PORTUGAL TELECOM SGPS SA
Form 6-K
December 02, 2011
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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 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

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Portugal Telecom

Consolidated report

First nine months 2011

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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Portugal

		Revenues (Euro million)
Residential	• consumer customers that subscribe to wireline products and services	510
Personal	• consumer customers that subscribe to wireless products and services	575
Enterprise	• SOHOs, SMEs and corporate customers that subscribe wireline and wireless products and services	737
Wholesale, other and eliminations	• Wireline and wireless wholesale business	352

Main international assets

			Revenues (Euro million)
Oi 25.6% (a)	• Brazil	• Wireline, mobile, other	(c)
Contax 44.4% (a)	• Brazil	• Contact centre	(c)
Unitel 25% (b)	• Angola	• Mobile	518
CTM 28%	• Macao	• Wireline, mobile	88
MTC 34% (b)	• Namibia	• Mobile	60
CVT 40% (b)	• Cape Verde	• Wireline, mobile	29
Timor Telecom 41.12%	• East Timor	• Wireline, mobile	19
CST 51% (b)	• São Tomé e Príncipe	• Wireline, mobile	2

(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 19.5%, 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%]

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Financial review

Consolidated income statement

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

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Operating revenues	**1,747.0**	**952.2**	**83.5%**	**4,415.8**	**2,792.6**	**58.1%**
Portugal (2)	731.0	789.3	(7.4)%	2,173.6	2,354.7	(7.7)%
Residential	171.0	162.3	5.4%	510.0	481.7	5.9%
Personal	199.9	224.0	(10.8)%	574.8	648.1	(11.3)%
Enterprise	238.0	261.6	(9.0)%	736.7	817.2	(9.9)%
Wholesale, other and eliminations	122.1	141.5	(13.7)%	352.1	407.7	(13.6)%
Brazil • Oi	801.4	0.0	n.m.	1,633.7	0.0	n.m.
Other and eliminations	214.6	162.9	31.8%	608.5	437.9	39.0%
Operating costs (3)	**1,092.8**	**570.3**	**91.6%**	**2,761.8**	**1,663.3**	**66.0%**
Wages and salaries	284.0	163.7	73.4%	743.3	470.6	58.0%
Direct costs	299.3	137.4	117.9%	716.2	412.8	73.5%
Commercial costs	140.7	98.0	43.5%	351.4	272.2	29.1%
Other operating costs	368.9	171.2	115.5%	950.9	507.8	87.3%
EBITDA (4)	**654.2**	**381.9**	**71.3%**	**1,654.0**	**1,129.2**	**46.5%**
Post retirement benefits	14.3	17.8	(20.0)%	40.6	53.5	(24.0)%
Depreciation and amortisation	349.6	199.6	75.1%	914.0	549.3	66.4%
Income from operations (5)	**290.4**	**164.5**	**76.6%**	**699.4**	**526.5**	**32.8%**
Other expenses (income)	**11.8**	**100.5**	**(88.3)%**	**24.3**	**121.1**	**(79.9)%**
Curtailment costs, net	0.8	1.6	(52.6)%	6.3	10.9	(41.6)%
Net losses (gains) on disposal of fixed assets	0.1	(1.8)	n.m.	(0.0)	(1.0)	(95.6)%
Net other costs (gains)	10.9	100.7	(89.1)%	18.0	111.2	(83.8)%
Income before financ. & inc. taxes	**278.6**	**64.0**	**n.m.**	**675.1**	**405.4**	**66.5%**
Financial expenses (income)	**88.6**	**98.8**	**(10.3)%**	**116.9**	**145.6**	**(19.8)%**
Net interest expenses (income)	118.2	56.9	107.5%	199.4	175.5	13.6%
Equity in earnings of affiliates, net	(46.6)	18.5	n.m.	(169.1)	(65.4)	158.7%
Net other financial losses (gains)	17.1	23.3	(26.7)%	86.5	35.5	144.0%
Income before income taxes	**190.0**	**(34.8)**	**n.m.**	**558.2**	**259.7**	**114.9%**
Provision for income taxes	(53.3)	(37.6)	41.8%	(155.1)	(64.1)	141.8%
Income from continued operations	**136.7**	**(72.4)**	**n.m.**	**403.1**	**195.6**	**106.1%**
Income from discontinued operations	0.0	5,474.8	n.m.	0.0	5,551.5	n.m.
Income before non-controlling interests	**136.7**	**5,402.4**	**(97.5)%**	**403.1**	**5,747.0**	**(93.0)%**
Losses (income) attributable to non-controlling interests	(31.1)	(49.2)	(36.8)%	(69.7)	(129.3)	(46.1)%
Consolidated net income	**105.6**	**5,353.2**	**(98.0)%**	**333.5**	**5,617.7**	**(94.1)%**

