4% y.o.y and accounted for 26.9% of service revenues (+3.6pp y.o.y).

Other revenues, including intra-group eliminations, increased by 53.7% y.o.y in 1Q11 to Euro 112 million. This was mainly due to: (1) an increase of 17.7% and 13.6% y.o.y at Timor Telecom and MTC, respectively; (2) the improving business trends of PT s Brazilian BPO business, Dedic, and (3) the impact of the consolidation of GPTI, an IT / IS company acquired by Dedic, as from 1 March 2010.

Consolidated Operating Costs (excluding PRBs and depreciation and amortisation)

Consolidated operating costs excluding depreciation and amortization costs and post retirement benefits, decreased by 3.0% y.o.y to Euro 514 million in 1Q11, as compared to Euro 530 million in the same period last year, mainly due to reductions at Portuguese operations (Euro 41 million), primarily as a result of strict cost control and strong focus on the profitability of operations. These effects were partially offset by an increase in Portugal Telecom s call centre operation in Brazil, and GPTI, which was consolidated as from 1 March 2010.

Wages and salaries increased by 4.8% y.o.y in 1Q11 to Euro 157 million, primarily due to higher contributions from: (1) Dedic, our call centre operation in Brazil, mainly due to the impact of the appreciation of the Real against the Euro, and (2) GPTI, which was consolidated as from 1 March 2010. These effects more than offset the reduction in wages and salaries from Portuguese operations, reflecting primarily the 11.6% y.o.y decrease at the wireline business in connection with the work force reduction program (Euro 4.5 million) and strong focus on cost control. Wages and salaries accounted for 18.0% of consolidated operating revenues.

Direct costs decreased by 6.6% y.o.y to Euro 125 million in 1Q11 and accounted for 14.3% of consolidated operating revenues. This reduction is primarily explained by reductions at: (1) TMN (Euro 11 million), reflecting lower MTRs and a higher proportion of on-net traffic; and (2) the wireline business (Euro 4 million), reflecting a reduction in interconnection costs, mainly due to lower MTRs, and a decrease in costs related to directories, following the continued decline in this business, which more than offset the increase in programming costs due to the continued growth in pay-TV customers. Nevertheless, it is worth highlighting the decrease in programming costs per customer at the wireline business, as a result of the scale achieved in the pay-TV business.

Commercial costs which include costs of products sold, commissions and marketing and publicity, decreased by 13.9% y.o.y to Euro 73 million in 1Q11 and accounted for 8.4% of consolidated operating revenues. This reduction was primarily explained by a decrease at Portuguese operations (Euro 13 million), following the reduction in sales and services rendered, and reflecting the strict cost discipline at Portuguese operations and lower marketing expenses at the wireline business, which more than offset an increase in marketing expenses at TMN primarily related to the investment in marketing the new tariff plans.

Other operating costs, which mainly include support services, supplies and external services, indirect taxes and provisions, decreased by 1.6% y.o.y in 1Q11 (Euro 3 million) to Euro 159 million, as compared to euro 162 million in 1Q10. This decrease is basically explained by a lower contribution from Portuguese operations mainly due to a reduction in external supplies, reflecting the strict operational and cost discipline. This effect more than offset the higher contribution from GPTI, which was consolidated as from 1 March 1Q10.

EBITDA

EBITDA decreased by 5.2% y.o.y in 1Q11 to Euro 357 million, equivalent to a margin of 41.0%. EBITDA performance in the period was impacted by the decline in TMN revenues, notwithstanding a 12.5% y.o.y reduction in operating costs excluding D&A and PRBs. Wireline EBITDA was flat in 1Q11 at Euro 188 million (-0.2% y.o.y) as a result of increasing operational leverage of the triple-play services, higher penetration of fibre and a relentless focus on cost cutting. The proportional EBITDA of international businesses reached Euro 53 million, an increase of over 4% y.o.y.

Wireline EBITDA of Euro 188 million in 1Q11 (-0.2% y.o.y), was equivalent to a 41.2% margin, a 2.6pp y.o.y improvement. This performance marked a robust and steady improvement (-5.3% in 4Q10, -5.9% y.o.y in 3Q10, -6.4% y.o.y in 2Q10 and -9.4% in 1Q10) and represents the best performance in the last eighteen quarters, notwithstanding the continued commercial investment in the roll-out of triple-play offers as referred to above. The improvement in EBITDA trend was achieved on the back of a streamlined cost structure resulting from fixed-mobile convergence and restructuring of the Portuguese businesses along customers segments. EBITDA also benefited from the critical mass of Meo, which is leading to lower programming costs per customer, which declined 14% y.o.y. This solid EBITDA performance in the wireline segment was achieved against a backdrop of lower contribution to revenues and EBITDA derived from the directories business, which contracted a further Euro 6 million and Euro 2 million, respectively. PT has a financial investment of 25% (50% of voting rights) in the yellow pages company, which is managed by Truvo.

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

	1Q11	1Q10	y.o.y
Wireline	188.1	188.5	