

PORTUGAL TELECOM SGPS SA
Form 6-K
April 29, 2004

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 April, 2004

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 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

RELEASE

Portugal Telecom
2004 First Quarter Results

Lisbon, Portugal, 29 April 2004 Portugal Telecom (PT) (Euronext: PTCO.IN; NYSE: PT) announced today its unaudited results for the first quarter ending 31 March 2004.

Consolidated operating revenues amounted to Euro 1,427 million in the first quarter of 2004. EBITDA reached Euro 583 million, equivalent to a margin of 40.8%. EBITDA minus Capex reached Euro 493 million. Net income for the period amounted to Euro 162 million. Net debt, including the investment of Euro 131 million in the acquisition of treasury stock, was reduced by Euro 58 million from the end of 2003, reaching Euro 3,158 million at the end of the first quarter of 2004.

PT's financial results have been prepared in accordance with Portuguese GAAP and include certain reclassifications in order to conform more closely to an international presentation format. The results by business segment for the first quarter of 2004 and corresponding prior periods reflect certain changes in the reportable segments made during 2003, as further described in Section 13 below.

Table 1 Consolidated Financial Highlights

Euro million	1Q04	1Q03	y.o.y	4Q03	q.o.q
Operating Revenues	1,426.5	1,312.5	8.7%	1,545.2	(7.7%)
Operating Costs excluding D&A	844.0	792.7	6.5%	971.8	(13.1%)
EBITDA ⁽¹⁾	582.5	519.8	12.1%	573.4	1.6%
Operating Income	351.0	291.5	20.4%	333.3	5.3%
Net Income	161.5	84.8	90.4%	(39.0)	n.m.
Net Income excluding Curtailment ⁽²⁾	163.2	147.2	10.9%	(21.7)	n.m.
Capex	89.1	121.9	(26.9%)	317.7	(72.0%)
Capex as % of Revenues (%)	6.2	9.3	(3.1 p.p.)	20.6	(14.4 p.p.)
EBITDA minus Capex	493.4	397.9	24.0%	255.8	92.9%
Acquisition of Treasury Stock	130.6	0	n.m.	156.4	(16.5%)
Net Debt	3,158.0	3,834.1	(17.6%)	3,215.6	(1.8%)
EBITDA Margin ⁽³⁾ (%)	40.8	39.6	1.2 p.p.	37.1	3.7 p.p.
Net Debt / EBITDA (x)	1.4	1.8	(0.4x)	1.4	0.0x
EBITDA / Net Interest (x)	12.4	15.8	(3.4x)	7.3	5.1x

(1) EBITDA = Operating Income + Depreciation and Amortisation.

(2) Excluding workforce reduction programme costs, net of the related tax effect.

(3) EBITDA Margin = EBITDA / Operating Revenues.

1. FINANCIAL HIGHLIGHTS

- Operating revenues increased by 8.7% y.o.y in the first quarter of 2004 to Euro 1,427 million, on the back of the growth in the mobile and multimedia businesses.
- The contribution to operating revenues from the mobile businesses reached 47.8% in the first quarter of 2004, whilst wireline and multimedia accounted for 36.6% and 7.7% respectively. Vivo accounted for 24.6% of consolidated operating revenues in the quarter.
- Domestic retail revenues (wireline, Pay-TV and broadband) increased by 1.8% y.o.y to Euro 452 million in the first quarter of 2004, as a result of strong growth in Pay-TV and broadband revenues (both ADSL and cable modems), which offset a decrease in wireline traffic revenues.
- EBITDA increased by 12.1% y.o.y in the first quarter of 2004 to Euro 583 million, equivalent to a margin of 40.8%, a 1.2 p.p. improvement over the first quarter of 2003. The mobile businesses accounted for 54.1% of consolidated EBITDA in the first quarter of 2004, with Vivo accounting for 24.3%.
- Revenue and EBITDA of the domestic businesses grew by 1.7% and 6.4% y.o.y respectively, underpinned by a strong performance and margin improvement in the mobile and Pay-TV businesses.

