PORTUGAL TELECOM SGPS SA
Form 6-K
November 14, 2007

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 2007

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

First Nine Months 2007

Portugal Telecom

Earnings Release

Lisbon, Portugal, 14 November 2007

Portugal Telecom announced today its results for the first nine months ended 30 September 2007.

In 9M07, consolidated operating revenues amounted to Euro 4,531 million, an increase of 5.7% y.o.y. EBITDA increased by 11.8% y.o.y to Euro 1,726 million, equivalent to a margin of 38.1%, and income from operations increased by 29.2% y.o.y to Euro 910 million. Net income for the period amounted to Euro 670 million, an increase of 27.2% over the same period of last year. EBITDA minus Capex increased by 15.5% y.o.y to Euro 1,227 million. As at 30 September 2007, net debt amounted to Euro 4,332 million and after-tax unfunded post retirement benefit obligations totalled Euro 917 million.

PT s financial results have been prepared in accordance with International Financial Reporting Standards (IFRS). Following the approval of the PT Multimedia spin-off at PT s Annual Shareholders Meeting on 27 April 2007, PT Multimedia was considered as a discontinued operation for reporting purposes. For a detailed discussion of PT Multimedia s results, please refer to PTM s First Nine Months 2007 Earnings Release.

Table 1 _ Consolidated Financial Highlights | Euro million

	3Q07	**3Q06**	**y.o.y**	**9M07**	**9M06**	**y.o.y**
Operating revenues	1,574.9	1,479.4	6.5%	4,530.7	4,285.1	5.7%
Operating costs, excluding D&A	996.0	930.9	7.0%	2,805.0	2,741.0	2.3%
EBITDA (1)	578.9	548.5	5.5%	1,725.7	1,544.1	11.8%
Income from operations (2)	303.4	265.8	14.1%	909.6	704.2	29.2%
Net income	241.0	125.4	92.1%	670.1	527.0	27.2%
Capex	191.6	200.3	(4.3)%	498.4	481.2	3.6%
Capex as % of revenues (%)	12.2	13.5	(1.4pp)	11.0	11.2	(0.2pp)
EBITDA minus Capex	387.3	348.3	11.2%	1,227.3	1,062.9	15.5%
Net debt	4,331.7	4,108.2	5.4%	4,331.7	4,108.2	5.4%
After-tax unfunded PRB obligations	916.9	1,471.0	(37.7)%	916.9	1,471.0	(37.7)%
EBITDA margin (3) (%)	36.8	37.1	(0.3pp)	38.1	36.0	2.1pp
Net debt / EBITDA (x) (4)	1.9	1.9	(0.0x)	1.9	2.0	(0.1x)
Adjusted net debt / EBITDA (x) (5)	2.3	2.5	(0.3x)	2.3	2.7	(0.4x)
EBITDA / net interest (x)	10.5	8.6	1.9x	11.8	9.0	2.9x

(1) EBITDA = income from operations + depreciation and amortisation. (2) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains). (3) EBITDA margin = EBITDA / operating revenues. (4) Net debt divided by EBITDA. (5) Net debt plus after-tax unfunded post retirement benefit obligations divided by EBITDA.

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Financial Review

Income Statement

Consolidated operating revenues increased by 5.7% y.o.y in 9M07 (+6.5% y.o.y in 3Q07), driven by growth at Vivo, TMN and Other Businesses. Vivo operating revenues increased by 13.8% y.o.y in Euros and by 12.8% y.o.y in Reais in 9M07, on the back of continued growth in customers and ARPU, as well as the impact of the change in interconnection regime (July 2006). TMN operating revenues increased by 1.3% y.o.y (+1.6% y.o.y in 3Q07), whilst billing revenues increased by 2.1% y.o.y (+2.4% y.o.y in 3Q07), underpinned by continued customer growth, particularly in postpaid and wireless broadband. Excluding the negative impact of mobile termination rate (MTR) cuts, operating revenues would have increased by 2.6% y.o.y in 9M07. Wireline operating revenues decreased by 5.7% y.o.y in 9M07, as a result of the impact of continued line loss and pricing pressure on retail revenues, notwithstanding the improvement in wholesale and data & corporate revenues. Other revenues increased to Euro 137 million mainly as a result of a higher contribution of MTC (Euro 77 million), which was only consolidated as from September 2006, and the increase in revenues of other fully consolidated subsidiaries.

