

PORTUGAL TELECOM SGPS SA
Form 6-K
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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 February 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.

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Form 20-F Form 40-F

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

Full Year 2012

Earnings Release

28 February 2013

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Earnings Release

Lisbon, Portugal, 28 February 2013

Portugal Telecom is a geographically diversified operator with 100.4 million customers in 2012 (+7.4% y.o.y), including fully, proportionally and equity accounted assets. In 2012, operating revenues amounted to Euro 6,599 million, while EBITDA stood at Euro 2,269 million. EBITDA margin reached 34.4% underpinned by the solid margin of the Portuguese telecommunications businesses, which stood at 44.5%. In 2012, fully and proportionally consolidated international assets represented 58.4% and 50.4% of PT's consolidated revenues and EBITDA, respectively. Net income reached Euro 230 million and basic earnings per share stood at Euro 0.27. In 2012, capex amounted to Euro 1,317 million, equivalent to 20.0% of revenues, while capex from Portuguese telecommunications businesses stood at Euro 555 million, down by 14.1% y.o.y, reflecting the investments in future proof technologies and networks occurred in previous years. In 2012, EBITDA minus capex reached Euro 952 million, while EBITDA minus capex of the Portuguese telecommunications businesses amounted to Euro 645 million. In 2012, operating cash flow stood at Euro 875 million, while free cash flow declined to negative amount of Euro 255 million. In 2012, operating cash flow excluding Oi and Contax, stood at Euro 578 million, while free cash flow stood at Euro 251 million (Euro 191 million in 2H12). As at 31 December 2012, excluding the proportional consolidation of Oi and Contax, net debt adjusted for tax effect related to the transfer of the regulated pension plans to the Portuguese State, amounted to Euro 4,565 million. In 2012, cost of net debt, excluding the proportional consolidation of Oi and Contax, reached 4.4% and cost of gross debt stood at 4.5%. At 31 of December 2012, PT's cash available plus the undrawn amount of PT's committed commercial paper lines and facilities, excluding Oi and Contax, stood at Euro 3,016 million.

Consolidated financial highlights (1)

Euro million

	4Q12	4Q11	y.o.y	2012	2011	y.o.y
Operating revenues	1,614.9	1,731.0	(6.7)%	6,598.8	6,146.8	7.4%
Operating costs (2)	1,075.0	1,197.1	(10.2)%	4,330.1	3,958.9	9.4%
EBITDA (3)	539.9	534.0	1.1%	2,268.7	2,188.0	3.7%
Income from operations (4)	171.3	134.5	27.3%	819.8	803.9	2.0%
Net income	41.4	37.6	9.9%	230.3	339.1	(32.1)%
Capex	426.6	520.1	(18.0)%	1,316.8	1,223.8	7.6%
Capex as % of revenues (%)	26.4	30.0	(3.6)pp	20.0	19.9	0.0pp
EBITDA minus Capex	113.3	13.9	n.m.	951.9	964.2	(1.3)%
Operating cash flow	258.7	291.2	(11.1)%	875.3	1,185.0	(26.1)%
Free cash flow (5)	9.2	35.2	(73.8)%	(254.5)	532.8	n.m.
Adjusted net debt (6)	7,516.7	6,386.7	17.7%	7,516.7	6,386.7	17.7%
Adjusted net debt exc. Oi and Contax (6)	4,565.1	4,067.9	12.2%	4,565.1	4,067.9	12.2%
After-tax unfunded PRB obligations	625.3	683.9	(8.6)%	625.3	683.9	(8.6)%
EBITDA margin (%) (7)	33.4	30.8	2.6pp	34.4	35.6	(1.2)pp
Adjusted net debt / EBITDA(x) (6)	3.3	2.6	0.7x	3.3	2.6	0.7x
Basic earnings per share	0.05	0.04	11.1%	0.27	0.39	(31.5)%
Diluted earnings per share (8)	0.05	0.04	11.1%	0.27	0.39	(31.5)%

(1) Following PT's strategic investment in Oi and Contax on 28 March 2011, PT proportionally consolidated the net income and cash-flows of these investments as from 1 April 2011. (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) This caption excludes (i) the cash out-flow related to the investments in Oi and Contax (Euro 3,728 million in 1Q11), and (ii) the third and last instalment received

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from Telefónica in connection with the Vivo transaction (Euro 2,000 million in 4Q11). **(6)** Net debt was adjusted for the tax credits resulting from amounts paid to the Portuguese government in December 2011 and 2012 in connection with the transfer of unfunded pension obligations, which were adjusted in 4Q12 to reflect certain tax credits used in the period. **(7)** EBITDA margin = EBITDA / operating revenues. **(8)** 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

