

PORTUGAL TELECOM SGPS SA  
Form 6-K  
April 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 April 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

Edgar Filing: PORTUGAL TELECOM SGPS SA - Form 6-K

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

---

**Announcement** | Lisbon | 13 April 2012

**Moody's rating**

Moody's announced today its review of the credit rating attributed to Portugal Telecom SGPS, S.A. ( PT ) and the ratings of its fully owned subsidiary PT International Finance B.V. ( PTIF ), downgrading the long-term rating from Ba1 to Ba2. The outlook remains negative.

For further information, please refer to the Moody's press release attached hereto.

**Portugal Telecom, SGPS, SA**  
Avenida Fontes Pereira de Melo, 40  
1069-300 Lisbon  
Portugal

Public company  
Share capital Euro 26,895,375  
Registered in the Commercial  
Registry Office of Lisbon  
and Corporation no. 503 215 058

Portugal Telecom is listed on the  
Euronext and New York Stock  
Exchange. Information may be  
accessed on the Reuters under the  
symbols PTC.LS and PT and on  
Bloomberg under the symbol PTC PL.

Nuno Vieira  
Investor Relations Director  
nuno.t.vieira@telecom.pt  
Tel.: +351 21 500 1701  
Fax: +351 21 500 0800

[www.telecom.pt](http://www.telecom.pt)

**Rating Action: Moody's downgrades Portugal Telecom's ratings to Ba2; Negative Outlook**

**Global Credit Research - 13 Apr 2012**

Madrid, April 13, 2012 Moody's Investors Service has today downgraded by one notch to Ba2 from Ba1 the ratings of Portugal Telecom SGPS, SA. The affected ratings are Portugal Telecom's corporate family rating (CFR), the probability of default rating (PDR) and the senior unsecured long-term debt ratings, as well as the ratings of Portugal Telecom's fully owned subsidiary, PT International Finance B.V. (PTIF). The outlook remains negative.

**RATINGS RATIONALE**

The rating downgrade was prompted by Moody's concerns over the weakness in the telecom operator's financial ratios and the expectation that Portugal Telecom is unlikely to meet the financial ratio guidance set for the previous rating level over the short to medium term. This guidance included the expectation of debt reduction and operating performance reflecting a positive trend towards adjusted Net Debt to EBITDA of 2.5x and adjusted RCF to Net Debt improving towards the high twenties.

Although Portugal Telecom will maintain its strong domestic market position in view of its enhanced networks, management strategy and business model, Moody's believes that the required strengthening of the company's financial ratios and improvement of its domestic and international operations will not be sufficient to offset the increasing business risk in Portugal. Portugal Telecom's rating is now one notch above the rating of the Republic of Portugal (rated Ba3/negative).

Moody's decision was also driven by Portugal Telecom's challenges in reversing the negative trends mainly driven by regulation, competition and the macro economic crisis affecting its domestic business, including the wholesale, enterprise, but more importantly, the mobile personal segment, which experienced a revenue reduction of 11.2% in 2011, with customer revenues declining by 8.2%. Portugal Telecom faces substantial challenges in view of regulatory and competitive pressures, subdued consumer spending and the need to restructure its 23.2% owned Brazilian subsidiary Oi, which is also facing operating challenges, as underlined by the recent weak operating results. All of these difficult operating conditions will put further pressure on the company's ability to strengthen its financial metrics.

Prior to today's one-notch downgrade, Moody's had already recognised that Portugal Telecom's rating was weakly positioned in its previous rating category, with little margin for operating under-performance. The rating downgrade is therefore within Moody's previously published guidance for companies that would normally be expected to have a rating close to that of the government of the country in which they are located. At the same time, the rating agency has determined that the Ba2 rating better reflects the business risk that Portugal Telecom faces despite its (i) resilient, albeit highly competitive, underlying business; (ii) leading market position; (iii) international diversification; (iii) management's

## Edgar Filing: PORTUGAL TELECOM SGPS SA - Form 6-K

track record in executing the company's strategy under adverse circumstances; (iv) high-quality infrastructure, which will support Portugal Telecom's revenues in the future and help to partially mitigate the negative effects of the weak macro environment in Portugal; and (v) the company's strong liquidity, with pre-funded cash needs until the end of 2013.

From a liquidity risk management perspective, Moody's continues to monitor Portugal Telecom's refinancing plans beyond 2013. The telecoms operator has no need to issue more debt in the near term and will only do so to take advantage of opportunities that may arise in the market. In Moody's view, internal sources and availability under long-term committed lines of credit should enable Portugal Telecom to cover its debt maturities of approximately EUR1.6 billion over the next 18 months and other expected cash demands over this period. As of December 2011, Portugal Telecom's cash in Portugal amounted to EUR4.1 billion. In addition, the company has EUR1 billion of undrawn committed commercial paper and syndicated standby facilities.

