

PORTUGAL TELECOM SGPS SA
Form 6-K
November 13, 2012

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 2012

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

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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

First Nine Months 2012
Trading Update

8 November 2012

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Trading Update

Lisbon, Portugal, 8 November 2012

This trading update, which is not a complete release of financial statements, excludes the consolidation of Brazilian assets, namely Oi and Contax, in all figures presented. A complete set of consolidated financial statements for the 9M12 will be disclosed on 30 November 2012.

In 9M12, operating revenues amounted to Euro 2,321 million, while EBITDA stood at Euro 994 million. EBITDA margin reached 42.8% underpinned by the solid margin of the Portuguese telecommunication businesses, which stood at 44.9%. Revenues in the Portuguese telecommunication businesses stood at Euro 682 million in 3Q12 (-6.7% y.o.y). Excluding regulation effects, revenues in the Portuguese telecommunication businesses would have declined by 5.4% y.o.y in 3Q12 (-5.5% y.o.y in 2Q12). In 9M12, capex amounted to Euro 449 million, equivalent to 19.3% of revenues, while capex from Portuguese telecommunication businesses stood at Euro 370 million, down by 7.5% y.o.y, reflecting the recent investments in future proof technologies and networks. In 9M12, EBITDA minus capex reached Euro 545 million. In 9M12, operating cash flow stood at Euro 416 million, while free cash flow stood at Euro 178 million (Euro 123 million in 3Q12). As at 30 September 2012, net debt adjusted for tax effect in relation to the transfer of the regulated pension plans to the Portuguese State, amounted to Euro 4,591 million. In 9M12, cost of net debt reached 4.2% and cost of gross debt stood at 4.4%. At the end of September 2012, PT's liquidity stood at Euro 3,207 million.

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

	3Q12	3Q11	y.o.y	9M12	9M11	y.o.y
Operating revenues	770.0	814.2	(5.4)%	2,321.3	2,424.0	(4.2)%
Operating costs (2)	442.1	461.2	(4.1)%	1,327.6	1,362.4	(2.6)%
EBITDA (3)	327.9	353.0	(7.1)%	993.8	1,061.6	(6.4)%
Capex	153.8	169.9	(9.5)%	448.6	454.9	(1.4)%
Capex as % of revenues (%)	20.0	20.9	(0.9)pp	19.3	18.8	0.6pp
EBITDA minus Capex	174.1	183.1	(4.9)%	545.2	606.7	(10.1)%
Operating cash flow	170.6	150.4	13.4%	415.6	608.0	(31.6)%
Free cash flow (4)	123.0	45.4	171.0%	177.5	416.9	(57.4)%
Adjusted net debt (5)	4,590.5	4,150.5	10.6%	4,590.5	4,150.5	10.6%
EBITDA margin (%) (6)	42.6	43.4	(0.8)pp	42.8	43.8	(1.0)pp

(1) Figures excluding the consolidation of Brazilian assets, namely Oi and Contax, in all periods. (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) This caption excludes the cash out-flow related to the investments in Oi and Contax (Euro 3,728 million in 1Q11). (5) Net debt, excluding Oi and Contax, was adjusted for the tax effect on pension debt due to the Portuguese State, including Euro 113 million related to the 2011 contribution which was accounted for as tax losses carried forward. In 3Q11 and 9M11, net debt was adjusted for the receivable by Telefónica, amounting to Euro 2 billion, paid in October 2011. (6) EBITDA margin = EBITDA / operating revenues.

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Operational Review

Portuguese Telecommunication Businesses

In 3Q12, the Portuguese telecommunication businesses continued to show customer growth, with the fixed retail customers growing by 6.3% y.o.y to 5,007 thousand (net additions reached 67 thousand), while mobile customers were up by 0.4% y.o.y to 7,386 thousand (5 thousand net adds with postpaid reaching 7 thousand net additions and prepaid with 2 thousand net losses).