	4Q12	4Q11	y.o.y	2012	2011	y.o.y
Operating revenues	1,614.9	1,731.0	(6.7)%	6,598.8	6,146.8	7.4%
Portugal (2)	660.3	718.4	(8.1)%	2,700.5	2,892.0	(6.6)%
Residential	177.6	171.8	3.4%	711.7	682.3	4.3%
Personal	170.9	193.6	(11.7)%	688.1	768.4	(10.4)%
Enterprise	225.4	245.2	(8.1)%	896.0	982.1	(8.8)%
Wholesale, other and eliminations	86.4	107.8	(19.9)%	404.7	459.2	(11.9)%
Brazil • Oi	746.6	778.4	(4.1)%	3,042.1	2,412.1	26.1%
Other and eliminations	208.0	234.2	(11.2)%	856.2	842.7	1.6%
Operating costs (3)	1,075.0	1,197.1	(10.2)%	4,330.1	3,958.9	9.4%
Wages and salaries	271.2	277.2	(2.1)%	1,102.4	1,020.5	8.0%
Direct costs	264.1	296.1	(10.8)%	1,092.4	1,012.3	7.9%
Commercial costs	155.1	166.3	(6.7)%	568.5	517.7	9.8%
Other operating costs	384.6	457.5	(15.9)%	1,566.9	1,408.4	11.2%
EBITDA (4)	539.9	534.0	1.1%	2,268.7	2,188.0	3.7%
Post retirement benefits	15.6	17.9	(12.7)%	58.3	58.5	(0.4)%
Depreciation and amortisation	353.0	381.5	(7.5)%	1,390.6	1,325.6	4.9%
Income from operations (5)	171.3	134.5	27.3%	819.8	803.9	2.0%
Other expenses (income)	(34.5)	35.6	n.m.	(39.4)	59.9	n.m.
Curtailment costs, net	0.1	30.1	(99.6)%	2.1	36.4	(94.3)%
Net losses (gains) on disposal of fixed assets	(34.8)	(9.1)	280.4%	(32.7)	(9.2)	256.2%
Net other costs (gains)	0.2	14.6	(99.0)%	(8.7)	32.6	n.m.
Income before financ. & inc. taxes	205.9	99.0	108.0%	859.2	744.0	15.5%
Financial expenses (income)	108.9	96.0	13.4%	385.9	212.9	81.3%
Net interest expenses (income)	130.2	97.7	33.3%	498.8	297.1	67.9%
Equity in earnings of affiliates, net	(49.2)	(40.1)	22.9%	(209.7)	(209.2)	0.2%
Net other financial losses (gains)	28.0	38.4	(27.2)%	96.8	125.0	(22.6)%
Income before income taxes	96.9	3.0	n.m.	473.2	531.1	(10.9)%
Provision for income taxes	(31.9)	35.7	n.m.	(147.6)	(108.2)	36.4%
Income before non-controlling interests	65.1	38.6	68.4%	325.6	422.9	(23.0)%
Losses (income) attributable to non-controlling interests	(23.7)	(1.0)	n.m.	(95.3)	(83.8)	13.8%
Consolidated net income	41.4	37.6	9.9%	230.3	339.1	(32.1)%

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(1) Following PT's strategic investment in Oi and Contax on 28 March 2011, PT proportionally consolidated the earnings of these businesses as from 1 April 2011. (2) Businesses in Portugal include wireline and TMN. This caption includes the impact of the decline in regulated mobile termination rates (MTRs). (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 + other costs (gains).

In 2012, consolidated operating revenues increased by Euro 452 million to Euro 6,599 million (+7.4% y.o.y). This increase is primarily related to the impact of the proportional consolidation of Oi and Contax in 1Q12, as the earnings of these businesses were proportionally consolidated as from 1 April 2011, and is partially offset by the contribution of Dedic/GPTI in 1H11, as this business was fully consolidated up to 30 June 2011 and then integrated in Contax following the completion of the exchange of PT's interest in this business for an additional stake in Contax. Excluding the impact of these changes in the consolidation perimeter, amounting to Euro 802 million, and also the impact of the depreciation of the Brazilian Real against the Euro (Euro 279 million), consolidated operating revenues would have decreased by only 1.2% y.o.y to Euro 5,942 million in 2012. This decrease was the result of revenue decline in Portuguese telecommunications businesses (Euro 191 million),

notwithstanding a higher contribution from Oi (Euro 83 million) and revenue growth in other international operations, namely MTC in Namibia (Euro 21 million), Timor Telecom in East Timor (Euro 9 million) and Contax in Brazil (Euro 8 million).