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- Operating income rose by 20.4% y.o.y in the first quarter of 2004 to 351 million, equivalent to an operating margin of 24.6%, a 2.4 p.p. improvement over the first quarter of 2003.
- Net income totalled Euro 162 million in the first quarter of 2004, an increase of 90.4% y.o.y, compared to Euro 85 million in the first quarter of 2003.
- Capex fell by 26.9% y.o.y in the first quarter of 2004 to Euro 89 million, equivalent to 6.2% of revenues, a 3.1 p.p. decrease over the first quarter of 2003.
- EBITDA minus Capex increased by 24.0% y.o.y to Euro 493 million, equivalent to 34.6% of operating revenues. Approximately 78% of PT's EBITDA minus Capex is generated in Euros by business segments in Portugal.
- At the end of the first quarter of 2004, PT's net debt amounted to Euro 3,158 million, a reduction of Euro 58 million since the end of 2003. This reported net debt figure includes the impact of the investment of Euro 327 million in the acquisition of treasury stock (Euro 131 million in the first quarter of 2004), in line with the announced 10% share buyback programme. At the end of the first quarter of 2004, PT's net debt excluding Brazil was Euro 2,698 million.
- PT's net exposure (assets minus liabilities) to Brazil amounted to R\$ 7,227 million, or Euro 2,037 million at the Real/Euro exchange rate prevailing as at 31 March 2004. The assets denominated in Reais in PT's balance sheet as at 31 March 2004, represented 29.8% of total assets.
- Further to the announced share buyback programme, as at 31 March 2004, PT had acquired a total of 43,020,108 treasury shares, or 3.43% of PT's share capital. On 1 April 2004, PT sold to ABN all of the treasury stock it had acquired and contracted an equity swap over these shares. Following this transaction, as at 16 April 2004, PT had acquired a total of 4,585,000 treasury shares, or 0.37% of PT's share capital. In addition to the above mentioned equity swap, PT has other equity swap contracts equivalent to 2.13% of its share capital.

2. OPERATING HIGHLIGHTS

Table 2 Key Performance Indicators

	1Q04	1Q03	y.o.y	4Q03	q.o.q
Customer Base ('000)					
Total Customers	34,866	28,641	21.7%	33,520	4.0%
Wireline	6,281	5,354	17.3%	5,902	6.4%
Mobile	26,856	21,757	23.4%	25,931	3.6%
Pay-TV	1,466	1,346	8.9%	1,442	1.7%
Broadband (Retail ADSL + Cable)	454	225	101.9%	391	16.2%
Wireline					
Main Lines ('000)	4,235	4,177	1.4%	4,225	0.2%
PSTN/ISDN	3,999	4,099	(2.4%)	4,037	(0.9%)
Wholesale ADSL	236	78	203.0%	188	25.5%
Retail ADSL	204	63	225.5%	161	27.1%
Net Additions ⁽¹⁾ ('000)	10	(19)	n.m.	31	(68.2%)
Total Voice Traffic (mn min.)	3,189	3,155	1.1%	3,245	(1.7%)
F2F Domestic Traffic (mn min.)	1,372	1,528	(10.2%)	1,447	(5.2%)
ARPU (Euro)	34.0	34.1	(0.3%)	33.7	1.0%
Employees (no.)	9,065	10,717	(15.4%)	9,075	(0.1%)
Domestic Mobile (TMN)					
Active Customers ('000)	4,923	4,474	10.1%	4,887	0.8%
Net Additions ('000)	37	47	(22.4%)	195	(81.2%)
Total Churn (%)	22.7	24.7	(1.9p.p.)	23.5	(0.7p.p.)
MOU (min.)	116.4	118.4	(1.7%)	124.5	(6.5%)
ARPU (Euro)	23.1	24.1	(4.2%)	24.6	(6.3%)
Data as % of Service Revenues (%)	9.5	8.5	1.0 p.p.	9.2	0.3 p.p.
CCPU ⁽²⁾ (Euro)	10.7	12.1	(11.7%)	11.4	(6.0%)