(1) Following PT s strategic investment in Oi and Contax on 28 March 2011, PT proportionally consolidated the net income as from 1 April 2011. **(2)** Businesses in Portugal include former wireline and TMN. This caption includes the impact of the decline in regulated mobile termination rates (MTRs). At TMN, this impact amounted to Euro 9 million in 3Q11. **(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 + other costs (gains).

Consolidated operating revenues

In 9M11, consolidated operating revenues increased by 58.1% y.o.y to Euro 4,416 million, as compared to Euro 2,793 million in 9M10, reflecting the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 1,858 million), including the Dedic/GPTI business as from 1 July 2011, following the completion of the exchange of PT s interest in this business for an additional stake in Contax. Excluding this effect, consolidated operating revenues would have decreased by 8.4% y.o.y to Euro 2,558 million in 9M11, as a result of revenue

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decline in Portuguese telecommunication businesses and the disposal of Dedic/GPTI to Contax in 1 July 2011 and notwithstanding revenue growth in international operations, namely MTC in Namibia and Timor Telecom.

In 9M11, revenues from Portuguese telecommunication businesses decreased by 7.7% y.o.y (Euro 181 million), negatively impacted by: (1) revenue decline at the Personal customer segment (Euro 73 million), including lower equipment sales (Euro 9 million), lower interconnection revenues (Euro 22 million), and lower customer revenues (Euro 42 million) that reflected challenging economic conditions, including a VAT increase (+3pp y.o.y in 1H11 and 2pp y.o.y in 3Q11), coupled with increasing popularity of tribal plans; (2) the decline in the Enterprise segment (Euro 81 million), and (3) lower revenues associated with the wholesale and other businesses (Euro 56 million), including a negative impact from the directories business (Euro 16 million). PT has a financial investment of 25% in the company Páginas Amarelas , which is managed by Truvo. The total impact in Portuguese revenues of lower mobile termination rates (MTRs) stood at Euro 26 million in 9M11. These negative effects were partially offset by an increase in revenues from Residential customer segment (+5.9% y.o.y), mainly related to Pay-TV and broadband revenues, which are underpinned by the success of Meo s double and triple play offers. In 9M11, non-voice revenues in Portugal represented 46.1% of service revenues, having grown 3.8pp y.o.y. This positive evolution of PT s revenue mix is making performance more resilient and predictable and was achieved on the back of increased penetration of data and video services across all segments, following the significant investments in the rollout of FTTH and leading-edge technology.

In the Residential customer segment, operating revenues increased by 5.9% y.o.y in 9M11, from Euro 482 million to Euro 510 million, on the back of the continued strong performance of Meo triple-play offer (voice, broadband and pay-TV) and benefiting from a relentless effort to transform PT s residential service offering from a legacy fixed telephone to a triple play offering, which is more competitive and more resilient to adverse economic conditions. Residential retail accesses or retail revenue generating units (RGUs) increased by 9.7% y.o.y, reaching 3,460 thousand, with pay-TV and broadband accesses already accounting for 52% of total residential retail accesses in 9M11. Pay-TV customers increased by 135 thousand, reaching 909 thousand, up by 26.7% y.o.y, while broadband customers increased by 70 thousand to 880 thousand, up by 13.6% y.o.y. Retail RGU per access increased by 9.1% y.o.y in 9M11 to 2.07. 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.