In 2012, revenues from Portuguese telecommunications businesses decreased by 6.6% y.o.y to Euro 2,701 million, primarily due to: (1) revenue decline in the Enterprise customer segment (Euro 86 million, -8.8% y.o.y), reflecting the economic backdrop, penalising SMEs and leading the public administration and larger corporates to strong focus on cost cutting, notwithstanding a continued improvement in the sequential quarterly trend (-9.8% in 1Q12; -8.8% in 2Q12; -8.4% in 3Q12, and -8.1% in 4Q12) as a result of a significant progress in the performance of large corporates due to gains in both market share and share of wallet; (2) the decline in the Personal customer segment (Euro 80 million, -10.4% y.o.y), as a result of lower customer revenues (Euro 56 million, -9.1% y.o.y), reflecting challenging and deteriorating economic and competitive environment, namely in voice and wireless broadband, and lower interconnection revenues (Euro 20 million, -29.3% y.o.y) following the regulated tariff declines, and (3) the decrease in other revenues in the Portuguese telecommunications businesses (Euro 54 million, -11.9% y.o.y), including wholesale, as a result of: (i) lower revenues from accesses and traffic (Euro 31 million), reflecting lower prices resulting from adverse regulatory decisions and lower volumes as operators continue to build networks; (ii) revenue decline in public phones (Euro 3 million), and (iii) revenue decline in the directories business (Euro 11 million). The total direct impact of regulation in revenues amounted to Euro 36 million in 2012, including declining MTRs (Euro 27 million), which declined from Euro 3.50 cents to Euro 2.77 cents as from 7 May 2012, to Euro 2.27 cents as from 30 June 2012, to Euro 1.77 cents as from 30 September 2012 and to Euro 1.27 cents as from 31 December 2012 and lower roaming wholesale and retail prices (Euro 7 million). Excluding the impact of regulation, revenues in Portuguese telecommunications businesses would have declined by 5.4% y.o.y in 2012. These negative effects were partially offset by an increase in revenues from Residential customer segment, from Euro 682 million in 2011 to Euro 712 million in 2012 (+4.3% y.o.y). This continued growth was achieved on the back of the continued strong performance of MEO triple-play offer (voice, broadband and pay-TV), which is highly differentiated and also more resilient to unfavourable economic conditions. As a result, in 2012, non-voice revenues in Portugal represented 51.2% of service revenues, having grown 5.0pp y.o.y.

In 2012, Oi's revenues stood at Euro 3,042 million (R\$ 7,631 million) compared to Euro 2,412 million in 2011 (R\$ 5,612 million). This increase reflects the effect of the proportional consolidation in 1Q12 (Euro 788 million), partially offset by the impact of the depreciation of the Brazilian Real against the Euro (Euro 241 million). Adjusting for these effects, the contribution of Oi to PT's consolidated operating revenues in 2012 would have increased by Euro 83 million. This performance reflected: (1) the increase in revenues associated with the Personal mobility segment, including an increase in sales and other operating revenues, reflecting Oi's strategy to broaden the scope of its presence in the mobile market, including a stronger focus in the postpaid and higher income segments, thus strengthening Oi's presence in the handset market and increasing the penetration of data and value added services, and (2) the growth observed in Oi's enterprise segment, which reflected the growth in fixed and mobile broadband and in mobile data. These effects were partially offset by the decline observed in the residential segment, which reflects mainly the line loss albeit increasingly with lower churn in fixed line and higher growth in broadband and pay-TV. Oi's revenues were proportionally consolidated as from 1 April 2011, 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, increased by 1.6% y.o.y in 2012 to Euro 856 million, including the impact of the proportional consolidation of Contax in 1Q12 (Euro 148 million), that was proportionally consolidated as from 1 April 2011, partially offset by the contribution of Dedic/GPTI business in

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1H11 (Euro 134 million), that was fully consolidated up to 30 June 2011 and integrated in Contax as from 1 July 2011. Excluding the impact of these changes in the consolidation perimeter and the impact of the depreciation of the Brazilian Real (Euro 38 million), other revenues would have increased by Euro 37 million (+5.3% y.o.y), reflecting higher contributions from all international assets, including the 20.4% y.o.y and 13.0% y.o.y increases at Timor Telecom and MTC, respectively.

The contribution from fully and proportionally consolidated international assets to operating revenues stood at 58.4% in 2012, while Brazil accounted for 53.3%.

