PORTUGAL TELECOM SGPS SA
Form 6-K
December 03, 2013
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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 November 2013

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

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Portugal Telecom

Consolidated Report

First Nine Months 2013

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Consolidated report

First nine months 2013

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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.

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Telecommunications in Portugal

Customer segment (Euro million)		Revenues
Residential		541
Personal	> PT Comunicações 100%	487
Enterprise	> TMN 100%	594
Wholesale and Other		298

Telecommunications in Brazil

Customer segment		Revenues (R$ million, 100%)
Residential		7,697
Personal	> Oi 23.3% (a)	6,901
Enterprise		6,338
Other		277

(a) Oi s earnings are proportionally consolidated based on PT s 25.6% effective interest in Telemar Participações, the controlling shareholder of Oi Group.

Other telecommunications businesses

			Revenues (Euro million, 100%)
Unitel 25% (a)(b)	> Angola	> Mobile	1,203
MTC 34% (a)	> Namibia	> Mobile	124
CVT 40% (a)	> Cape Verde	> Wireline, mobile	52
Timor Telecom 44%	> East Timor	> Wireline, mobile	36
CST 51% (a)	> São Tomé e Príncipe	> Wireline, mobile	9

(a) These stakes are held by Africatel, which is controlled 75% by PT. (b) These stakes are consolidated by the equity method of accounting.

Other businesses

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 [Contax in Brazil 44.4% and PT Contact 100%];

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01

Financial review

Consolidated income statement

Consolidated income statement (1) **Euro million**

	9M13	9M12	y.o.y
Operating revenues	**4,546.7**	**4,983.9**	**(8.8)%**
Portugal (2)	1,920.3	2,040.2	(5.9)%
Residential	541.0	534.0	1.3%
Personal	486.7	517.2	(5.9)%
Enterprise	594.4	670.6	(11.4)%
Wholesale, other and eliminations	298.1	318.3	(6.3)%
Brazil Oi	2,050.3	2,295.5	(10.7)%
Other and eliminations	576.2	648.2	(11.1)%
Operating costs (3)	**3,032.4**	**3,255.1**	**(6.8)%**
Wages and salaries	763.2	831.1	(8.2)%
Direct costs	770.6	828.3	(7.0)%
Commercial costs	388.4	413.4	(6.0)%
Other operating costs	1,110.2	1,182.3	(6.1)%
EBITDA (4)	**1,514.3**	**1,728.8**	**(12.4)%**
Post retirement benefits	37.0	46.9	(21.1)%
Depreciation and amortisation	1,001.4	1,037.7	(3.5)%
Income from operations (5)	**475.9**	**644.2**	**(26.1)%**
Other expenses (income)	**32.7**	**(4.9)**	**n.m.**
Curtailment costs, net	128.3	1.9	n.m.
Net losses (gains) on disposal of fixed assets	(17.9)	2.1	n.m.
Net other costs (gains)	(77.7)	(8.9)	n.m.
Income before financ. & inc. taxes	**443.2**	**649.0**	**(31.7)%**
Financial expenses (income)	**103.6**	**277.0**	**(62.6)%**
Net interest expenses (income)	425.6	368.6	15.5%
Equity in earnings of affiliates, net	(411.4)	(160.4)	156.5%
Net other financial losses (gains)	89.4	68.8	30.0%
Income before income taxes	**339.6**	**372.0**	**(8.7)%**
Provision for income taxes	5.5	(114.7)	n.m.
Income before non-controlling interests	**345.1**	**257.4**	**34.1%**
Losses (income) attributable to non-controlling interests	(40.0)	(71.7)	(44.2)%
Consolidated net income	**305.0**	**185.7**	**64.3%**

(1) 2012 figures were restated in order to reflect the impacts of the adoption of the revised version of IAS 19 Employee Benefits, as explained in more detail under the section Other disclosures, changes in accounting policies and estimates . **(2)** Businesses in Portugal include wireline and TMN. **(3)** Operating costs = wages and salaries + direct costs + commercial costs + other operating costs. **(4)** EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(5)** Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains).

Consolidated operating revenues

In 9M13, consolidated operating revenues decreased by Euro 437 million to Euro 4,547 million (-8.8% y.o.y), reflecting primarily the impact of the depreciation of the Brazilian Real against the Euro (Euro 328 million). On a constant currency basis, namely adjusting for the impact of the depreciation of the Brazilian Real and of the Namibian Dollar, consolidated operating revenues would have declined only by 1.7% y.o.y in 9M13. This performance is explained by revenue decline in the Portuguese telecommunications businesses (Euro 120 million) and a lower contribution from other international operations, namely Contax, CVT and Timor Telecom, which more than offset higher contributions from Oi and MTC (Euro 37 million and Euro 17 million, respectively).

