

PORTUGAL TELECOM SGPS SA

Form 6-K

September 03, 2014

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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 2014

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.

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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

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Portugal Telecom

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The terms PT , Portugal Telecom Group , PT Group , Group and Company refer to Portugal Telecom and its subsidiaries or any of them as the context.

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Financial review

On 5 May 2014, Portugal Telecom subscribed a share capital increase of Oi through the contribution in kind of the PT Assets, defined as its 100% interest in PT Portugal, which as of that date included all operational businesses of Portugal Telecom Group except for the subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A. and the investments in Oi, Contax and its controlling shareholders. As a result of the contribution to the Oi share capital increase on 5 May 2014:

- PT increased its effective interest in Oi from 23.2%, previously held through Bratel Brasil, to an economic interest of 39.7%, held through a total direct interest of 35.8% (32.8% in Portugal Telecom and 3.0% in Bratel Brasil) and an indirect interest of 3.9% held through the controlling shareholders of Oi.
- The investment in Oi is classified in accordance with the provisions of IFRS 5 as from 5 May 2014 and accordingly measured at fair value based on the quote prices of Oi's shares at the balance sheet date.
- As a result of all transactions that were necessary to implement in connection with the contribution of assets to Oi's capital increase and the low historical carrying value of some of the assets in PT's consolidated statement of financial position, Portugal Telecom recorded a gain of Euro 701 million that then was partially offset by the write off of certain tax assets, namely its tax losses carried forward recognized as an deferred tax assets at its 2013 balance sheet amounting to Euro 208 million as of 5 May 2014, following the discontinuing of the Portuguese operations that supported this tax loss.
- The earnings and losses of all businesses contributed to Oi's share capital increase were presented as discontinued operations and accordingly the income statements for the 1H13 and 2Q13 were restated.

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Euro million

	2Q14	2Q13 Restated	1H14	1H13 Restated
Wages and salaries	3.3	2.7	6.5	6.0
Supplies and external services	3.4	0.9	4.4	1.8
Provisions	0.1	0.0	0.1	(0.8)
Indirect taxes	1.1	0.5	1.8	0.8
Other operating expenses	0.0	0.0	0.0	0.0
EBITDA	(8.0)	(4.1)	(12.8)	(7.8)
Depreciation	0.0	0.1	0.1	0.1
EBIT	(8.0)	(4.2)	(12.8)	(8.0)
Other costs (gains), net	(0.0)	(126.0)	(0.9)	(126.0)
Income (loss) before financial results and taxes	(7.9)	121.9	(11.9)	118.0
Net interest income	(3.7)	(4.7)	(10.5)	(8.1)
Losses in joint ventures	19.8	42.5	38.0	59.5
Net losses on financial assets and other investments	71.4	0.1	71.4	0.0
Net other financial losses	13.1	16.9	18.9	11.4
Income (loss) before income taxes	(108.6)	67.0	(129.8)	55.2
Income taxes	(3.2)	(1.9)	(4.5)	4.3
Net income (loss) from continuing operations	(105.4)	68.9	(125.3)	50.8
Net income from discontinued operations	469.4	201.6	484.1	259.4
Net income	363.9	270.5	358.8	310.3
Non-controlling interests	4.0	13.3	13.6	26.3
Net income attributable to controlling interests	360.0	257.3	345.2	284.0

Consolidated operating costs amounted to Euro 13 million in 1H14 and Euro 8 million in 1H13, reflecting higher third party expenses related to the ongoing business combination between Portugal Telecom and Oi and also higher indirect costs related to those expenses.

Net other gains of Euro 126 million in 1H13 include mainly 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 recognized.

Net interest income amounting to Euro 10 million in 1H14 and Euro 8 million in 1H13 relate mainly to term deposits held by Portugal Telecom and Bratel Brasil, as Portugal Telecom's debt prior to the Oi share capital increase was transferred to Oi as part of PT Assets.