In 2012, EBITDA increased by Euro 81 million to Euro 2,269 million (+3.7% y.o.y). This increase is mainly explained by the impact of the proportional consolidation of Oi and Contax in 1Q12, as the earnings of these businesses were proportionally consolidated as from 1 April 2011, partially offset by the contribution of Dedic/GPTI in 1H11, as this business was fully consolidated up to 30 June 2011 and then integrated in Contax. Excluding the impact of these changes in the consolidation perimeter (Euro 240 million) and also the impact of the depreciation of the Brazilian Real against the Euro (Euro 77 million), EBITDA would have decreased by 3.8% y.o.y. EBITDA performance in the period was impacted by a lower contribution from Portuguese telecommunications businesses (Euro 105 million) as a result of revenue decline (Euro 191 million), notwithstanding a 5.5% y.o.y reduction in operating costs excluding D&A and PRBs, which reflects a continued focus on cost cutting and the improvement in gross margin from the residential segment. This performance was partially offset by higher contributions from: (1) Oi (Euro 6 million), and (2) other international operations, namely MTC (Euro 6 million) and Timor Telecom (Euro 6 million).

EBITDA by business segment(1)

	Euro million					
	4Q12	4Q11	y.o.y	2012	2011	y.o.y
Portugal	284.8	312.6	(8.9)%	1,200.7	1,305.5	(8.0)%
Brazil Oi	221.9	185.4	19.7%	909.0	747.6	21.6
Other	33.2	36.0	(7.7)%	159.0	134.9	17.9%
EBITDA	539.9	534.0	1.1%	2,268.7	2,188.0	3.7%
EBITDA margin (%) (2)	33.4	30.8	2.6pp	34.4	35.6	(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 1,201 million in 2012 (-8.0% y.o.y), equivalent to a 44.5% margin. The EBITDA performance is the result of the decline in service revenues (Euro 194 million), which have high operating leverage. In effect, while service revenues minus direct costs declined by Euro 171 million, EBITDA only declined by Euro 105 million, reflecting a resilient focus on cost cutting and profitability of operations. Operating costs decreased by 5.5% y.o.y on the back of: (1) pay-TV having reached critical mass which translates into healthier gross profit in the pay-TV business; (2) lower traffic costs at TMN, reflecting the regulated MTR cuts and lower roaming interconnection costs also due to regulatory decisions; (3) rollout of FTTH and 4G-LTE, which has a superior quality of service leading to lower customer support and network maintenance costs; (4) lower commercial costs, including commissions and marketing and publicity, and (5) lower staff costs, reflecting the impact of the reorganisation implemented in 4Q11, a lower level of variable and overtime remunerations and also higher efficiency levels in certain internal processes. These favourable declines in operating costs were partially offset by an increase in provision charges, which reflected the existing economic environment in all business segments.

In 2012, Oi's EBITDA stood at Euro 909 million (R\$ 2,280 million), compared to Euro 748 million (R\$ 1,739 million) in 2011. The Euro 161 million increase reflects primarily the effect of the proportional consolidation in

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1Q12 (Euro 227 million), partially offset by the impact of the depreciation of the Brazilian Real against the Euro (Euro 72 million). Adjusting for these effects, Oi's EBITDA would have increased by Euro 6 million over the same period of last year, explained primarily by the growth in revenues as referred to above, which was partially offset by higher supplies and external services and also higher personnel costs reflecting the efforts associated to the turnaround process. Oi's EBITDA was proportionally consolidated as from 1 April 2011, 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 EBITDA increased by 17.9% y.o.y (Euro 24 million) to Euro 159 million in 2012 primarily due to: (1) the impact of the proportional consolidation of Contax in 1Q12 (Euro 14 million), and (2) the solid growth in Timor Telecom and MTC, of 21.8% y.o.y and 7.5% y.o.y, respectively.

Fully and proportionally consolidated international assets represented 50.4% of PT's consolidated EBITDA in 2012. Brazilian businesses accounted for 43.0% of EBITDA in the period and fully consolidated African businesses accounted for 6.0%.

Post retirement benefits costs remained broadly flat at Euro 58 million in 2012, notwithstanding the impact of the proportional consolidation of Oi in 1Q12 (Euro 1.5 million).

Depreciation and amortisation costs increased to Euro 1,391 million in 2012, compared to Euro 1,326 million in 2011, reflecting primarily the impact of the proportional consolidation of Oi and Contax in 1Q12, amounting to Euro 161 million, partially offset by the contribution of Dedic/GPTI in 1H11, amounting to Euro 8 million. Adjusting for these effects and also the impact of the depreciation of the Brazilian Real against the Euro, depreciation and amortisation costs would have decreased by 2.9% y.o.y (Euro 38 million) in 2012, explained primarily by a lower contribution from the Portuguese telecommunications businesses (Euro 22 million), namely due to the swap of TMN's 2G equipment to 4G-LTE enabled equipment, which led to an accelerated depreciation of 2G equipments in 1H11, up to 30 June 2011.

