

PORTUGAL TELECOM SGPS SA
Form 20-F
April 30, 2013

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[TABLE OF CONTENTS](#)
[TABLE OF CONTENTS 2](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR**

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of Registrant as specified in its charter)

The Portuguese Republic

(Jurisdiction of incorporation or organization)

Av. Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal

(Address of principal executive offices)

Nuno Vieira, Investor Relations Director, Tel. +351 21 500 1701, Fax +351 21 500 0800

Av. Fontes Pereira de Melo, 40, 1069-300 Lisboa, Portugal

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

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Title of each class
American Depositary Shares, each representing one
ordinary share, nominal value €0.03 per share
Ordinary shares, nominal value €0.03 each

Name of each exchange on which registered
New York Stock Exchange
New York Stock Exchange*

*
Not for trading but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares, nominal value €0.03 per share 896,512,000
Class A shares, nominal value €0.03 per share 500

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No (Note: None required of the registrant)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

TABLE OF CONTENTS

	Page
<u>CERTAIN DEFINED TERMS</u>	<u>1</u>
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	<u>1</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>2</u>
<u>PART I</u>	<u>3</u>
<u>ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>3</u>
<u>ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>3</u>
<u>ITEM 3 KEY INFORMATION</u>	<u>3</u>
<u>ITEM 4 INFORMATION ON THE COMPANY</u>	<u>31</u>
<u>ITEM 4A UNRESOLVED STAFF COMMENTS</u>	<u>129</u>
<u>ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>129</u>
<u>ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>178</u>
<u>ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>201</u>
<u>ITEM 8 FINANCIAL INFORMATION</u>	<u>206</u>
<u>ITEM 9 THE OFFER AND LISTING</u>	<u>215</u>
<u>ITEM 10 ADDITIONAL INFORMATION</u>	<u>217</u>
<u>ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>238</u>
<u>ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>248</u>
<u>PART II</u>	<u>250</u>
<u>ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>250</u>
<u>ITEM 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>250</u>
<u>ITEM 15 CONTROLS AND PROCEDURES</u>	<u>250</u>
<u>ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>251</u>
<u>ITEM 16B CODE OF ETHICS</u>	<u>251</u>
<u>ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>252</u>
<u>ITEM 16D EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>252</u>
<u>ITEM 16E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>252</u>
<u>ITEM 16F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	<u>252</u>
<u>ITEM 16G CORPORATE GOVERNANCE</u>	<u>253</u>
<u>ITEM 16H MINE SAFETY DISCLOSURE</u>	<u>253</u>
<u>ITEM 17 FINANCIAL STATEMENTS</u>	<u>253</u>
<u>ITEM 18 FINANCIAL STATEMENTS</u>	<u>253</u>
<u>ITEM 19 EXHIBITS</u>	<u>253</u>
<u>INDEX TO FINANCIAL STATEMENTS</u>	<u>253</u>

Table of Contents

CERTAIN DEFINED TERMS

Unless the context otherwise requires, the terms "Portugal" refers to the Portuguese Republic, including the Madeira Islands and the Azores Islands; the term "EU" refers to the European Union; and the terms "United States" and "U.S." refer to the United States of America.

We use the term "Portugal Telecom" to refer to Portugal Telecom, SGPS S.A. and not to its subsidiaries. Unless the context implies otherwise, the terms "we," "our" or "us" refer to Portugal Telecom, its consolidated subsidiaries and jointly controlled entities that are proportionally consolidated, including the Oi Group.

We use the term the "Oi Group" to refer, collectively, to Telemar Participações S.A., its subsidiary Oi S.A., a Brazilian company, and Oi S.A.'s subsidiaries.

References to "Euros," "EUR" or "€" are to the Euro. References herein to "U.S. dollars," "\$" or "US\$" are to United States dollars. References to "Real," "Reais" or "R\$" are to Brazilian Reais.