In 9M11, Personal operating revenues decreased by Euro 73 million (-11.3% y.o.y) to Euro 575 million, mainly due to: (1) lower customer revenues (Euro 42 million), as a result of the economic conditions, including the increase in VAT and increased popularity of tribal plans, namely those without a monthly fee and only with mandatory top-up obligations; (2) lower interconnection revenues (Euro 22 million), mostly as a result of the negative impact of lower MTRs, and (3) lower equipment sales (Euro 9 million). It is worth highlighting that 3Q11 continued to show a sequential improvement in service revenues: -9.5% y.o.y in 3Q11, which compares to minus 11.5% y.o.y in 2Q11 and to minus 12.0% in 1Q11. The improvement of service revenues is underpinned by customer revenues, that were down by 6.8% in 3Q11 (-8.9% y.o.y in 2Q11 and -9.4% y.o.y in 1Q11). Notwithstanding the significant growth in fixed broadband, in 9M11 data revenues from Personal segment accounted for 30.9% of service revenues (+2.2pp y.o.y), as a result of the solid performance of data packages internotelemovel , which continued to show strong growth, explained by the commercial success of e nunca mais acaba and increased penetration of smartphones.

Operating revenues from the Enterprise customer segment decreased by 9.9% y.o.y in 9M11(Euro 81 million), from Euro 817 million to Euro 737 million, penalised by the economic environment and consequent cost cutting efforts from companies and the one-off projects with public administration that took place in 2010. PT s strategy

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continued to focus on convergent offers and unlimited fixed-to-mobile voice and data solutions, integrated and vertical offers bundled with specific business software and flexible pricing solutions on a per workstation basis. Additionaly, PT continued to provide advanced one-stop-shop IT/IS solutions focusing on BPO and on the marketing of machine-to-machine solutions. These offers leverage on PT s investment in FTTH and cloud computing solutions, which allow the offering of cloud-based services in partnership with software and hardware vendors.

Wholesale and other operating revenues, including intra-portuguese businesses eliminations, decreased by Euro 56 million (-13.6% y.o.y) to Euro 352 million, impacted by: (1) lower revenues from directories (Euro 16 million); (2) lower wholesale revenues (Euro 22 million), including lower ULL revenues and lower capacity sales, and (3) lower revenues from public phones (Euro 3 million).

Based on the former operating segments in Portugal, wireline operating revenues decreased by 5.3% y.o.y in 9M11, from Euro 1,453 million to Euro 1,376 million, while adjusting for a contract with public administration related to the provision of broadband in schools (Euro 18 million) and for the decline in the directories business (Euro 16 million), wireline revenues would have declined by 3.1% y.o.y impacted primarily by lower wholesale and data and corporate revenues. In 9M11, retail revenues increased by 0.7% y.o.y, from Euro 725 million to Euro 730 million, proving the steady and resilient performance of retail revenues, sustained by the improvement of non-voice revenues and the success of Meo offers.

In 9M11, TMN s operating revenues decreased by Euro 116 million (-11.1% y.o.y) to Euro 930 million, mainly due to: (1) lower customer revenues (Euro 71 million), as a result of the economic conditions, including the increase in VAT and increased popularity of tribal plans, namely those without a monthly fee and only with mandatory top-up obligations; (2) lower interconnection revenues (Euro 32 million), mostly as a result of the negative impact of lower MTRs (Euro 24 million), and (3) lower equipment sales (Euro 16 million). It is worth highlighting that 3Q11 registered a marked improvement in service revenues performance: -8.6% y.o.y in 3Q11, which compares to -10.7% in 2Q11 and -12.2% in 1Q11.

