PORTUGAL TELECOM SGPS SA
Form 6-K
August 14, 2013

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 August 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

Second Quarter 2013

Earnings Release

14 August 2013

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Earnings Release

Lisbon, Portugal, 14 August 2013

In 1H13, consolidated operating revenues amounted to Euro 3,092 million. Consolidated EBITDA stood at Euro 1,017 million with an EBITDA margin of 32.9%. The margin of the Portuguese telecommunications businesses stood at 42.9%, underpinning consolidated EBITDA margin. In 1H13, notwithstanding the depreciation of the Brazilian Real, fully and proportionally consolidated international assets represented 58.0% and 49.6% of PT s consolidated revenues and EBITDA, respectively. Net income reached Euro 284 million in 1H13, including the capital gain recorded in 2Q13 in connection with the sale of the investment in CTM. In 1H13, capex amounted to Euro 596 million, equivalent to 19.3% of revenues, while capex from Portuguese telecommunications businesses stood at Euro 228 million, down by 4.4% y.o.y, notwithstanding the investments in the rollout of the Data Center in Covilhã, which will be inaugurated on 23 September 2013. In 1H13, EBITDA minus capex reached Euro 421 million, while EBITDA minus capex of the Portuguese telecommunications businesses amounted to Euro 321 million. In 1H13, operating cash flow stood at Euro 179 million, reflecting the seasonal first half investment in working capital, while free cash flow amounted to a negative amount of Euro 16 million. Excluding Oi and Contax, free cash flow amounted to Euro 304 million in 1H13, benefiting from the proceeds of the sale of CTM. As at 30 June 2013, net debt adjusted for unused tax credits related to the transfer of the regulated pension plans to the Portuguese State amounted to Euro 7,749 million, and excluding the proportional consolidation of Oi and Contax, amounted to Euro 4,609 million. In 1H13, cost of net debt, excluding the proportional consolidation of Oi and Contax, reached 5.3% and cost of gross debt stood at 4.8%, with an average maturity of 6.2 years as at 30 June 2013.

Consolidated financial highlights (1) **Euro million**

	2Q13	**2Q12**	**y.o.y**	**1H13**	**1H12**	**y.o.y**
Operating revenues	1,539.8	1,629.0	(5.5)%	3,092.4	3,344.7	(7.5)%
Operating costs (2)	1,049.3	1,059.7	(1.0)%	2,075.6	2,203.6	(5.8)%
EBITDA (3)	490.6	569.4	(13.8)%	1,016.8	1,141.1	(10.9)%
Income from operations (4)	133.2	217.2	(38.7)%	306.5	426.0	(28.0)%
Net income	257.3	67.7	280.0%	284.0	123.1	130.7%
Capex	309.7	263.2	17.7%	596.3	522.1	14.2%
Capex as % of revenues (%)	20.1	16.2	4.0pp	19.3	15.6	3.7pp
EBITDA minus Capex	180.8	306.1	(40.9)%	420.5	618.9	(32.1)%
Operating cash flow	120.8	173.4	(30.3)%	178.6	286.8	(37.7)%
Free cash flow	170.4	(200.4)	185.0%	(15.6)	(358.7)	(95.6)%
Adjusted net debt (5)	7,748.7	7,645.6	1.3%	7,748.7	7,645.6	1.3%
Adjusted net debt exc. Oi and Contax (5)	4,608.9	4,700.1	(1.9)%	4,608.9	4,700.1	(1.9)%
After-tax unfunded PRB obligations	694.8	657.1	5.7%	694.8	657.1	5.7%
EBITDA margin (%) (6)	31.9	35.0	(3.1)pp	32.9	34.1	(1.2)pp
Adjusted net debt / EBITDA (x) (5)	3.6	3.3	0.3x	3.6	3.3	0.3x
Basic earnings per share	0.30	0.08	280.0%	0.33	0.14	131.6%
Diluted earnings per share (7)	0.28	0.08	257.3%	0.32	0.14	122.2%

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(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)** Operating costs = wages and salaries + direct costs + commercial costs + other operating costs. **(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 + net other costs (gains). **(5)** Net debt was adjusted for the unused tax credits related to the transfer of the regulated pension plans to the Portuguese State. **(6)** EBITDA margin = EBITDA / operating revenues. **(7)** Earnings per share computed using net income excluding the costs associated with the convertible bonds divided by the diluted number of shares.