Losses in joint ventures correspond to Portugal Telecom's share in the losses of joint ventures up to 5 May 2014, based on the equity method of accounting, since as from that date the investment in Oi is measured at fair value based on the share price of Oi's shares with the related changes in fair value being included under the caption Net losses on financial assets and other investments. PT's share in the losses of joint ventures decreased to Euro 38 million in 1H14 as compared to Euro 60 million in 1H13, reflecting mainly a capital gain recorded by Oi in the first quarter of 2014 relating to the disposal of mobile telecommunication towers, amounting to R\$ 1,247 million (equivalent to approximately Euro 60 million corresponding to PT's share, net of taxes), and lower interest expenses

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from Oi's controlling shareholders, which in 2014 relate to only four months as compared to six months in 2013. These effects were partially offset by higher interest costs, higher net other financial expenses and lower revenues.

Net losses on financial assets and other investments in 1H14 correspond to the loss resulting from the reduction in the fair value of the investment in Oi between 5 May and 30 June 2014, since as from 5 May 2014 this investment is classified as held for distribution to owners and accordingly measured at fair value based on the quote price of Oi's shares.

Net other financial losses reflect mainly certain bank commissions and other financial services, including in 2Q14 certain financial costs incurred in connection with the business combination between Portugal Telecom and Oi, namely financial taxes paid for the transfer of funds to Brasil.

Income taxes amounted to a gain of Euro 4 million in 1H14, corresponding basically to the tax effect on operating costs and other financial expenses net of interest income recorded in the period. The change compared to the same period of last year reflects mainly higher operating and net other financial costs.

Net income from discontinued operations in 1H14 includes primarily a gain recorded in connection with Oi's share capital increase, totalling Euro 701 million, partially offset by the write-off of tax losses of Euro 208 million recorded on the same date due to the discontinuing of Portuguese businesses that supported the recognition of that deferred tax loss. Adjusting for these effects, discontinued operations reported a net loss of Euro 9 million in 1H14, as compared to a net income of Euro 259 million in 1H13 that reflects primarily the gain recorded in connection with the disposal of the equity investment in CTM in 2Q13 (Euro 310 million), partially offset by certain provisions and adjustments recorded in the same period to adjust the carrying value of certain assets to their corresponding recoverable amounts.

Net income attributable to non-controlling interests amounted to Euro 14 million in 1H14 and Euro 26 million in 1H13, reflecting mainly lower income from African businesses in 2014 up to 5 May, when these businesses were contributed to Oi's share capital increase.

Net income increased to Euro 345 million in 1H14 as compared to Euro 284 million in 1H13, reflecting primarily (1) the gain recorded in connection with Oi's share capital increase as described above, and (2) lower losses in joint ventures recorded through the equity method of accounting. These effects were partially offset by (1) the net income from discontinued operations in 1H13, amounting to Euro 259 million, which reflected mainly the gain recorded in connection with the disposal of the equity investment in CTM (Euro 310 million), (2) net other gains recorded in 2Q13 (Euro 126 million), related mainly to the settlement of contractual obligations resulting from the acquisition of Oi, and (3) the loss recorded in 2Q14 due to the reduction in the fair value of the investment in Oi as from 5 May (Euro 71 million).

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	30 Jun 2014	31 Dec 2013
ASSETS		
Cash and cash equivalents	109.7	1,659.0
Short-term investments		914.1
Accounts receivable	0.0	1,170.7
Non-current assets held for distribution to owners	2,231.5	
Investments in joint ventures		2,408.2
Investments in associated companies		511.3
Goodwill		380.6
Intangible assets		717.7
Tangible assets	0.2	3,438.5
Deferred taxes	1.4	564.9
Other assets	6.6	255.4
Total assets	2,349.4	12,020.4
LIABILITIES		
Gross debt	0.1	7,371.1
Accounts payable	2.1	587.7
Accrued expenses	19.8	534.7
Post retirement benefits		960.9
Deferred taxes	1.7	243.8
Provisions	26.9	91.1
Other liabilities	7.5	