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ARPU minus CCPU (Euro)	12.4	12.0	3.4%	13.2	(6.5%)
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Brazilian Mobile (Vivo)					
Customers ('000)	21,875	16,949	29.1%	20,656	5.9%
Market Share in Areas of Operation (%)	55.7	59.7	(4.0p.p.)	56.2	(0.5p.p.)
Net Additions ('000)	1,219	140	769.9%	2,186	(44.2%)
MOU (min.)	92.6	99.8	(7.2%)	102.9	(10.0%)
ARPU (Real)	34.6	37.8	(8.5%)	38.6	(10.4%)
CCPU (Real)	17.4	19.6	(11.6%)	21.3	(18.5%)
ARPU minus CCPU (Real)	17.3	18.2	(5.2%)	17.3	(0.5%)
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Multimedia (PT Multimedia)					
Homes Passed ('000)	2,495	2,405	3.8%	2,472	0.9%
Bi-directional (Broadband Enabled) ('000)	2,247	2,084	7.8%	2,221	1.2%
Pay-TV Customers ⁽³⁾ ('000)	1,466	1,346	8.9%	1,442	1.7%
Pay-TV Net Additions ('000)	24	39	(37.9%)	40	(39.2%)
Pay to Basic ratio (%)	74.9	71.9	3.0 p.p.	76.2	(1.3p.p.)
Churn (%)	14.6	13.5	1.1 p.p.	15.3	(0.7p.p.)
Cable Broadband Accesses ('000)	250	162	54.0%	230	8.5%
Pay-TV Blended ARPU (Euro)	24.7	23.4	5.8%	24.6	0.3%
Pay-TV EBITDA Margin (%)	34.5	23.6	10.9p.p.	33.9	0.6 p.p.
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(1) Including Wholesale ADSL.

(2) CCPU (Cash cost per user) = Operating costs minus provisions, depreciation and amortisation and sales of equipment per user.

(3) Regarding Pay-TV customers see Table 25 - Multimedia Operating Data.

Total Customers

- PT's total number of customers in the first quarter of 2004 increased by 1,346 thousand, which compares with net additions of 282 thousand in the first quarter of 2003. As a result, PT's customer base grew by 21.7% y.o.y to 34.9 million at the end of March 2004.
- In Portugal, PT had 454 thousand broadband customers at the end of March 2004, equivalent to a penetration of 8.9% of access lines (PSTN/ISDN and cable). PT registered 63 thousand broadband net additions (retail ADSL and cable) in the first quarter of 2004.

Wireline

- Total accesses increased by 1.4% y.o.y in the first quarter of 2004 to 4,235 thousand, including 236 thousand ADSL customers. Wholesale ADSL net additions in the first quarter were 48 thousand.
- At the end of March 2004, the number of pricing packages stood at 388 thousand, which represented 9.7% of total PSTN/ISDN lines.
- Total voice traffic in minutes increased by 1.1% y.o.y, while retail traffic decreased by 9.3% y.o.y and domestic fixed-to-fixed traffic decreased by 10.2% y.o.y in the first quarter of 2004.
- Total ARPU remained broadly flat in the first quarter of 2004 at Euro 34.0, underpinned by a higher percentage of retail revenues being fixed charges, including subscription fees and pricing packages, and a higher contribution from data, namely ADSL.