Curtailment costs decreased to Euro 2 million in 2012, as compared to Euro 36 million in 2011, reflecting mainly the reorganisation undertaken at the end of 2011.

Net gains on disposals of fixed assets increased from Euro 9 million in 2011 to Euro 33 million in 2012, reflecting primarily capital gains recorded by Oi in 4Q12 of Euro 30 million in connection with the disposal of mobile towers.

Net other costs (gains) improved to a gain of Euro 9 million in 2012 from net losses of Euro 33 million in 2011, reflecting primarily gain recorded in 2012 regarding the estimated net compensation for prior years costs supported by PT with the universal service obligation under the Concession Agreement, partially offset by certain non-recurring provisions and adjustments recorded in 2012 and the impact of the proportional consolidation of Oi and Contax in 1Q12.

Net interest expenses increased to Euro 499 million in 2012 as compared to Euro 297 million in 2011. This includes the impact of the proportional consolidation of Oi, Contax and its controlling holding companies in 1Q12, amounting to Euro 66 million. Adjusting for this effect, net interest expenses would have amounted to Euro 433 million in 2012, an increase of Euro 135 million compared to 2011, reflecting: (1) an Euro 51 million interest gain recorded in 1Q11 on the cash deposits in Brazilian Reais that were used to pay the strategic investments in Oi and Contax on 28 March 2011; (2) a higher contribution from Oi, Contax and its controlling

holding companies (Euro 44 million), reflecting the impact of the increase in its average net debt partially offset by the effect of the depreciation of the Brazilian Real against the Euro, and (3) the interest gain of Euro 33 million recorded in 2011 related to the outstanding receivable from Telefónica regarding the disposal of Vivo. The cost of net debt, excluding the proportional consolidation of Oi and Contax, stood at 4.4% in 2012, an increase compared to 3.3% in 2011 mainly due to the interest gain recorded in 2011 related to the outstanding receivable from Telefónica regarding the disposal of Vivo, while the cost of gross debt stood at 4.5%, which compares to 4.3% in 2011.

Equity in earnings of affiliates amounted to Euro 210 million in 2012, as compared to Euro 209 million in 2011. In 2011, this caption included a gain of Euro 38 million related to the disposal of the investment in UOL for a total consideration of Euro 156 million. Adjusting for this effect, equity accounting in earnings of affiliated companies would have increased from Euro 172 million in 2011 to Euro 210 million in 2012.

Net other financial losses, which include net foreign currency losses, net losses on financial assets and net other financial expenses, decreased from Euro 125 million in 2011 to Euro 97 million in 2012, reflecting primarily: (1) higher foreign currency losses recorded in 2011 by Portuguese operations and Oi, explained mainly by the impact of the depreciation of the US Dollar against the Euro on net assets denominated in US Dollars and by the impact of the depreciation of the US Dollar against the Brazilian Real on Oi's net debt denominated in US Dollars, respectively, and (2) lower net other financial expenses at Oi, related mainly to financial taxes and certain banking services. Additionally, the impact of the proportional consolidation of Oi, Contax and its controlling holding companies in 1Q12 (Euro 15 million) was offset by the financial taxes incurred in Brazil during 2011 in connection with the transfer of funds for the investment in Oi (Euro 14 million).

Income taxes increased to Euro 148 million in 2012, from Euro 108 million in 2011, corresponding to an effective tax rate of 31.2% and 20.4%, respectively. This increase is primarily explained by: (1) the impact of the increase in the maximum statutory tax rate applicable in Portugal, from 29.0% to 31.5%; (2) higher non-taxable interest income and equity gains in 2011, and (3) lower gains resulting from adjustments to prior year income taxes. Adjusting for non-taxable interest income and equity gains and for adjustments to prior year income taxes, the effective tax rate would have increased from 25.3% in 2011 to 28.4% in 2012, reflecting primarily the increase in the maximum statutory tax rate applicable in Portugal as referred to above.

Income attributable to non-controlling interests amounted to Euro 95 million, including the impact of the proportional consolidation of Oi and Contax in 1Q12 (Euro 3 million). Adjusting for this effect, income attributable to non-controlling interests would have amounted to Euro 91 million in 2012, an increase of Euro 7 million compared to Euro 84 million in 2011, reflecting higher income attributable to non-controlling interests of the African businesses (Euro 10 million) and Contax (Euro 4 million). These effects were partially offset by lower income attributable to non-controlling interests of Oi (Euro 7 million) as a result of the completion of its corporate simplification in March 2012.