In 9M11, Oi s revenues stood at Euro 1,634 million, equivalent to R$ 3,748 million. Oi s results are proportionally consolidated as from 1 April 2011, reflecting the 25.6% direct and indirect stake that PT owns in Telemar Participações, the controlling shareholder of Oi, which fully consolidates Oi companies, including Tele Norte Leste Participações, Telemar Norte Leste and Brasil Telecom.

Other revenues, including intra-group eliminations, increased by 39.0% y.o.y in 9M11 to Euro 609 million. This performance was mainly due to: (1) the impact of the proportional consolidation of Contax as from 1 April 2011 (Euro 226 million), including Dedic/GPTI as from 1 July 2011, and (2) an increase of 10.3% and 7.8% y.o.y at Timor Telecom and MTC, respectively. These effects were partially offset by a lower contribution from Dedic/GPTI, that was fully consolidated until 30 June 2011 and then integrated in Contax.

The contribution from fully and proportionally consolidated international assets to operating revenues stood at 58.1% in 3Q11, while Brazil accounted for 53.4% of operating revenues.

In 9M11, total PT customers stood at 89,678 thousand, up by 7.2% from 83,654 thousand in 9M10. Customers in international operations, including Brazil and Africa, represented 87% of total PT customers.

EBITDA increased by 46.5% y.o.y to Euro 1,654 million in 9M11, as compared to Euro 1,129 million in the same period last year, primarily due to the impact of the proportional consolidation of Oi and Contax as from 1 April 2011

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(Euro 580 million), including Dedic/GPTI in Contax as from 1 July 2011. Excluding this effect, EBITDA would have decreased by 4.9% y.o.y in 9M11 to Euro 1,074 million, equivalent to a margin of 42.0% (+1.5pp y.o.y). EBITDA performance in the period was impacted by the revenue decline and notwithstanding a 9.9% y.o.y reduction in operating costs excluding D&A and PRBs in Portuguese telecommunications businesses. This effect was partially offset by the revenue improvement from the Residential customer segment in 9M11.

It is worth highlighting that, based on the former operating segments in Portugal, the wireline business continued to show a solid performance (+0.6% y.o.y to Euro 564 million). TMN s EBITDA margin was stable in 9M11 (-0.1pp y.o.y to 46.6%) as a result of a solid and continued cost cutting effort (operating costs declined by Euro 61 million) and notwithstanding the revenue decline.

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

Consolidated operating costs, excluding depreciation and amortization costs and post retirement benefits, amounted to Euro 2,762 million in 9M11 and Euro 1,663 million in 9M10, an increase of Euro 1,098 million primarily explained by the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 1,278 million), including the Dedic/GPTI business as from 1 July 2011, following the completion of the exchange of PT s interest in this business for an additional stake in Contax. Adjusting for this effect, consolidated operating costs would have decreased by 10.8% y.o.y (Euro 179 million) in 9M11 to Euro 1,484 million, reflecting primaly a decrease at Portuguese operations, primarily as a result of strict cost control, strong focus on the profitability of operations and lower direct costs resulting from the decrease in revenues.

Wages and salaries increased by 58.0% y.o.y (Euro 273 million) in 9M11 to Euro 743 million, as compared to Euro 471 million in the same period last year, mainly due to the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 327 million), including the Dedic/GPTI business as from 1 July 2011. Adjusting for this effect, wages and salaries would have decreased by 11.4% y.o.y (Euro 54 million) in 9M11 to Euro 417 million, reflecting lower contributions from: (1) Dedic/GPTI, as this business was fully consolidated until 30 June 2011 and then integrated in Contax, and (2) Portuguese operations, reflecting primarily the strong focus on cost reduction and also benefiting from curtailment in 4Q10. Wages and salaries accounted for 16.8% of consolidated operating revenues in 9M11.