Domestic Mobile (TMN)

- Net additions totalled 37 thousand in the first quarter of 2004. At the end of March 2004, TMN had 4,923 thousand active customers, an increase of 10.1% over the same period of last year.
- MOU in the first quarter fell by 1.7% y.o.y to 116 minutes, primarily as a result of the seasonal adjustment on the back of customer growth in the fourth quarter and the dilutive impact of the rising number of double SIM cards and machine-to-machine.
- ARPU in the first quarter of 2004 decreased by 4.2% y.o.y to Euro 23.1, mainly as a result of the reduction in interconnection fees (F2M and M2M) and lower MOU.

Brazilian Mobile (Vivo)

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- Net additions reached 1,219 thousand in the first quarter of 2004, notwithstanding rising competition from new entrants. Vivo had 21,875 thousand active customers at the end of March 2004, corresponding to an estimated average market share of around 56% in its areas of operation (based on data provided by Anatel).
- In the first quarter of 2004, MOU was 93 minutes, down 7.2% y.o.y, as a result of strong subscriber growth, mainly composed of prepaid customers.
- ARPU was R\$ 34.6 in the first quarter of 2004, a 8.5% y.o.y decrease resulting mainly from the higher percentage of prepaid customers in Vivo's customer base and the impact of the changes in mobile-to-mobile interconnection rules in the second half of 2003.

Multimedia (PT Multimedia)

- Pay-TV net additions totalled 24 thousand in the first quarter of 2004. Total Pay-TV customers rose by 8.9% y.o.y to 1,466 thousand at the end of March 2004.
- Network rollout is almost complete with 2,495 thousand homes passed, of which 90% are bi-directional and therefore enabled for broadband.
- Pay-TV's blended ARPU in the first quarter of 2004 increased by 5.8% y.o.y to Euro 24.7, as a result of a higher penetration of premium services, including broadband Internet.
- Broadband cable modem customers reached 250 thousand at the end of March 2004, an increase of 54.0% over the same period of last year. Net additions in the first quarter of 2004 reached 20 thousand.

3. CONSOLIDATED RESULTS

Table 3 Consolidated Income Statement

Euro million	1Q04	1Q03	y.o.y	4Q03	q.o.q
Operating Revenues	1,426.5	1,312.5	8.7%	1,545.2	(7.7%)
Wireline	522.5	541.3	(3.5%)	524.0	(0.3%)
Domestic Mobile (TMN)	329.9	307.4	7.3%	356.5	(7.5%)
Brazilian Mobile (Vivo)	351.6	242.8	44.8%	398.0	(11.7%)
Multimedia (PT Multimedia)	176.1	163.4	7.7%	194.3	(9.4%)
Other	46.4	57.5	(19.3%)	72.4	(35.9%)
Operating Costs excluding D&A	844.0	792.7	6.5%	971.8	(13.1%)
Wages and Salaries	175.8	166.5	5.6%	188.1	(6.5%)
Post Retirement Benefits	49.7	54.5	(8.7%)	55.0	(9.5%)
Costs of Telecommunications	135.1	147.7	(8.5%)	138.4	(2.4%)
Subsidies	(3.7)	(5.1)	(27.3%)	(5.1)	(28.5%)
Maintenance and Repairs	29.6	32.0	(7.4%)	31.9	(7.0%)
Own Work Capitalised	(18.2)	(11.9)	53.2%	(28.2)	(35.6%)
Raw Materials and Consumables	16.4	13.9	18.1%	23.2	(29.4%)
Costs of Products Sold	119.5	92.1	29.7%	206.8	(42.2%)
Telephone Directories	21.9	22.8	(4.2%)	22.2	(1.6%)
Marketing and Publicity	37.2	27.3	36.6%	42.0	(11.3%)
General and Administrative Expenses	247.7	223.3	10.9%	271.3	(8.7%)
Provision for Doubtful Receivables	28.7	24.5	17.3%	40.2	(28.6%)
Other Net Operating Income	(23.2)	(8.3)	180.5%	(45.4)	(49.0%)
Taxes Other than Income Taxes	27.4	13.4	103.8%	31.5	(13.3%)
EBITDA	582.5	519.8	12.1%	573.4	1.6%
Depreciation and Amortisation	231.6	228.3	1.4%	240.1	(3.6%)
Operating Income	351.0	291.5	20.4%	333.3	5.3%
Other Expenses (Income)	66.0	113.3	(41.8%)	162.8	(59.5%)