PRESENTATION OF FINANCIAL INFORMATION

Preparation of Financial Statements in IFRS

Our audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU ("EU-IFRS"). EU-IFRS may differ from IFRS as issued by the International Accounting Standards Board ("IASB") if, at any point in time, new or amended reporting standards have not been endorsed by the EU. As of December 31, 2012, 2011, and 2010, there were no unendorsed standards effective as of and for the years ended December 31, 2012, 2011, and 2010, respectively, that affected our financial statements, and there was no difference between EU-IFRS and IFRS as issued by the IASB as applied by Portugal Telecom. Accordingly, our financial statements as of and for the years ended December 31, 2012, 2011, and 2010 were prepared in accordance with IFRS as issued by the IASB. IFRS comprise the accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

We publish our financial statements in Euro, the single EU currency adopted by certain participating member countries of the European Union, including Portugal, as of January 1, 1999. The Federal Reserve Bank of New York's noon buying rate in the City of New York for Euros was €0.7685 = US\$1.00 on April 23, 2013, and the noon buying rate on that date for Reais was R\$2.0145 = US\$1.00. We are not representing that the Euro, US\$ or R\$ amounts shown herein could have been or could be converted at any particular rate or at all. See *"Item 3 Key Information Exchange Rates"* for further information regarding the rates of exchange between Euros and U.S. dollars and between Reais and U.S. dollars.

Proportional Consolidation of Brazilian Operations

On March 28, 2011, we completed the acquisition of an economic interest of 25.3% in Telemar Norte Leste S.A. ("Telemar") (through a 25.6% economic interest in Telemar Participações S.A. ("TmarPart")), a fixed line telecommunications operator in Brazil that was controlled by Tele Norte Leste Participações S.A., the parent company of the Oi Group at that time, and that controlled, directly or indirectly, the majority of the voting shares of the companies included in the Oi Group, namely its mobile telecommunications operators, another fixed line telecommunications operator and several other support and holding companies. Since April 1, 2011, given our economic interest and our rights to participate in the management of TmarPart and Oi as described in *"Item 4 Information on the Company Our Businesses Brazilian Operations (Oi) Strategic Partnership with Oi,"* we have proportionally consolidated 25.6% of TmarPart in our consolidated financial statements, which, in turn, fully consolidates the Oi Group. Our economic interest in the Oi Group decreased to 23.3% (from the initial 25.3% economic interest held in Telemar to a 23.3% economic interest currently held in Oi, S.A.) as a result of a corporate reorganization of the Oi Group that was completed on

Table of Contents

April 9, 2012. However, our economic interest in TmarPart remains at 25.6%, and we continue to proportionally consolidate 25.6% of TmarPart in our consolidated financial statements.

Concurrently with our investment in Oi, we acquired a 16.2% economic interest in CTX Participações S.A. ("CTX"), the controlling shareholder of Contax Participações S.A. ("Contax Participações") and Contax S.A. ("Contax"), a provider of contact center, business process outsourcing ("BPO") and IT services in Brazil and other countries in Latin America. Even before our investment in Contax, we provided call center and Information Technology/Information Systems ("IT/IS") services in Brazil through our subsidiary Dedic, S.A. ("Dedic") and its subsidiary GPTI Tecnologias de Informação, S.A. ("GPTI"). On June 30, 2011, we merged Dedic and GPTI into Contax, and our economic interest in Contax increased to 19.5%. On April 2, 2013, economic interest in Contax increased to 21.1% through the transaction described in *"Item 4 Information on the Company Recent Developments."* We have proportionally consolidated the results of operations of Contax in our results of operations since April 1, 2011, and Contax's results of operations have included the results of operations of Dedic and GPTI since July 1, 2011.

Discontinued Operations

We provided mobile telecommunications services in Brazil through Vivo Participações S.A. ("Vivo") through September 2010. We held our participation in Vivo through our 50% interest in Brasilcel N.V., a joint venture with Telefónica, S.A. ("Telefónica"). On July 28, 2010, we reached an agreement with Telefónica for them to buy from us our 50% interest in Brasilcel N.V. We closed the transaction on September 27, 2010. Our consolidated statements of income and cash flows for the year ended December 31, 2010 and for any prior periods included in *"Item 3 Selected Consolidated Financial Data"* present Vivo under the caption "Discontinued Operations," but Vivo is no longer included in our consolidated statement of financial position as of December 31, 2010 or in our consolidated statements of income and cash flows for any period thereafter.