Direct costs increased by 73.5% y.o.y (Euro 303 million) in 9M11 to Euro 716 million and accounted for 16.2% of consolidated operating revenues. This increase reflected primarily the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 350 million). Adjusting for this effect, direct costs would have decreased by 11.3% y.o.y (Euro 46 million) in 9M11 to Euro 366 million, primarily due to lower contributions from Portuguese operations, as a result of a decrease in interconnection costs, due to lower MTRs, and the decline in the directories business, which more than offset an increase in programming costs due to the continued growth in pay-TV customers, notwithstanding a decline in programming costs per customer (-20.9% y.o.y in 9M11) as pay-TV is reaching critical mass.

Commercial costs, which include costs of products sold, commissions and marketing and publicity, increased by 29.1% y.o.y (Euro 79 million) in 9M11 to Euro 351 million and accounted for 8.0% of consolidated operating revenues. This increase reflected primarily the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 97 million). Excluding this effect, commercial costs would have decreased by 6.4% y.o.y (Euro 17 million) in 9M11 to Euro 255 million, mainly due to a reduction at Portuguese operations, reflecting primarily the

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effect resulting from the decrease in operating revenues, including lower sales and its effect on costs of products sold, and strict cost discipline, and despite an increase in marketing expenses related to the continued marketing of Meo and the new tariff plans in the Personal customer segment.

Other operating costs, which mainly include support services, supplies and external services, indirect taxes and provisions, increased by 87.3% y.o.y in 9M11 (Euro 443 million) to Euro 951 million, as compared to Euro 508 million in 9M10. This increase reflected primarily the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 505 million), which includes Dedic/GPTI as from 1 July 2011. Adjusting for this effect, other operating costs would have decreased by 12.1% y.o.y in 9M11 to Euro 446 million, basically due to lower contributions from (1) Portuguese operations, related mainly to a reduction in external supplies as a result of the strict operational and cost discipline, and (2) the Dedic/GPTI business, which was fully consolidated until 30 June 2011 and then integrated in Contax.

EBITDA

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

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Portugal	329.9	345.9	(4.6)%	992.9	1,044.7	(5.0)%
Brazil • Oi	277.7	0.0	n.m.	562.3	0.0	n.m.
Other and eliminations	46.7	36.0	29.7%	98.9	84.5	17.0%
EBITDA	**654.2**	**381.9**	**71.3%**	**1,654.0**	**1,129.2**	**46.5%**
EBITDA margin (%)	37.4	40.1	(2.7)pp	37.5	40.4	(3.0)pp
Portugal	**329.9**	**345.9**	**(4.6)%**	**992.9**	**1,044.7**	**(5.0)%**
Wireline	185.7	184.1	0.9%	563.6	560.4	0.6%
TMN	145.5	163.2	(10.8)%	433.5	488.4	(11.3)%
Other	(1.3)	(1.4)	(5.7)%	(4.2)	(4.1)	1.6%

(1) EBITDA = income from operations + post retirement benefits + depreciation and amortisation.

EBITDA from Portuguese telecommunication businesses amounted to Euro 993 million in 9M11 (-5.0% y.o.y), equivalent to a 45.7% margin, a 1.3pp y.o.y improvement. In 3Q11, EBITDA margin improved by 1.3pp y.o.y, to 45.1%, a resilient performance (+1.2pp in 2Q11, +1.5pp in 1Q11), that underlines the sustainability of PT s cost cutting initiatives. Operating costs decreased by 9.9% y.o.y, on the back of: (1) pay-TV reaching critical mass, which leads to lower programming costs per customer; (2) fibre rollout, which has a superior quality of service leading to lower customer support and network maintenance costs; (3) the implementation of transformation initiatives, namely in customer care and field force, promoting the usage of self-care and benefiting from fixed-mobile integration, (4) increased simplicity of commercial offers and processes, namely for Personal customer segment, and (5) additional measures undertaken in anticipation of weaker macro fundamentals, reflecting PT s strong cost focus. This solid performance was achieved against a backdrop of lower contribution to revenues and EBITDA derived from the directories business, which contracted Euro 16 million and Euro 5 million, respectively. PT has a financial investment of 25% in the company Páginas Amarelas , which is managed by Truvo.