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Net Interest Expenses	47.0	32.9	42.8%	78.6	(40.3%)
Net Foreign Currency Losses (Gains)	(6.8)	(6.7)	1.5%	31.7	n.m.
Net Other Financial Expenses (Income)	(2.5)	(42.2)	(94.2%)	5.2	n.m.
Goodwill Amortisation	23.0	24.0	(4.2%)	30.2	(23.6%)
Losses (Gains) on Disp. of Fixed Assets	1.1	0.8	38.3%	6.2	(82.3%)
Equity in Losses (Earnings) of Affiliates	(5.3)	9.5	(156.1%)	7.9	n.m.
Work Force Reduction Programme Costs	2.3	93.1	(97.6%)	25.8	(91.2%)
Other Non-Oper. Expenses/(Income)	8.1	1.8	358.4%	(23.3)	n.m.
Extraordinary Items (Losses / (Gains))	(0.9)	0.0	n.m.	0.4	n.m.
Income before Income Taxes	285.0	178.2	59.9%	170.5	67.2%
Provision for Income Taxes	(98.5)	(78.8)	25.1%	(186.1)	(47.1%)
Loss (Income) Applic. to Min. Interests	(24.9)	(14.6)	70.7%	(23.4)	6.4%
Consolidated Net Income	161.5	84.8	90.4%	(39.0)	n.m.

Consolidated Operating Revenues

Table 4 Consolidated Operating Revenues - Contribution by Segment

Euro million	1Q04	1Q03	y.o.y	1Q04 Weight	4Q03	q.o.q
Wireline	522.5	541.3	(3.5%)	36.6	524.0	(0.3%)
Domestic Mobile (TMN)	329.9	307.4	7.3%	23.1	356.5	(7.5%)
Brazilian Mobile (Vivo) ⁽¹⁾	351.6	242.8	44.8%	24.6	398.0	(11.7%)
Multimedia (PT Multimedia)	176.1	163.4	7.7%	12.3	194.3	(9.4%)
Pay-TV and Cable Internet	117.0	102.3	14.4%	8.2	116.9	0.0%
Other	46.4	57.5	(19.3%)	3.3	72.4	(35.9%)
Total Operating Revenues	1,426.5	1,312.5	8.7%	100.0	1,545.2	(7.7%)
Total Retail Revenues	452.0	444.0	1.8%	-	449.3	0.6%
Wireline	342.8	349.1	(1.8%)	-	342.8	0.0%
Pay-TV and Cable Internet	109.2	94.9	15.0%	-	106.5	2.6%
Avg. Revenue per Household (ARPH)	41.3	40.6	1.8%	-	41.0	0.6%

(1) Considering a Euro/Real average exchange rate of 3.6241 in 1Q04 and 3.7438 in 1Q03.

Consolidated operating revenues increased by 8.7% y.o.y in the first quarter of 2004 to Euro 1,427 million. Revenue growth in this quarter was underpinned by higher contributions from Vivo, TMN and PTM. Based on a flat Real / Euro exchange rate, operating revenues would have increased by 7.8% y.o.y in the quarter.

In the first quarter of 2004, the consolidation method of Mascom in Botswana was changed from full consolidation to equity accounting, which resulted in a negative impact of 1.2% on consolidated operating revenues. In the past, revenues from Mascom were booked in the Other Revenues caption.

In the first quarter of 2004, operating revenues from the domestic businesses rose by 1.7% y.o.y, supported by the robust performance of TMN and PTM.