FORWARD-LOOKING STATEMENTS

This Form 20-F includes, and documents incorporated by reference herein and future public filings and oral and written statements by our management may include, statements that constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs and assumptions of our management and on information available to management at the time such statements were made. Forward-looking statements include, but are not limited to: (a) information concerning possible or assumed future results of our operations, earnings, industry conditions, demand and pricing for our services and other aspects of our business under *"Item 4 Information on the Company," "Item 5 Operating and Financial Review and Prospects"* and *"Item 11 Quantitative and Qualitative Disclosures About Market Risk"*; and (b) statements that are preceded by, followed by or include the words "believes," "expects," "anticipates," "intends," "is confident," "plans," "estimates," "may," "might," "could," "would," the negatives of such terms or similar expressions.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. Many of the factors that will determine these results are beyond our ability to control or predict. We do not intend to review or revise any particular forward-looking statements referenced in this Form 20-F in light of future events or to provide reasons why actual results may differ. Investors are cautioned not to put undue reliance on any forward-looking statements.

Table of Contents

Any of the following important factors, and any of those important factors described elsewhere in this or in other of our SEC filings, among other things, could cause our results to differ from any results that might be projected, forecasted or estimated by us in any such forward-looking statements:

material adverse changes in economic conditions in Portugal, Brazil or the other countries in which we have operations and investments;

the effects of intense competition in Portugal, Brazil and the other countries in which we have operations and investments;

changes in telecommunications technology that could lead to obsolescence of our infrastructure;

the development and marketing of new products and services and market acceptance of such products and services;

risks and uncertainties related to national and supranational regulation; and

the adverse determination of disputes under litigation.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

We are not required to provide the information called for by Item 1.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

We are not required to provide the information called for by Item 2.

ITEM 3 KEY INFORMATION

Selected Consolidated Financial Data

The selected consolidated statement of financial position data as of December 31, 2011 and 2012 and the selected consolidated statement of income and cash flow data for each of the years ended December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements included herein prepared in accordance with IFRS. The selected consolidated statement of financial position data as of December 31, 2008, 2009 and 2010 and the selected consolidated statement of income and cash flow data for the years then ended have been derived from our audited consolidated financial statements prepared in accordance with IFRS included in our Annual Report for the year ended December 31, 2010.

The information set forth below is qualified by reference to, and should be read in conjunction with, our audited financial statements and the notes thereto and also "*Item 5 Operating and Financial Review and Prospects*" included in this Form 20-F.

Given the sale on September 27, 2010 of our interest in Vivo to Telefónica, the selected consolidated statement of income for Vivo is presented under the caption "Discontinued Operations" for all periods through the completion of the sale, and the selected consolidated statement of financial