In 9M11, Oi s EBITDA reached Euro 562 million, equivalent to R$ 1,290 million, corresponding to its proportional consolidation as from 1 April 2011. EBITDA margin in the period stood at 34.4%.

Other EBITDA increased by 17.0% y.o.y to Euro 99 million in 9M11 mainly due to: (1) the impact of the proportional consolidation of Contax as from 1 April 2011 (Euro 20 million), and (2) the 5.9% and 2.2% y.o.y growth in Timor Telecom and MTC, respectively. After several quarters of EBITDA contraction at CVT in Cape Verde, primarily due to

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weaker economic conditions and adverse regulation, in 9M11 CVT s EBITDA increased by 1.6% y.o.y. These effects were partially offset by lower contribution from Dedic/GPTI business, that was fully consolidated until 30 June 2011 and then integrated in Contax.

Fully and proportionally consolidated international assets represented 52.4% of PT s EBITDA in 3Q11. Brazilian businesses accounted for 44.1% of EBITDA in the period and fully consolidated African businesses accounted for 5.0% of EBITDA.

Net income

Post retirement benefits costs decreased to Euro 41 million in 9M11 from Euro 53 million in 9M10, reflecting primarily the impact of the transfer of regulatory unfunded pension obligations to the Portuguese State, which was completed in December 2010. This effect was partially offset by the impact of the proportional consolidation of Oi as from 1 April 2011 (Euro 3 million).

Depreciation and amortisation costs increased by 66.4% y.o.y to Euro 914 million in 9M11, reflecting primarily the proportional consolidation of Oi and Contax (Euro 335 million), including the holding companies. Adjusting for this effect, depreciation and amortisation costs would have increased by 5.4% to Euro 579 million in 9M11, due to higher contribution from the Portuguese businesses (Euro 25 million), as a result of the FTTH rollout and pay-TV growth. In 3Q11, depreciation and amortisation costs amounted to Euro 350 million, a reduction of 5.0% compared to Euro 368 million in 2Q11, primarily explained by the impact of the swap of TMN s 2G equipment to LTE (4G enabled equipment), a lower contribution from Dedic, which was integrated in Contax as from 1 July 2011, and lower amortisation expenses at Oi.

Net interest expenses increased to Euro 199 million in 9M11 as compared to Euro 176 million in 9M10, reflecting primarily the impact of the proportional consolidation of Oi and Contax, including the holding companies, as from 1 April 2011 (Euro 115 million). Adjusting for this effect, net interest expenses would have decreased by Euro 91 million to Euro 85 million in 9M11, mainly as a result of: (1) an Euro 51 million interest gain in 1Q11 on cash deposits in Brazilian Reais which were used to pay the strategic investment in Oi on 31 March 2011, and (2) the reduction in the average cost of debt from Portuguese businesses, excluding the impact of the interest income on cash deposits in Brazilian Reais as referred to above, which stood at 3.4% in 9M11 compared to 4.6% in 9M10. These effects more than offset the impact of the increase in the average net debt from Portuguese businesses, which reflected: (1) the investment in Oi concluded on 31 March 2011 (Euro 3,728 million); (2) the dividends paid in June 2011 (Euro 1,118 million related to the second instalment of the special dividend amounting to Euro 0.65 per share and the ordinary dividend amounting to Euro 0.65 per share), and (3) the debt related to the transfer of unfunded pension obligations completed in December 2010 (Euro 1,022 million), which more than offset the impact of the first and second instalments received from Telefónica in 2010 (Euro 5,500 million) related to the Vivo transaction.