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Financial Review

Income Statement

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

	2Q13	2Q12	y.o.y	1H13	1H12	y.o.y
Operating revenues	**1,539.8**	**1,629.0**	**(5.5)%**	**3,092.4**	**3,344.7**	**(7.5)%**
Portugal (2)	645.5	678.1	(4.8)%	1,280.0	1,358.5	(5.8)%
Residential	179.4	178.5	0.5%	361.9	355.5	1.8%
Personal	161.4	170.3	(5.2)%	317.7	339.7	(6.5)%
Enterprise	199.4	226.3	(11.9)%	401.6	452.3	(11.2)%
Wholesale, other and eliminations	105.3	102.9	2.4%	198.7	211.0	(5.8)%
Brazil • Oi	694.4	753.6	(7.9)%	1,418.4	1,542.1	(8.0)%
Other and eliminations	199.9	197.3	1.3%	394.1	444.2	(11.3)%
Operating costs (3)	**1,049.3**	**1,059.7**	**(1.0)%**	**2,075.6**	**2,203.6**	**(5.8)%**
Wages and salaries	268.4	272.9	(1.7)%	516.7	566.2	(8.7)%
Direct costs	268.5	264.6	1.5%	534.7	560.3	(4.6)%
Commercial costs	144.6	140.1	3.2%	266.9	264.8	0.8%
Other operating costs	367.7	382.0	(3.7)%	757.4	812.3	(6.8)%
EBITDA (4)	**490.6**	**569.4**	**(13.8)%**	**1,016.8**	**1,141.1**	**(10.9)%**
Post retirement benefits	12.3	15.4	(20.3)%	24.8	31.6	(21.5)%
Depreciation and amortisation	345.1	336.7	2.5%	685.4	683.4	0.3%
Income from operations (5)	**133.2**	**217.2**	**(38.7)%**	**306.5**	**426.0**	**(28.0)%**
Other expenses (income)	**67.4**	**(25.3)**	**n.m.**	**46.5**	**(14.2)**	**n.m.**
Curtailment costs, net	127.6	0.0	n.m.	128.2	0.9	n.m.
Net losses (gains) on disposal of fixed assets	(0.7)	1.2	n.m.	(1.1)	2.1	n.m.
Net other costs (gains)	(59.5)	(26.6)	123.6%	(80.6)	(17.2)	n.m.
Income before financ. & inc. taxes	**65.8**	**242.5**	**(72.9)%**	**260.0**	**440.2**	**(40.9)%**
Financial expenses (income)	**(164.9)**	**90.9**	**n.m.**	**(41.7)**	**187.5**	**n.m.**
Net interest expenses (income)	147.0	128.3	14.5%	292.6	236.0	24.0%
Equity in earnings of affiliates, net	(335.9)	(49.3)	n.m.	(375.9)	(95.6)	293.3%
Net other financial losses (gains)	24.0	11.9	101.6%	41.6	47.1	(11.8)%
Income before income taxes	**230.7**	**151.6**	**52.1%**	**301.7**	**252.7**	**19.4%**
Provision for income taxes	36.9	(66.7)	n.m.	4.6	(87.9)	n.m.
Income before non-controlling interests	**267.6**	**84.9**	**215.1%**	**306.4**	**164.7**	**86.0%**
Losses (income) attributable to non-controlling interests	(10.3)	(17.2)	(40.0)%	(22.4)	(41.6)	(46.3)%
Consolidated net income	**257.3**	**67.7**	**280.0%**	**284.0**	**123.1**	**130.7%**

(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).

In 1H13, consolidated operating revenues decreased by Euro 252 million to Euro 3,092 million (-7.5% y.o.y), reflecting primarily: (1) the impact of the depreciation of the Brazilian Real against the Euro (Euro 173 million), and (2) the revenue decline in the Portuguese telecommunications businesses (Euro 78 million). Oi s higher contribution on a constant currency basis (Euro 25 million) was offset by a lower contribution from other international operations, namely Contax and Africatel businesses.