In the first quarter of 2004, wireline and Pay-TV retail revenues increased by 1.8% y.o.y to Euro 452 million, with average revenue per household (ARPH) increasing to Euro 41.3 per month from Euro 40.6 in the first quarter of 2003.

The contribution to consolidated operating revenues from the mobile businesses rose by 5.9 p.p. y.o.y to 47.8% in the first quarter of 2004. Vivo was the main driver for this higher contribution, having benefited from strong underlying growth, as well as from the fact that TCO was only consolidated as of May 2003. In the first quarter of 2004, Vivo accounted for 24.6% of consolidated operating revenues, an increase of 6.1 p.p.

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over the same period of last year.

Table 5 Consolidated Operating Revenues Standalone Revenues by Segment

Euro million	1Q04	1Q03	y.o.y	4Q03	q.o.q
Wireline	558.5	583.3	(4.2%)	560.2	(0.3%)
Domestic Mobile (TMN)	366.6	352.7	3.9%	397.1	(7.7%)
Brazilian Mobile (Vivo) ⁽¹⁾	351.6	242.8	44.8%	398.0	(11.7%)
Multimedia (PT Multimedia)	176.4	163.5	7.9%	194.8	(9.5%)
Pay-TV and Cable Internet	117.4	102.4	14.7%	117.2	0.2%
Other and Eliminations	(26.6)	(29.8)	(10.7%)	(5.0)	n.m.
Total Operating Revenues	1,426.5	1,312.5	8.7%	1,545.2	(7.7%)

(1) Considering a Euro/Real average exchange rate of 3.6241 in 1Q04 and 3.7438 in 1Q03.

EBITDA

Table 6 EBITDA by Business Segment

Euro million	1Q04	1Q03	y.o.y	1Q04 Weight	1Q04 Margin	4Q03	q.o.q	4Q03 Margin
Wireline	226.8	234.8	(3.4%)	38.9	40.6	214.5	5.7%	38.3
Domestic Mobile (TMN)	173.6	154.1	12.6%	29.8	47.3	185.1	(6.3%)	46.6
Brazilian Mobile (Vivo) ⁽¹⁾	141.8	100.2	41.5%	24.3	40.3	128.2	10.6%	32.2
Multimedia (PT Multimedia)	42.1	27.3	54.4%	7.2	23.9	43.8	(3.8%)	22.5
Pay-TV and Cable Internet	40.5	24.1	67.9%	7.0	34.5	39.7	2.0%	33.9
Other	(1.7)	3.4	n.m.	(0.3)	n.m.	1.8	n.m.	n.m.
Total EBITDA	582.5	519.8	12.1%	100.0		573.4	1.6%	
EBITDA Margin (%)	40.8	39.6	1.2 p.p.			37.1	3.7 p.p.	

(1) Considering a Euro/Real average exchange rate of 3.6241 in 1Q04 and 3.7438 in 1Q03.

EBITDA increased by 12.1% y.o.y in the first quarter of 2004 to Euro 583 million, while EBITDA margin improved by 1.2 p.p. to 40.8%. In absolute terms, EBITDA growth was underpinned by Vivo, TMN and PTM. Margin performance was strong across all business units, with TMN and PTM expanding margins by 3.7 p.p. and 7.2 p.p. y.o.y respectively.

Based on a flat Real / Euro exchange rate, EBITDA would have increased by 11.2% y.o.y in the quarter. The change in the consolidation method of Mascom in the first quarter of this year had a negative impact on EBITDA of 1.4%.

In the first quarter of 2004, the EBITDA of the domestic businesses grew by 6.4% y.o.y. Strong EBITDA growth and margin expansion at TMN and, particularly at PTM underpinned this performance.

The contribution to consolidated EBITDA from the mobile businesses rose by 5.2 p.p. y.o.y to 54.1% in the first quarter of 2004. The contribution of Vivo to consolidated EBITDA improved by 5.1 p.p. y.o.y to 24.3% in the first quarter of 2004 in part due to the fact that TCO S results were not consolidated until May 2003, whilst PTM improved its contribution by 2.0 p.p. to 7.2% on the back of a 54.4% EBITDA growth.