Net income amounted to Euro 230 million in 2012 compared to Euro 339 million in 2011. This decrease is mainly explained by: (1) the gain of Euro 38 million recorded in 2011 related to the completion of the disposal of the investment in UOL, and (2) higher interest expenses primarily related to the increase in average net debt and the Euro 51 million interest gain recorded in 2011 on the cash deposits in Brazilian Reals that were used to pay the strategic investments in Oi and Contax on 28 March 2011.

Shareholder Remuneration

PT announces that its Board of Directors will propose a dividend per share of Euro 0.325 in relation to fiscal year 2012. This proposal is subject to shareholder approval at the AGM and is made in the context of the shareholder remuneration policy for fiscal years 2012 to 2014, approved by the Board of Directors and disclosed to the market on 27 June 2012, which includes an annual cash dividend of Euro 0.325 per share. For complete information on PT's shareholder remuneration, please refer to the press release indicated above.

Capex

Capex amounted to Euro 1,317 million in 2012, equivalent to 20.0% of revenues, as compared to Euro 1,224 million in 2011. This increase is primarily related to the impact of the proportional consolidation of Oi and Contax in 1Q12, partially offset by the contribution of Dedic / GPTI in 1H11. Excluding the impact of these changes in the consolidation perimeter, amounting to Euro 117 million, capex would have decreased by 2.0% y.o.y. This decrease was a result of lower capex from the Portuguese telecommunications businesses (Euro 92 million, -14.1% y.o.y), which stood at Euro 555 million in 2012 and continued to be directed towards investments in future proof technologies, namely FTTH, and 4G-LTE. The decrease in capex from the Portuguese telecommunications businesses was partially offset by: (1) higher capex from Oi (Euro 65 million), due to investments undertaken in 2012 to expand 2G and 3G coverage and increasing broadband speed and capillarity, effects partially offset by the impact of the depreciation of the Brazilian Real against the Euro, and (2) higher capex from certain international operations, namely MTC (Euro 18 million), reflecting investments in the African submarine cable, optical fibre and 4G.

Capex by business segment

Euro million

	4Q12	4Q11	y.o.y	2012	2011	y.o.y
Portugal	185.0	246.5	(24.9)%	555.5	647.0	(14.1)%
Brazil Oi (1)	206.1	221.1	(6.8)%	629.6	444.3	41.7%
Other	35.5	52.4	(32.4)%	131.7	132.5	(0.6)%
Total capex	426.6	520.1	(18.0)%	1,316.8	1,223.8	7.6%
Capex as % of revenues	26.4	30.0	(3.6)pp	20.0	19.9	0.0pp

(1) Oi's capex excludes the acquisition of 4G licenses in 2012 for a total amount of R\$ 400 million, equivalent to Euro 41 million proportionally consolidated by PT.

Capex from the Portuguese telecommunications businesses decreased by 14.1% y.o.y to Euro 555 million in 2012. Capex performance reflected the strong investments made during the past years, namely in the 2008-2011 period, in the deployment of the FTTH network, in the modernisation of the 2G network already 4G-LTE enabled, and in the reinforcement of 3G and 3.5G networks in terms of coverage and capacity, leading now to a decrease in technology capex, notwithstanding the investments in the deployment of the 4G-LTE network.

In 2012, Oi's capex reached Euro 630 million (R\$ 1,579 million) compared to Euro 444 million (R\$ 1,034 million) in 2011. This increase reflects primarily the effect of the proportional consolidation of Oi in 1Q12 (Euro 121 million), partially offset by the impact of the depreciation of the Brazilian Real against the Euro (Euro 50 million). Adjusting for these effects, the contribution of Oi to PT's consolidated capex would have increased by Euro 114 million mainly due to investments undertaken in 2012 to expand 2G and 3G coverage and increasing broadband speed and capillarity.

In 2012, other capex remained stable at Euro 132 million, as the increase in capex at MTC (Euro 18 million), reflecting the investments in the African submarine cable, optical fibre and in 4G rollout, was offset by lower capex in the Brazilian contact centre businesses, including Contax and the contribution of Dedic / GPTI in 1H11 (Euro 9 million), and also by a lower capex at Timor Telecom (Euro 5 million).

Cash Flow

Operating cash flow stood at Euro 875 million in 2012 and Euro 1,185 million in 2011. Excluding the impact of the proportional consolidation of Oi and Contax in 1Q12 (Euro 34 million), consolidated operating cash flow would have amounted to Euro 840 million in 2012 and the decline is explained primarily by: (1) a lower EBITDA minus Capex (Euro 127 million), reflecting mainly the Euro 131 million decline at Oi; (2) an increase in working capital investment (Euro 143 million), reflecting primarily the one-off reduction in the payment cycle to certain suppliers undertaken in 4Q10 following the cash inflow from the Vivo transaction, leading to lower payments to suppliers in 1Q11, and (3) lower provisions and adjustments (Euro 88 million), which represent a non-cash item included in EBITDA and its reduction is mainly related to Oi.