The negative outlook reflects the negative pressures on the Portuguese economy and its sovereign rating as well as Moody's expectation that Portugal Telecom's financial ratios will remain relatively constrained. In particular, the outlook reflects that the telecoms operator (i) has limited headroom to absorb any increased competitive and/or

regulatory pressures in its domestic market, and (ii) faces substantial challenges to restructure its Brazilian subsidiary and place it on a sustainable growth path.

#### WHAT COULD MOVE THE RATING UP/DOWN

Moody's would consider further downgrading Portugal Telecom's ratings if the rating agency were to become concerned about the company's liquidity and medium-term funding needs, and/or if the company's performance were to deteriorate beyond current expectations. Specifically, a downgrade could occur, for example, if (i) Portugal Telecom fails to reduce debt and its credit metrics deteriorate, such that its adjusted net leverage trends towards 3.5x over the next couple of years with no expected improvement; or (ii) if adjusted RCF/Net Debt deteriorates towards 15%. Furthermore, Moody's could consider downgrading Portugal Telecom's ratings in the event of any further downgrade of Portugal's sovereign ratings.

In line with the negative outlook, Moody's does not expect upward pressure on Portugal Telecom's ratings in the short to medium term. However, the outlook could be stabilised if Moody's were to perceive a material improvement in the overall macroeconomic and market conditions in Portugal, including a reduction in pressure on revenues, supported by improving consumer trends and a more benign competitive environment. In addition, Moody's would need to become comfortable with the company's liquidity risk beyond 2013. Upward pressure could develop if, in addition to the conditions for a stable outlook, Portugal Telecom were to reduce debt and improve its credit metrics and overall operating performance on a sustainable basis, such that its adjusted net leverage trends comfortably towards 2.5x and below.

The methodologies used in these ratings were Global Telecommunications Industry published in December 2010, and Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Domiciled in Lisbon, Portugal Telecom is the leading telecommunications operator in Portugal, servicing 4.7 million fixed lines, which includes one million ADSL retail connections. In addition, the operator had approximately 7.4 million mobile phone customers in Portugal as of December 2011. Furthermore, Portugal Telecom has operations in other countries, including Brazil, Cape Verde, East Timor, Angola, Macau, Sao Tome and Principe and Namibia. The company's annual revenues amounted to EUR6.1 billion and reported EBITDA to EUR2.2 billion in 2011.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

## Edgar Filing: PORTUGAL TELECOM SGPS SA - Form 6-K

The ratings have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare each of the ratings are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing these ratings.

Moody's adopts all necessary measures so that the information it uses in assigning the ratings is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entities or their

related third parties within the two years preceding the credit rating action. Please see the special report Ancillary or other permissible services provided to entities rated by MIS's EU credit rating agencies on the ratings disclosure page on our website [www.moodys.com](http://www.moodys.com) for further information.

Please see the ratings disclosure page on [www.moodys.com](http://www.moodys.com) for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on [www.moodys.com](http://www.moodys.com) for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on [www.moodys.com](http://www.moodys.com) for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website [www.moodys.com](http://www.moodys.com) for further information.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Carlos Winzer

Senior Vice President

Corporate Finance Group

Moody's Investors Service Espana, S.A.

Calle Principe de Vergara, 131, 6 Planta

Madrid 28002

Spain

JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454



Paloma San Valentin

MD - Corporate Finance

Corporate Finance Group

JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454

Releasing Office:

Moody's Investors Service Espana, S.A.

Calle Principe de Vergara, 131, 6 Planta

Madrid 28002

Spain

JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454

© 2012 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, MOODY'S). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. (MIS) AND ITS**

**AFFILIATES ARE MOODY S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY S ( MOODY S PUBLICATIONS ) MAY INCLUDE MOODY S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY S OPINIONS INCLUDED IN MOODY S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided AS IS without warranty of any kind. MOODY S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody s considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody s Corporation ( MCO ), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it

fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations Corporate Governance Director and Shareholder Affiliation Policy".

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ( MJKK ) are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 13, 2012

PORTUGAL TELECOM, SGPS, S.A.

By: */s/ Nuno Vieira*  
**Nuno Vieira**  
**Investor Relations Director**

**FORWARD-LOOKING STATEMENTS**

This document may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words anticipates, believes, estimates, expects, plans and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.