Consolidated Operating Costs

Consolidated operating costs amounted to Euro 1,076 million, an increase of 5.3% over the first quarter of 2003, which is lower than the 8.7% increase in consolidated operating revenues in the period.

Table 7 Consolidated Operating Costs

Euro million	1Q04	1Q03	y.o.y	4Q03	q.o.q
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				1Q04 % Rev.			4Q03 % Rev.
Wages and Salaries	175.8	166.5	5.6%	12.3 #	188.1	(6.5%)	12.2
Telecommunication Costs	135.1	147.7	(8.5%)	9.5	138.4	(2.4%)	9.0
Costs of Products Sold	119.5	92.1	29.7%	8.4	206.8	(42.2%)	13.4
Marketing and Publicity	37.2	27.3	36.6%	2.6	42.0	(11.3%)	2.7
Provision for Doubtful Rec.	28.7	24.5	17.3%	2.0	40.2	(28.6%)	2.6
General & Administrative Exp.	247.7	223.3	10.9%	17.4	271.3	(8.7%)	17.6
Other Operating Costs	50.2	56.9	(11.8%)	3.5	30.0	67.1%	1.9
Oper. Costs ex. D&A & PRBs	794.2	738.2	7.6%	55.7	916.8	(13.4%)	59.3
Post Retirement Benefits	49.7	54.5	(8.7%)	3.5	55.0	(9.5%)	3.6
Oper. Costs excluding D&A	844.0	792.7	6.5%	59.2	971.8	(13.1%)	62.9
Depreciation & Amortisation	231.6	228.3	1.4%	16.2	240.1	(3.6%)	15.5
Total Operating Costs	1,075.6	1,021.0	5.3%	75.4	1,211.9	(11.2%)	78.4

Wages and salaries amounted to Euro 176 million, an increase of 5.6% over the same period of last year and a decrease of 6.5% over the fourth quarter of 2003. Wages and salaries currently represent 12.3% of consolidated operating revenues, compared to 12.7% in the first quarter of 2003. In the case of the wireline business, which accounted for 40.7% of consolidated wages and salaries, these costs fell by 9.8% over the first quarter of 2003. Wages and salaries of Vivo increased by 26.5% y.o.y in the first quarter of 2004, primarily due to the fact that TCO was only fully consolidated by Vivo as of May 2003.

Post retirement benefits (PRBs) decreased by Euro 5 million or 8.7% to Euro 50 million, accounting for 3.5% of consolidated operating revenues compared to 4.2% in the first quarter of 2003. The decline in PRBs is primarily due to a change in the calculation of the pension upon retirement of an employee following recent retirement legislation approved by the Portuguese Parliament. Since the beginning of the year, the calculation of pensions considers 90% of the average salary of the last three years of employment, which compares with the previous method where by pensions were calculated based on 100% of the salary of the last year of employment.

Telecommunications costs amounted to Euro 135 million compared to Euro 148 million in the first quarter of 2003, decreasing by 8.5% y.o.y mainly as a result of lower traffic volumes in wireline and the decrease in fixed-to-mobile interconnection fees. Telecommunications costs accounted for 9.5% of consolidated operating revenues.

Costs of products sold increased by 29.7% y.o.y to Euro 119 million in the first quarter of 2004, mainly driven by the 21.5% y.o.y increase in the sales of merchandise and products. This cost item represents 8.4% of consolidated operating revenues.

Marketing and publicity costs rose by 36.6% y.o.y in the first quarter of 2004 to Euro 37 million, mainly as a result of the increase in advertising expenditures and promotional activities in connection with the rollout of new services at TMN, Vivo and PTM, which accounted for 80.1% of the increase in this caption. The remainder was due to the fact that TCO was only fully consolidated by Vivo as of May 2003. This cost item represents 2.6% of consolidated operating revenues.