Free cash flow (1)**Euro million**

	4Q12	4Q11	y.o.y	2012	2011	y.o.y
EBITDA minus Capex	113.3	13.9	n.m.	951.9	964.2	(1.3)%
Non-cash items	11.2	48.0	(76.7)%	105.6	141.6	(25.4)%
Change in working capital	134.3	229.3	(41.4)%	(182.2)	79.2	n.m.
Operating cash flow	258.7	291.2	(11.1)%	875.3	1,185.0	(26.1)%
Interests	(131.5)	(100.3)	31.1%	(470.9)	(260.6)	80.7%
Net reimbursements (contributions) to pension funds	(4.9)	(2.7)	84.1%	(37.2)	(23.1)	61.1%
Paym. to pre-retired, suspended employees and other	(44.2)	(46.9)	(5.7)%	(160.5)	(175.2)	(8.4)%
Income taxes	(23.0)	(44.0)	(47.7)%	(155.7)	(163.5)	(4.8)%
Dividends received	18.8	(0.1)	n.m.	76.2	146.9	(48.2)%
Net disposal (acquisition) of financial investments (2)	0.0	(0.2)	n.m.	0.0	123.4	n.m.
Other cash movements (3)	(64.6)	(61.9)	4.4%	(381.7)	(300.2)	27.1%
Free cash flow	9.2	35.2	(73.8)%	(254.5)	532.8	n.m.

(1) Free cash flow excludes the cash out-flow related to the investments in Oi and Contax (Euro 3,728 million in 1Q11) and the cash inflow regarding the third and last instalment related to the Vivo transaction (Euro 2,000 million in 4Q11). (2) This caption includes the disposal of the investment in UOL in 1Q11 for a total amount of Euro 156 million, partially offset by the acquisition of an investment in Allus in 2Q11 for a total amount of Euro 44 million. (3) The increase in this caption reflects mainly the payments of certain legal actions at Oi in 1Q12, partially offset by financial taxes incurred in 1Q11 related to the strategic investment in Oi.

In 2012, consolidated free cash flow amounted to negative Euro 255 million, while excluding the proportional consolidation of Oi and Contax free cash flow stood at positive Euro 251 million (Euro 191 million in 2H12). In 2011, adjusting for the cash out-flow related to the acquisition of PT's investments in Oi and Contax (Euro 3,728 million) and the cash in-flow related to the third and last instalment received in 4Q11 in connection with the disposal of Vivo (Euro 2,000 million), consolidated free cash flow stood at Euro 533 million. The decline of Euro 787 million in consolidated free cash flow is primarily explained by: (1) a lower operating cash flow (Euro 310 million) as referred to above; (2) the proceeds received in 1Q11 from the disposal of the investment in UOL amounting to Euro 156 million; (3) lower dividends received from Unite (Euro 126 million in 2011 and Euro 50 million in 2012); (4) an increase in deposits relative to legal actions (Euro 46 million), primarily related to the proportional consolidation of Oi, and (5) an increase of Euro 210 million in interest payments, reflecting a higher contribution from Oi, Contax and its controlling holding companies (Euro 53 million), including the proportional consolidation in 1Q12 (Euro 10 million), and an increase at Portuguese operations related mainly to the interest received in 1Q11 on the cash deposits in Brazilian Reais used to pay the strategic investments in Oi and Contax. These effects were partially offset by the acquisition of an investment in Allus by Contax in April 2011 (Euro 44 million).

Consolidated Net Debt

Consolidated net debt excluding the proportional consolidation of Oi, Contax and its controlling holding companies, and adjusted for the tax effect on payments made to the Portuguese State in connection with the pensions transaction, amounted to Euro 4,565 million as at 31 December 2012.

Total consolidated net debt amounted to Euro 7,711 million as at 31 December 2012, as compared to Euro 6,613 million as at 31 December 2011, an increase of Euro 1,098 million reflecting: (1) the negative free cash flow generated in the period (Euro 255 million); (2) dividends paid by PT to its shareholders (Euro 557 million corresponding to the 2011 dividend of Euro 65 cents) and by its subsidiaries to non-controlling interests (Euro 99 million); (3) the amounts paid by Oi to non-controlling shareholders in connection with the completion of its corporate simplification process (Euro 296 million); (4) a payment by TMN in January 2012 of the LTE license (Euro 83 million), and (5) the acquisition by Oi of PT's own shares (Euro 23 million). These effects were partially offset by the impact of the depreciation of the Brazilian Real against the Euro, which resulted in a net debt reduction of Euro 232 million.