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In 9M13, revenues from Portuguese telecommunications businesses decreased by 5.9% y.o.y to Euro 1,920 million, while service revenues decreased by 6.5% y.o.y, having improved the quarterly trend when comparing the 3Q13 (-5.8% y.o.y) to 2Q13 (-7.0% y.o.y), 1Q13 (-6.7% y.o.y) and 4Q12 (-8.2% y.o.y). Revenue performance continued to be impacted by the pricing and competitive dynamics and by the macroeconomic environment. Against this backdrop, in 9M13 PT posted continued growth in the Residential segment and presented improved trends in the Personal segment. Private consumption in Portugal decreased by 3.1% in 2Q13, while PT s consumer segment, which includes Residential and Personal segments, posted customer revenues decreasing by 1.5% in 3Q13, outperforming the market and competitors. This performance proves the success of PT s offering, namely M4O, which is gaining momentum in the market, having reached 1.3 million RGUs in November 2013. The Enterprise segment is penalised by competitive dynamics that are impacting pricing environment, namely in mobile services, notwithstanding an improved performance from Corporate in 3Q13. Revenues from Wholesale, other and eliminations in 9M13 decreased by 6.3% y.o.y to Euro 298 million, reflecting lower acesses and capacity revenues and a Euro 7 million decline in the directories business (-27.0% y.o.y) reflecting secular trends.

Oi s revenues proportionally consolidated stood at Euro 2,050 million (R$ 22,356 million, equivalent to 100%) in 9M13, compared to Euro 2,296 million (R$ 22,002 million, equivalent to 100%) in 9M12, a decrease of Euro 245 million reflecting the impact of the depreciation of the Brazilian Real against the Euro (Euro 282 million). On a constant currency basis, the contribution of Oi to PT s consolidated operating revenues in 9M13 would have amounted to Euro 2,332 million, representing an increase of Euro 37 million primarily explained by: (1) higher revenues from Residential, due to the positive contribution of broadband and pay-TV revenues, that more than offset lower fixed voice revenues, and (2) an increase in Personal Mobility revenues, on the back of the strong performance in prepaid recharges and also of data and value added services and against a backdrop of lower MTRs. Oi s revenues were proportionally consolidated based on the 25.6% direct and indirect stake that PT owns in Telemar Participações, the controlling shareholder of the Oi Group.

Other revenues, including intra-group eliminations, decreased by Euro 72 million (-11.1% y.o.y) to Euro 576 million in 9M13, reflecting the depreciation of the Brazilian Real and Namibian Dollar against the Euro (Euro 72 million). Adjusting for this effect, other revenues would remained broadly flat at Euro 648 million as the higher contribution from MTC, mainly due to higher retail voice revenues and a significant increase in data services, was offset by a lower contribution from Contax (Euro 6 million), reflecting lower revenues from Brazilian call centre services, and by an increasing level of competition in some markets.

The contribution from fully and proportionally consolidated international assets to consolidated operating revenues stood at 57.2% in 9M13, with Brazil accounting for 52.1%, as compared to 58.5% and 53.4% in 9M12, respectively, a decrease that is explained by the impact of the depreciation of the Brazilian Real against the Euro.

Consolidated Operating Costs (excluding post retirement benefit costs and depreciation and amortisation)

Consolidated operating costs excluding depreciation and amortisation costs and post retirement benefits decreased by Euro 223 million (-6.8% y.o.y) to Euro 3,032 million in 9M13, as compared to Euro 3,255 million in 9M12, reflecting primarily the impact of foreign currency movements against the Euro (Euro 253 million). Adjusting for this effect, consolidated operating costs would have increased by Euro 31 million (0.9% y.o.y), explained primarily by a higher contribution from Brazilian business (Euro 51 million), mainly due to higher

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commission expenses and direct costs that reflected increased services rendered and sales, and also higher third party costs related mainly to maintenance and repair expenses in line with customer growth and focus on higher quality. These effects more than offset lower provisions. The higher contribution from Brazilian business was partially offset by lower contributions from Africatel businesses (Euro 9 million) and from the Portuguese telecommunications business (Euro 27 million). The lower contribution from Portuguese telecommunications business is explained by: (1) lower wages and salaries, reflecting focus on cost control and a decrease in overtime remunerations; (2) lower third party costs and marketing expenses, reflecting PT s cost cutting efforts, and (3) lower costs of goods sold. These effects more than offset an increase in direct costs reflecting mainly higher programming costs on the back of sustained customer growth and investment in the differentiation of MEO content offering.