Provisions for doubtful receivables, inventories and other increased by 17.3% y.o.y to Euro 29 million in the first quarter of 2004, primarily because of a higher level of provisioning at TMN and the fact that TCO was only fully consolidated by Vivo as of May 2003. Provisions accounted for 2.0% of consolidated operating revenues.

General and administrative expenses increased by 10.9% y.o.y in the first quarter of 2004 to Euro 247 million, primarily as a result of the fact that TCO was fully consolidated by Vivo in the first quarter of 2004 (Euro 10 million). General and administrative expenses accounted for 17.4% of consolidated operating revenues.

Depreciation and amortisation costs increased by 1.4% y.o.y in the first quarter of 2004 to Euro 232 million. Depreciation charges exceeded capex by Euro 142 million, resulting in a capex to depreciation ratio of 0.38 times in the first quarter of 2004. This cost item accounted for 16.2% of consolidated operating revenues.

EBIT

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EBIT in the first quarter of 2004 amounted to Euro 351 million, an increase of 20.4% y.o.y. The operating margin improved 2.4 p.p. y.o.y in the first quarter of 2004 to 24.6%.

Net Income

Net income amounted to Euro 162 million in the first quarter of 2004, an increase of 90.4% compared to Euro 85 million in the same period last year.

Net interest expenses increased from Euro 33 million in the first quarter of 2003 to Euro 47 million in the first quarter of 2004, corresponding to an average cost of debt of approximately 5.8% in the first quarter of 2004. Excluding financing costs in Brazil, the average cost of debt was 4.7%.

Net other financial income amounted to Euro 2 million in the first quarter of 2004, compared to Euro 42 million in the same period last year. In the first quarter of 2003, this caption included gains on the cancellation of certain derivative instruments.

Goodwill amortisation amounted to Euro 23 million in the first quarter of 2004 compared to Euro 24 million in the first quarter of 2003. This caption included mainly the amortisation related to the investments in Vivo (Euro 9 million), Lusomundo (Euro 4 million), PTM (Euro 3 million) and PTM.com (Euro 2 million).

Equity accounting in earnings of affiliated companies amounted to Euro 5 million in the first quarter of 2004, compared to a loss of Euro 10 million in the first quarter of 2003. In the first quarter of 2004, this caption included mainly PT's share in the earnings of CTM, Unitel and Mascom, in the amount of approximately Euro 3 million each, and in the losses of Médi Télécom in the amount of Euro 5 million. The improvement in this caption (Euro 15 million) is primarily explained by the reduction of PT's share in the losses of Médi Télécom (from Euro 9 million to Euro 5 million) and by the consolidation of Mascom under the equity method in the first quarter of 2004 since this company is in the process of being divested and pending regulatory approval and therefore is no longer being fully consolidated by PT.

The non-cash provision for income taxes in the first quarter of 2004 amounted to Euro 99 million, compared to Euro 79 million in the same period of last year. This increase is primarily explained by the 59.9% y.o.y increase in income before taxes, offset partially by the reduction in the corporate tax rate from 33% to 27.5%.

4. CAPEX

Capital expenditure was managed in line with the Group's announced focus on maximising cash flow.

Table 8 Capex by Business Segment

Euro million	1Q04	1Q03	y.o.y	1Q04 Weight	1Q04 % Rev.	4Q03	q.o.q	4Q03 % Rev.
Wireline	30.7	27.4	12.1%	34.5	5.5	60.6	(49.3%)	10.8
Domestic Mobile (TMN)	17.1	46.7	(63.3%)	19.2	4.7	78.6	(78.2%)	19.8
Brazilian Mobile (Vivo)	17.9	22.5	(20.5%)	20.1	5.1	103.2	(82.7%)	25.9
Multimedia (PT Multimedia)	9.9	15.9	(37.5%)	11.2				