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Table of Contents

position as of December 31, 2010 no longer includes the assets and liabilities related to Vivo, following the completion of the sale on September 27, 2010.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
(EUR Millions)					
Statement of Income Data(1):					
Continuing operations					
Revenues:					
Services rendered	3,503.4	3,492.0	3,516.0	5,859.3	6,194.0
Sales	217.7	197.2	165.6	141.5	198.7
Other revenues	40.1	44.3	60.6	146.1	206.2
Total revenues	3,761.2	3,733.4	3,742.3	6,146.8	6,598.8
Costs, expenses losses and income:					
Wages and salaries	489.4	546.7	637.1	1,020.5	1,102.4
Direct costs	520.8	522.4	547.6	1,012.3	1,092.4
Costs of products sold	244.8	207.3	179.9	169.9	183.1
Marketing and publicity	87.9	78.6	81.1	131.1	124.4
Supplies and external services	695.6	733.3	724.5	1,281.4	1,475.2
Indirect taxes	45.9	57.8	45.4	187.5	247.0
Provisions and adjustments	29.0	30.5	35.0	156.3	105.6
Depreciation and amortization	647.5	716.9	758.6	1,325.6	1,390.6
Net post retirement benefit costs	44.8	89.6	38.2	58.5	58.3
Curtailement and settlement costs	100.0	14.8	145.5	36.4	2.1
Gains on disposals of fixed assets, net	(18.3)	(2.0)	(5.5)	(9.2)	(32.7)
Other costs (gains), net	22.6	45.6	141.2	32.6	(8.7)
Income before financial results and taxes	851.3	691.9	413.8	744.0	859.2
Minus: Financial costs (gains), net	32.4	(200.7)	81.6	212.9	385.9
Income before taxes	818.9	892.6	332.2	531.1	473.2
Minus: Income taxes	204.8	185.9	77.5	108.2	147.6
Net income from continuing operations	614.1	706.7	254.6	422.9	325.6
Discontinued operations					
Net income from discontinued operations	81.7	82.5	5,565.4		
Net income	695.8	789.2	5,820.1	422.9	325.6
Attributable to non-controlling interests	119.7	104.5	147.9	83.8	95.3
Attributable to equity holders of the parent	576.1	684.7	5,672.2	339.1	230.3
Income before financial results and taxes per ordinary share, A share and ADS(2)	0.95	0.77	0.46	0.83	0.96
Earnings per ordinary share, A share and ADS:					
Basic(3)	0.64	0.78	6.48	0.39	0.27
Diluted(4)	0.62	0.76	6.06	0.39	0.27
Earnings per ordinary share, A share and ADS from continuing operations, net of non-controlling interests:					
Basic(3)	0.60	0.74	0.19	0.39	0.27
Diluted(4)	0.59	0.72	0.19	0.39	0.27
Cash dividends per ordinary share, A share and ADS(5)	0.575	0.575	2.300	0.650	0.325
Share capital	26.9	26.9	26.9	26.9	26.9

(1)

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We applied retrospectively, from January 1, 2009, the interpretation IFRIC 12, *Service Concession Arrangements*, which became effective as from January 1, 2010, following its approval by the European Commission as of March 25, 2009.

(2)

Based on 896,512,500 ordinary and A shares for all periods presented.

Table of Contents

- (3) The weighted average number of shares for purposes of calculating basic earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares.
- (4) The weighted average number of shares for purposes of calculating diluted earnings per share is computed based on the average ordinary and A shares issued and the average number of treasury shares adjusted by the number of shares from the exchangeable bonds issued on August 28, 2007.
- (5) Cash dividends per ordinary share, A share and American Depositary Share ("ADS") for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 were €0.575, €0.575, €2.30, €0.65 and €0.325, respectively, before applicable withholding tax. Cash dividends per ordinary share, A share and ADS for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 were US\$0.75, US\$0.71, US\$3.18, US\$0.82 and US\$0.42, respectively, using the exchange rate in effect on the date on which each dividend was paid (or, for the dividends to be paid with respect to the year ended December 31, 2012, the exchange rate on the most recent practicable date), before applicable withholding tax. The dividend amounts set forth above for each year are the amounts paid with respect to the results of operations for those fiscal years, even when the actual date of payment fell in a different year. See "Item 8 Financial Information Distributions to Shareholders Dividend Information." As mentioned in Note 22 to our audited consolidated financial statements, cash dividends for the year ended December 31, 2012 corresponded to an ordinary dividend per share of €0.325, to be paid in May 2013, as approved at our Annual Shareholders' Meeting held on April 19, 2013. Cash dividends for the year ended December 31, 2011 corresponded to an ordinary dividend per share of €0.65, of which €0.215 was paid on January 4, 2012 as an advance over the profits relating to 2011, as approved by our Board of Directors on December 15, 2011, and the remaining €0.435 was paid in May 2012, as approved at our Annual Shareholders' Meeting held on April 27, 2012. Cash dividends for the year ended December 31, 2010 included (1) an extraordinary dividend per share of €1.65, of which €1.00 was paid in December 2010 and the remaining €0.65 was paid in 2011, as approved at our Annual Shareholders' Meeting held on May 6, 2011; and (2) an ordinary cash dividend of €0.65 per share also approved at the Annual Shareholders' Meeting.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(EUR Millions)				
Cash Flow Data:					
Cash flows from operating activities	1,828.9	1,927.5	1,506.9	1,775.2	1,574.1
Cash flows from investing activities	(108.7)				