Equity in earnings of affiliates amounted to Euro 169 million in 9M11, as compared to Euro 65 million in 9M10. In 9M11, this caption includes a gain of Euro 38 million related to the completion of the disposal of the investment in UOL for a total amount of Euro 156 million, while in 9M10 includes non-recurring losses on investments in associate companies, totalling Euro 72 million, to adjust its carrying value to the corresponding estimated recoverable amounts. Adjusting for these effects and PT s share in UOL s earnings in 9M10 (Euro 14 million), equity accounting in earnings of affiliated companies would have amounted to Euro 131 million in 9M11 and Euro 124 million in 9M10, reflecting primarily the improvement in earnings of Unitel, notwithstanding the devaluation of local currency, and CTM.

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Net other financial losses, which include net foreign currency losses, net losses on financial assets and net other financial expenses, increased from Euro 35 million in 9M10 to Euro 87 million in 9M11, reflecting primarily: (1) the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 36 million), and (2) certain financial taxes incurred in Brazil in connection with the transfer of funds for the investment in Oi (Euro 14 million).

Income taxes increased to Euro 155 million in 9M11, from Euro 64 million in 9M10, corresponding to an effective tax rate of 27.8% and 24.7%, respectively. The increase in income taxes is primarily explained by: (1) the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 37 million); (2) a tax gain in 9M10, amounting to Euro 52 million, related to a corporate restructuring of Africatel businesses that resulted in lower taxable profits, and (3) a gain of Euro 4 million corresponding to the impact on deferred taxes, as at 1 January 2010, of the change in the statutory tax rate applicable in Portugal from 26.5% to 29.0% for companies with taxable profits in excess of Euro 2 million. Adjusting for: (1) the one-off gains recorded in 2010 mentioned above; (2) the impact of lower non-deductible interest expenses, and (3) certain non-recurring losses recognised in 3Q10, that are not tax deductible, the effective tax rate would have been 28.2% in 9M11 and 29.0% in 9M10.

Income from discontinued operations amounted to Euro 5,551 million in 9M10, including primarily the capital gain obtained with the disposal of the investment in Vivo, which was concluded on 27 September 2010, its earnings before non-controlling interests up to that date, and the accumulated currency translation adjustments that were recognised in net income on the date of disposal, although not contributing to the distributable net income.

Income attributable to non-controlling interests decreased by Euro 60 million in 9M11 to Euro 70 million, reflecting the reduction in income attributable to non-controlling interests of Vivo (Euro 61 million), following the acquisition of this investment by Telefónica in September 2010. The proportional consolidation of Oi and Contax as from 1 April 2011, amounting to Euro 14 million, was offset by the decrease in non-controlling interests from African businesses (Euro 14 million), which is primarily explained by the share of non-controlling interests in the tax gain recognised in 2Q10 as a result of a corporate restructuring of these businesses.

Net income amounted to Euro 333 million in 9M11. In 9M10, net income amounted to Euro 5,618 million, primarily affected by the net income from discontinued operations and the corresponding non-controlling interests related to the disposal of the investment in Vivo. Adjusting for these effects, net income would have increased from Euro 128 million in 9M10 to Euro 333 million in 9M11.

Capex

Capex increased by 42.6% y.o.y to Euro 704 million in 9M11, as compared to Euro 494 million in the same period last year, mainly due to the impact of the proportional consolidation of Oi and Contax as from 1 April 2011 (Euro 240 million). Excluding this effect, capex would have decreased by 6.0% y.o.y in 9M11 to Euro 464 million, equivalent to 18.1% of revenues, and was directed towards investments in future proof technologies, namely FTTH, and also 3G and 3.5G.

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Capex by business segment **Euro million**

	3Q11	3Q10	y.o.y	9M11	9M10	y.o.y
Portugal	149.6	138.5	8.0%	400.5	403.1	(0.7)%
Brazil • Oi	106.5	0.0	n.m.	223.2	0.0	n.m.
Other	29.6	42.9	(30.9)%	80.1	90.4	(11.4)%
Total capex	**285.8**					