In 1H13, revenues from Portuguese telecommunications businesses decreased by 5.8% y.o.y, having improved the quarterly trend when comparing the 2Q13 (-4.8% y.o.y) to 1Q13 (-6.8% y.o.y) and 4Q12 (-8.1% y.o.y). Revenue performance continued to be impacted by the pricing and competitive dynamics and by the macroeconomic environment. Against this backdrop, in 1H13 PT posted continued growth in the Residencial segment and presented improved trends in the Personal and Wholesale segments. Private consumption in Portugal decreased by 5.1% in 1Q13, while PT s consumer segment, which includes Residential and Personal segments, posted customer revenues decreasing by 1.8% in 2Q13, 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 one million RGUs in August 2013. The Enterprise segment is penalised by significant price declines, namely in mobile services, notwithstanding an improved performance from SMEs and SOHOs. The improved performance of revenues from Wholesale, other and eliminations in 2Q13 reflects a one-off related to certain contracts, including some international traffic transit agreements, which tend to carry low margin, and was obtained notwithstanding a Euro 6 million decline in the directories business (-30.5% y.o.y) reflecting secular trends.

Oi s revenues proportionally consolidated stood at Euro 1,418 million (R$ 14,773 million, equivalent to 100%) in 1H13, compared to Euro 1,542 million (R$ 14,533 million, equivalent to 100%) in 1H12, a decrease of Euro 124 million reflecting primarily the impact of the depreciation of the Brazilian Real against the Euro (Euro 149 million). On a constant currency basis, the contribution of Oi to PT s consolidated operating revenues in 1H13 would have amounted to Euro 1,568 million, representing an increase of Euro 25 million primarily explained by: (1) higher revenues from the Residential segment, due to the positive contribution of broadband and pay-TV revenues, more visible as from 2H12, that more than offset lower fixed voice revenues; (2) an increase in the Personal Mobility segment revenues, on the back of higher revenues from traffic, broadband services and monthly fees, underpinned by Oi s strong focus in the postpaid and higher income segments; (3) higher data and IT revenues from the Corporate segment, and (4) higher sales, reflecting Oi s strategy to broaden the scope of its presence in the mobile market. 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, which fully consolidates Oi.

Other revenues, including intra-group eliminations, decreased by 11.3% y.o.y to Euro 394 million in 1H13, reflecting the depreciation of the Brazilian Real and Namibian Dollar against the Euro (Euro 39 million). Adjusting for this effect, the reduction in other revenues is primarily explained by a lower contribution from Contax (Euro 9 million), reflecting lower revenues from Brazilian call centre services, and by some regulatory impacts at other international operations.

The contribution from fully and proportionally consolidated international assets to consolidated operating revenues stood at 58.0% in 1H13, with Brazil accounting for 53.0%, as compared to 58.6% and 53.6% in 1H12, respectively. This decrease is explained primarily by the impact of the depreciation of the Brazilian Real against the Euro.

In 1H13, consolidated EBITDA decreased by Euro 124 million (-10.9% y.o.y) to Euro 1,017 million, as compared to Euro 1,141 million in 1H12, mainly due to: (1) the EBITDA decline in the Portuguese telecommunications businesses (Euro 66 million, -10.7% y.o.y), primarily due to lower revenues (Euro 78 million) as explained above; (2) the impact of the depreciation of the Brazilian Real against the Euro (Euro 45 million), and (3) a lower contribution from Oi on a constant currency basis (Euro 7 million), primarily explained by an increase in commercial costs. Other EBITDA decreased by 12.3% y.o.y (Euro 9 million) to Euro 66 million in 1H13, reflecting the depreciation of the Brazilian Real and Namibian Dollar against the Euro. On a constant currency basis, EBITDA from other businesses remained broadly flat at Euro 76 million.

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

	2Q13	2Q12	y.o.y	1H13	1H12	y.o.y
Portugal	277.6	307.4	(9.7)%	549.2	615.1	(10.7)%
Brazil • Oi	180.6	223.1	(19.0)%	401.4	450.4	(10.9)%
Other	32.3	38.8	(16.7)%	66.3	75.6	(12.3)%
EBITDA	**490.6**	**569.4**	**(13.8)%**	**1,016.8**	**1,141.1**	**(10.9)%**
EBITDA margin (%) (2)	31.9	35.0	(3.1)pp	32.9	34.1	(1.2)pp

(1) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. **(2)** EBITDA margin = EBITDA / operating revenues

EBITDA from the Portuguese telecommunications businesses amounted to Euro 549 million in 1H13 (-10.7% y.o.y), equivalent to a 42.9% margin. The EBITDA performance is the result of the decline in service revenues (Euro 88 million), which have high operating leverage, and also of lower margin in new services provided by the Enterprise segment. In effect, while service revenues minus direct costs declined by Euro 90 million, EBITDA declined by Euro 66 million, reflecting a continuous focus on cost cutting and efficiency gains. EBITDA performance in Portugal was also penalised by a Euro 2 million decline in the directories business.