Table 2 _ Consolidated Income Statement (1)

Euro million

	3Q07	3Q06	y.o.y	9M07	9M06	y.o.y
Operating revenues	**1,574.9**	**1,479.4**	**6.5%**	**4,530.7**	**4,285.1**	**5.7%**
Wireline	484.1	513.3	(5.7)%	1,477.0	1,566.7	(5.7)%
Domestic mobile TMN	401.9	395.8	1.6%	1,130.0	1,115.7	1.3%
Brazilian mobile Vivo (1)	645.9	555.1	16.3%	1,786.2	1,569.5	13.8%
Other and eliminations	43.0	15.2	182.7%	137.4	33.1	n.m.
Operating costs, excluding D&A	**996.0**	**930.9**	**7.0%**	**2,805.0**	**2,741.0**	**2.3%**
Wages and salaries	155.2	158.1	(1.9)%	477.8	490.3	(2.6)%
Post retirement benefits	8.9	19.4	(54.0)%	(8.4)	43.3	n.m.
Direct costs	238.2	212.9	11.9%	666.3	525.6	26.8%
Commercial costs	280.1	249.6	12.2%	746.3	735.0	1.5%
Other operating costs	313.6	290.8	7.8%	923.0	946.7	(2.5)%
EBITDA (2)	**578.9**	**548.5**	**5.5%**	**1,725.7**	**1,544.1**	**11.8%**
Depreciation and amortisation	275.5	282.7	(2.6)%	816.1	839.9	(2.8)%
Income from operations (3)	**303.4**	**265.8**	**14.1%**	**909.6**	**704.2**	**29.2%**
Other expenses (income)	**61.2**	**77.9**	**(21.4)%**	**172.3**	**122.7**	**40.4%**
Curtailment costs	57.2	70.6	(19.0)%	141.6	95.7	48.0%
Net losses (gains) on disposal of fixed assets	(5.7)	(1.2)	n.m.	(4.8)	(2.5)	89.8%
Net other costs (gains)	9.7	8.5	14.8%	35.4	29.5	20.0%
Income before financ. & inc. taxes	**242.2**	**187.9**	**28.9%**	**737.3**	**581.5**	**26.8%**
Financial expenses (income)	**(80.2)**	**19.1**	**n.m.**	**(169.3)**	**125.0**	**n.m.**
Net interest expenses	54.9	61.8	(11.1)%	145.8	172.4	(15.5)%
Equity in losses (earnings) of affiliates	(42.5)	(40.6)	4.7%	(95.4)	(86.2)	10.6%
Net other financial losses (gains)	(92.6)	(2.0)	n.m.	(219.7)	38.8	n.m.
Income before income taxes	**322.3**	**168.8**	**91.0%**	**906.6**	**456.5**	**98.6%**
Provision for income taxes	(70.1)	(58.0)	21.0%	(211.2)	7.4	n.m.
Income from continued operations	**252.2**	**110.9**	**127.5%**	**695.4**	**464.0**	**49.9%**
Income from discontinued operations	12.3	17.7	(30.4)%	40.9	62.9	(34.9)%
Losses (income) attributable to minority interests	(23.5)	(3.1)	n.m.	(66.3)	0.1	n.m.

Consolidated net income	**241.0**	**125.4**	**92.1%**	**670.1**	**527.0**	**27.2%**

(1) Considering a Euro/Real average exchange rate of 2.7167 in 9M06 and 2.6921 in 9M07. (2) EBITDA = income from operations + depreciation and amortisation. (3) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains).

EBITDA increased by 11.8% y.o.y in 9M07 to Euro 1,726 million, with the EBITDA margin improving by 2.1pp y.o.y to 38.1%. Adjusting for exceptional items (Table 3) related to prior years service gains at Wireline and provisions at Vivo (2Q06), EBITDA would have increased by 8.3% y.o.y, which results in a margin expansion of 0.9pp to 37.3%. The improvement in EBITDA in the period was driven primarily by growth in the mobile divisions, Vivo and TMN, and the increase in Other Businesses. Vivo EBITDA increased by 28.3% y.o.y (27.1% y.o.y in local currency), on the back of the strong improvement in underlying EBITDA (+16.8% in local currency) and the impact of a one-off provision recorded in 9M06 (Euro 30 million). As for TMN, continued top line growth, against a backdrop of strong commercial activity (190 thousand net additions in 3Q07), combined with strict cost control, resulted in an EBITDA growth of 3.3% y.o.y (+4.5% y.o.y in 3Q07). Wireline EBITDA increased by 0.7% y.o.y, mainly as a result of the increase in prior years service gains in 2007, resulting from the reduction in post retirement benefits. Excluding this impact, underlying EBITDA would have decreased by 2.4% y.o.y, with the 1.6pp improvement in underlying EBITDA margin resulting from the continued reduction in personnel-related and other operating costs. Other EBITDA increased to Euro 60 million in 9M07, mainly as a result of the increase in the contribution of MTC (Euro 40 million), which was only consolidated as from September 2006, and the increase in EBITDA of other fully consolidated subsidiaries.

Table 3 _ EBITDA by Business Segment (1) (2)

Euro million

	3Q07	3Q06	y.o.y	9M07	9M06	y.o.y
Wireline	220.0	234.2	(6.1)%	726.0	721.1	0.7%
Domestic mobile TMN	181.5	173.7	4.5%	509.0	492.5	3.3%
Brazilian mobile Vivo (1)	156.1	138.1	13.0%	430.8	335.8	28.3%
Other	21.3	2.5	n.m.	60.0	(5.2)	n.m.
Total EBITDA (2)	**578.9**	**548.5**	**5.5%**	**1,725.7**	**1,544.1**	**11.8%**
EBITDA margin (%)	36.8	37.1	(0.3pp)	38.1	36.0	2.1pp
Net impact of exceptional items	**0.0**	**0.0**	**n.m.**	**(36.2)**	**15.3**	**n.m.**
Prior years service gains related to vested rights	0.0	0.0	n.m.	(36.2)	(14.6)	147.4%
Vivo provision related to bad debt					30.0	n.m.
EBITDA excluding exceptional items	**578.9**	**548.5**	**5.5%**	**1,689.5**	**1,559.4**	**8.3%**
EBITDA margin (%)	36.8	37.1	(0.3pp)	37.3	36.4	0.9pp

(1) Considering a Euro/Real average exchange rate of 2.7167 in 9M06 and 2.6921 in 9M07. (2) EBITDA = income from operations + depreciation and amortisation.