Portuguese operating data

	3Q12	3Q11	y.o.y	9M12	9M11	y.o.y
Fixed retail accesses ('000)	5,007	4,709	6.3%	5,007	4,709	6.3%
PSTN/ISDN	2,610	2,662	(2.0)%	2,610	2,662	(2.0)%
Broadband customers	1,200	1,072	11.9%	1,200	1,072	11.9%
Pay-TV customers	1,198	974	22.9%	1,198	974	22.9%
Mobile Customers ('000)	7,386	7,354	0.4%	7,386	7,354	0.4%
Postpaid	2,463	2,341	5.2%	2,463	2,341	5.2%
Prepaid	4,922	5,013	(1.8)%	4,922	5,013	(1.8)%
Net additions ('000)						
Fixed retail accesses	67	77	(12.9)%	212	182	16.3%
PSTN/ISDN	(5)	(10)	50.9%	(38)	(33)	(14.5)%
Broadband customers	31	32	(3.3)%	94	71	32.9%
Pay-TV customers	41	55	(25.5)%	156	145	7.7%
Mobile Customers	5	20	(73.9)%	(58)	(65)	10.8%
Postpaid	7	23	(69.9)%	86	51	69.0%
Prepaid	(2)	(3)	42.6%	(144)	(116)	(24.2)%
Data as % of mobile service revenues (%)	32.8	28.9	3.9pp	32.1	27.7	4.4pp

Growth of fixed retail customers was underpinned by a solid performance of Meo, PT's pay-TV service, anchored on the back of a very differentiated value proposition. This leverages on a non-linear pay-TV service offering, a seamless multiscreen experience with live TV channels, video on demand, games and music on demand available on multiple devices.

In 3Q12, pay-TV customers were up by 22.9% y.o.y to 1,198 thousand, a resilient performance representing net additions of 41 thousand in 3Q12 and 156 thousand in 9M12. This steady customer growth confirms the continued success and the attractiveness of Meo in the Portuguese market. This performance of pay-TV underpinned a solid growth of fixed broadband customers, which were up by 11.9% y.o.y to 1,200 thousand (31 thousand net adds in 3Q12 and 94 thousand in 9M12). PT's triple-play customers (voice, broadband and pay-TV) grew by 27.7% y.o.y, having reached 802 thousand in 3Q12 (36 thousand net adds in the quarter).

Mobile customers benefited from the performance of postpaid customers, which grew by 5.2% y.o.y (7 thousand net adds in 3Q12) benefiting from the growth of the unlimited tariff plans. The *o nunca mais acaba* tariff plans, which reached 973 thousand customers in 3Q12, as well as the

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new Moche tariff plans (+8.4% y.o.y in 3Q12 to 1,360 thousand customers), also continued to show solid growth trends. Mobile broadband customers increased by 21 thousand customers in 3Q12 to 914 thousand (+15.8% y.o.y) reflecting the attractiveness and success of TMN's broadband offers and the extensive coverage of PT's 3G and 4G LTE networks.

Residential

Residential retail accesses or retail revenue generating units (RGUs) increased by 9.6% y.o.y, reaching 3,791 thousand, with pay-TV and broadband accesses already accounting for 55.6% of total residential retail accesses as at 30 September 2012 (+3.9pp y.o.y). In 3Q12, retail net additions reached 77 thousand, as a result of: (1) growth of the pay-TV service, which accounted for 37 thousand net additions; (2) 29 thousand net adds of fixed residential broadband, reflecting the continued growth in triple-play and double-play bundles, and (3) 11 thousand net adds of residential fixed voice customers (PSTN/ISDN lines), also reflecting the positive impact of the triple-play offers and notwithstanding aggressive commercial offers by the main competitor. As at the end of September 2012: (1) pay-TV residential customers reached 1,114 thousand (up by 22.5% y.o.y); (2) fixed residential broadband customer base grew by 13.1% y.o.y to 994 thousand, and (3) residential fixed voice customers stood at 1,683 lines, up by 0.7% y.o.y.

In 3Q12, PT's residential customer segment continued to show growth in unique customers, which reached 1,878 thousand (+0.9% y.o.y) with 14 thousand net adds in the quarter. Residential revenue generating units per unique customer stood at 2.0, up by 8.6% y.o.y reflecting the continued success of Meo's triple-play offer. As a result of this success, residential ARPU was up by 2.8% y.o.y to Euro 31.8 in 3Q12. This performance is noteworthy as it was achieved against a backdrop of: (1) a challenging economic environment, which leads to some pressure on those services that are more exposed to the economic environment, such as premium and thematic channels, video on demand and other value added services, and (2) an aggressive commercial stance by certain competitors on voice promotions and low-end offers.

Residential operating data

	3Q12	3Q11	y.o.y	9M12	9M11	y.o.y
Fixed retail accesses ('000)	3,791	3,460	9.6%	3,791	3,460	9.6%
PSTN/ISDN	1,683	1,671				