In 1H13, Oi s proportional consolidated EBITDA stood at Euro 401 million (R$ 4,180 million, equivalent to 100%), compared to Euro 450 million (R$ 4,245 million, equivalent to 100%) in 1H12, an Euro 49 million decrease that includes the impact of the depreciation of the Brazilian Real against the Euro (Euro 42 million). On a constant currency basis, the contribution of Oi to PT s consolidated EBITDA would have decreased by Euro 7 million over the same period of last year, to Euro 444 million in 1H13, notwithstanding higher operating revenues. The lower contribution of Oi s EBITDA is explained by higher provisions for bad debt, higher third party services, due to increased pay-TV content and higher maintenance expenses, and increased commercial costs, namely comissions and marketing expenses.

Fully and proportionally consolidated international assets represented 49.6% of PT s consolidated EBITDA in 1H13, while the Brazilian businesses accounted for 42.2% of EBITDA in the period, as compared to 49.0% and 41.8% in 1H12, respectively.

Post retirement benefits costs decreased from Euro 32 million in 1H12 to Euro 25 million in 1H13 due to a lower contribution from the Portuguese telecommunications business (Euro 8 million), which reflects the reduction in the discount rates undertaken at the end of 2012, leading to a lower net interest cost in 1H13. Post retirement benefits costs in 2012 were restated in order to reflect the impact of the adoption of the revised version of IAS 19 Employee Benefits. Additional information is available under the section Other disclosures, changes in accounting policies and estimates .

Depreciation and amortisation costs amounted to Euro 685 million in 1H13, compared to Euro 683 million in 1H12. Adjusting for the impact of the depreciation of the Brazilian Real against the Euro (Euro 34 million), depreciation and amortisation costs would have increased by 5.2% y.o.y (Euro 36 million) to Euro 719 million in 1H13. This increase is explained primarily by a higher contribution from Oi (Euro 43 million, on a constant currency basis) reflecting the amortisation of the 4G-LTE license acquired in June 2012 and also increased investments made in 2013 as compared to 2012, namely in the coverage and capacity of Oi s 2G and 3G networks, and in the capacity, capillarity and quality of the wireline and broadband networks. The higher depreciation and amortisation costs at Oi were partially offset by lower depreciation and amortisation costs in the Portuguese telecommunications businesses (Euro 10 million), reflecting the decline in capex occurred throughout 2012 against the backdrop of the investments in future proof technologies and networks undertaken in previous years, namely in FTTH and 4G-LTE coverage.

Curtailment costs amounted to Euro 128 million in 1H13 reflecting mainly a redundancy programme of approximately 400 employees implemented in 2Q13.

Net other gains amounted to Euro 81 million in 1H13, compared to Euro 17 million in 1H12. In 1H13, this caption includes: (1) a gain resulting from the settlement of contractual obligations related to the acquisition of the investment in Oi in 2011, by a lower amount than the liability initially recognised; (2) a gain related to the wireline Concession Agreement, and (3) certain provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts. In 1H12, this caption includes a gain related to the net compensation for prior years costs supported by PT with the universal service obligation under the Concession Agreement net of provisions and adjustments recognised in order to adjust the carrying value of certain assets to the corresponding recoverable amounts.

Net interest expenses increased to Euro 293 million in 1H13 as compared to Euro 236 million in 1H12, reflecting primarily: (1) an increase in the average cost of net debt excluding the proportional consolidation of Oi and Contax, from 3.9% in 1H12 to 5.3% in 1H13, mainly as a result of a lower return on cash applications and also an increase in the cost of gross debt from 4.3% in 1H12 to 4.8% in 1H13, and (2) a higher contribution from Oi, Contax and its controlling shareholders, including the impact of the increase in its average net debt, that more than compensated the reduction in the cost of debt in Brazil and the depreciation of the Brazilian Real against the Euro. The increase in Oi s net debt is mainly explained by: (1) payments made in April 2012 in connection with Oi s corporate simplification; (2) the negative free cash flow generated between June 2012 and June 2013, reflecting mainly legal action payments, and (3) the dividends paid in May and August 2012 and in March and April 2013.