The impact in 9M07 of the reduction in mobile termination rates throughout 2006 was as follows:

Table 4 _ Impact of Mobile Termination Rate Cuts

Euro million

	3Q07	9M07
Revenues	**3.2**	**19.6**
Wireline	0.7	5.4
Domestic mobile TMN	2.5	14.2
EBITDA	**1.3**	**8.6**

Wireline	0.1	1.5
Domestic mobile TMN	1.2	7.1

Curtailment costs amounted to Euro 142 million in 9M07, as compared to Euro 96 million in the previous year. Curtailment costs in 9M07 were related to the reduction in headcount of 482 employees.

Net interest expenses decreased by 15.5% y.o.y to Euro 146 million in 9M07, mainly as a result of the reduction in the average cost of debt in Portugal and Brazil, as well as the decrease in Vivo s average net debt in the period, and not withstanding the increase in PT s average net debt in the period.

Excluding Brazil and the interest cost associated with the PTM equity swap (settled in 2Q07), PT s average cost of debt was 3.5% in 9M07, as compared to 3.8% in the same period of last year.

Equity in earnings of affiliates increased to Euro 95 million in 9M07, as compared to Euro 86 million in 9M06, primarily as a result of the increase in PT s share in the earnings of Unitel (Euro 65 million in 9M07 vs. Euro 60 million in 9M06), UOL (Euro 9 million in 9M07 vs. Euro 5 million in 9M06) and CTM (Euro 13 million in 9M07 vs. Euro 11 million in 9M06).

Net other financial gains, which include net foreign currency gains, net gains on financial assets and net other financial expenses, amounted to Euro 220 million in 9M07, as compared to losses of Euro 39 million in 9M06. In 9M07, net gains on financial assets included gains related to: (1) the sale of 22% of Africatel (Euro 110 million), the holding company that aggregates all of PT s interests in Africa excluding Médi Télécom; (2) the equity swap contracts on PTM shares (Euro 77 million in 9M07 vs. Euro 6 million in 9M06); (3) the disposal of the investment in the shares of Banco Espírito Santo (Euro 36 million), and (4) the cash settlement of equity swaps on own shares (Euro 31 million). Net other financial expenses, which include mainly banking services, financial discounts and other financing costs, amounted to Euro 26 million in 9M07, which compares with Euro 37 million in 9M06. This reduction is mainly related to the financial taxes paid by Vivo in 9M06 in connection with its debt restructuring last year.

Provision for income taxes amounted to Euro 211 million in 9M07, as compared to a gain of Euro 7 million in 9M06. The change in this item is primarily explained by the Euro 53 million tax credit booked in 1Q06, in connection with the liquidation of a holding company, and by the Euro 142 million gain booked in 2Q06, in connection with the reduction of deferred tax liabilities resulting from the voluntary taxation of certain capital gains. Adjusting for these one-off effects, the provision for income taxes in 9M06 would have amounted to Euro 188 million, with the adjusted effective tax rate falling from 41% in 9M06 to 23% in 9M07, mainly as a result of: (1) the reduction in the nominal tax rate in Portugal from 27.5% in 2006 to 26.5% in 2007; (2) the decrease in allowances for deferred taxes on tax losses generated by Vivo, following the corporate restructuring completed at the end of 2006, and (3) the booking of the non-taxable capital gains related to the disposals of 22% of Africatel and the investment in the shares of BES.

Income from discontinued operations includes the earnings of PT Multimedia before minority interests, as a result of the spin-off of this division. In 9M07, this item included costs related to the spin-off process amounting to Euro 18 million (Euro 13 million, net of tax) in connection with employee, organisational and IT restructuring costs.

Income attributable to minority interests increased to Euro 66 million in 9M07 from losses of Euro 0.1 million in the previous year, mainly as a result of: (1) the increase in income attributable to Vivo minority interests (income of Euro 10 million in 9M07 vs. loss of Euro 38 million in 9M06), and (2) the income attributable to MTC minority interests (Euro 17 million in 9M07 vs. Euro 2 million in 9M06), which was consolidated as from September 2006.

Table 5 _ Net Income Excluding Exceptional Items

Euro million

	3Q07	3Q06	y.o.y	9M07	9M06	y.o.y
Net income	**241.0**	**125.4**	**92.1%**	**670.1**	**527.0**	**27.2%**
Net impact of exceptional items	**(68.1)**	**41.7**	**n.m.**	**(134.9)**	**(128.6)**	**4.9%**
Vivo provision related to bad debt						