Equity in earnings of affiliates amounted to Euro 376 million in 1H13, including a Euro 310 million gain related to the disposal of the investment in CTM. Adjusting for this impact and PT s share in the earnings of CTM in 1H12 (Euro 13 million), equity in earnings of affiliates would have amounted to Euro 66 million in 1H13, as compared to Euro 83 million in 1H12, mainly due to changes in corporate tax and currency effects, as operationally equity consolidated companies continue to perform.

Net other financial losses, which include net foreign currency gains, net losses on financial assets and net other financial expenses, decreased from Euro 47 million in 1H12 to Euro 42 million in 1H13, reflecting primarily lower net other financial expenses at Oi, mainly related to banking services and certain other financial costs.

Income taxes amounted to a gain of Euro 5 million in 1H13, as compared to a loss of Euro 88 million in 1H12, due to lower taxable earnings across all businesses, reflecting higher curtailment charges and interest expenses.

Income attributable to non-controlling interests amounted to Euro 22 million in 1H13 and Euro 42 million in 1H12. The reduction of Euro 19 million reflects a lower income attributable to non-controlling interests of: (1) the African businesses (Euro 9 million), and (2) Oi (Euro 9 million), as a result of the completion of its corporate simplification in March 2012.

Net income amounted to Euro 284 million in 1H13 compared to Euro 123 million in 1H12. This increase is explained primarily by: (1) the gain recorded in connection with the sale of the investment in CTM, and (2) higher non-recurring gains, as explained above. These effects were partially offset by: (1) lower EBITDA from Portuguese telecommunications business; (2) higher curtailment costs reflecting a redundancy programme of approximately 400 employees; (3) higher interest expenses, and (4) lower contribution from the Brazilian businesses.

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Shareholder Remuneration

Following the approval at the AGM held on 19 April 2013, on 17 May 2013 PT paid to its shareholders a dividend per share of Euro 0.325 in relation to fiscal year 2012 in the context of the shareholder remuneration policy for fiscal years 2012 to 2014.

On 13 August 2013, PT s Board of Directors approved the modification of its shareholder remuneration policy for fiscal years 2013 and 2014, which will be exclusively comprised of a cash dividend of Euro 0.10 per share to be paid annually. This decision, coupled with the sale of PT s equity interest in CTM recently executed and the recent bond issuances lead to a reinforcement of the Company s balance sheet and to a stronger financial flexibility.

Capex

Capex amounted to Euro 596 million in 1H13, equivalent to 19.3% of revenues, as compared to Euro 522 million in 1H12. Excluding the impact of the depreciation of the Brazilian Real against the Euro (Euro 33 million), capex would have increased by 20.6% y.o.y in 1H13 to Euro 630 million. This increase is explained by a higher contribution from Oi (Euro 124 million in constant currency), reflecting the investments made in 3G coverage and capacity, in the initial rollout of the 4G-LTE network and in IT services, mainly related to system updates and upgrades. Oi s higher contribution was partially offset by a lower contribution from Portuguese telecommunications businesses (Euro 10 million), which stood at Euro 228 million in 1H13, notwithstanding the investments made during 1H13 in the rollout of the Data Center in Covilhã, which will be inaugurated on 23 September 2013. Excluding this effect, capex in Portuguese telecommunications businesses would have declined by Euro 37 million, to Euro 202 million (-15.3% y.o.y). Capex from other businesses decreased by 10.4% y.o.y to Euro 59 million in 1H13, reflecting mainly the impact of the depreciation of the Brazilian Real and Namibian Dollar against the Euro (Euro 5 million) and also lower capex at CVT and CST, following the investments realised in 2012 in the rollout of the submarine cable.

Capex by business segment **Euro million**

	2Q13	**2Q12**	**y.o.y**	**1H13**	**1H12**	**y.o.y**
Portugal	128.7	123.5	4.3%	227.9	238.4	(4.4)%
Brazil • Oi	144.9	97.0	49.3%	309.2	217.6	42.1%
Other	36.1	42.7	(15.4)%	59.2	66.1	(10.4)%
Total capex	**309.7**	**263.2**	**17.7%**	**596.3**	**522.1**	**14.2%**
Capex as % of revenues	20.1					