Change in net debt

Euro million

	4Q12	4Q11	2012	2011
Net debt (initial balance)	7,764.5	8,540.6	6,612.8	2,099.8
Less: free cash flow	9.2	35.2	(254.5)	532.8
Instalments received related to Vivo transaction	0.0	(2,000.0)	0.0	(2,000.0)
Acquisition of strategic investment in Oi and Contax	0.0	0.0	0.0	3,727.6
Translation effect on foreign currency debt	(63.2)	89.0	(231.5)	(43.4)
Dividends paid by PT	0.0	0.3	556.7	1,118.0
Changes in consolidation perimeter (Oi and Contax)	0.0	0.0	0.0	2,052.5
Oi's corporate simplification	0.0	0.0	296.1	0.0
Acquisition of own shares by Oi	0.0	0.0	23.2	86.8
Other (1)	19.0	18.1	199.4	104.4
Net debt (final balance)	7,711.2	6,612.8	7,711.2	6,612.8
Less: Tax effect on unfunded post retirement benefits obligations (2)	194.5	226.1	194.5	226.1
Adjusted net debt (final balance)	7,516.7	6,386.7	7,516.7	6,386.7
Less: Net debt from Oi and Contax, inc. holding companies	2,951.6	2,318.9	2,951.6	2,318.9
Adjusted net debt exc. Oi and Contax (final balance)	4,565.1	4,067.9	4,565.1	4,067.9
Change in net debt	(53.3)	(1,927.8)	1,098.4	4,513.0
Change in net debt (%)	(0.7)%	(22.6)%	16.6%	214.9%

(1) This caption includes primarily the payment related to LTE license in Portugal in 1Q12 and the dividends paid by PT's subsidiaries to non-controlling interests. (2) This caption corresponds to the tax credits on the amounts paid to the Portuguese State in December 2011 and 2012 under the transfer of unfunded pension obligations, which were adjusted in 4Q12 to reflect certain tax credits used in the period.

As at 31 December 2012, total consolidated gross debt amounted to Euro 11,099 million, of which 84.6% was medium and long-term and Euro 3,723 million is related to the proportional consolidation of Oi, Contax and its controlling holding companies. Excluding gross debt related to the proportional consolidation of Oi and Contax, gross debt would have amounted to Euro 7,375 million, of which 81.1% was medium and long-term and 81.8% was set at fixed rates.

Excluding the proportional consolidation of Oi and Contax, the amount of cash available plus the undrawn amount of PT's committed commercial paper lines and facilities totalled Euro 3,016 million at 31 of December 2012, which includes Euro 400 million of undrawn committed commercial paper lines and facilities.

In 2012, excluding the proportional consolidation of Oi and Contax, PT's average cost of net debt stood at 4.4%, compared to 3.3% in 2011, adjusted for the Euro 51 million interest gain on cash deposits related to the strategic

investment in Oi. Cost of gross debt stood at 4.5% in 2012 as compared to 4.3% in 2011. As at 31 December 2012, the maturity of PT's net debt, excluding Oi and Contax, was 5.6 years.

Post Retirement Benefit Obligations

As at 31 December 2012, the projected post retirement benefits obligations (PBO) from Portuguese operations related to pensions and healthcare amounted to Euror beneficial owners of a series of debt securities, issue additional debt securities having the same ranking, interest rate, maturity and other terms as the debt securities initially issued. Any such debt securities could be considered part of the same series of debt securities as the debt securities initially issued.

Denominations, Registration and Transfer

The debt securities may be issued as registered securities. Debt securities may be issued in the form of one or more global securities, as described below under the section of this prospectus captioned "Global Securities". Unless otherwise provided in the prospectus supplement, registered securities denominated in U.S. dollars will be issued only in denominations of \$1,000 or any integral multiple thereof. A global security will be issued in a denomination equal to the aggregate principal amount of outstanding debt securities represented by that global security. The prospectus supplement relating to debt securities denominated in a foreign or composite currency will specify the denominations in which the debt securities will be issued.

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Registered securities of any series may be exchanged for other registered securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations.

Debt securities may be presented for exchange as described in the previous paragraph, and registered securities, other than a global security, may be presented for registration of transfer, with the form of transfer duly executed, at the office of the security registrar designated by Dow or at the office of any transfer agent designated by Dow for that purpose, without service charge and upon payment of any taxes and other governmental charges as described in the indenture. The transfer or exchange will be effected when the security registrar or the transfer agent is satisfied with the documents of title and identity of the person making the request. Dow has initially appointed the trustee as the security registrar under the indenture. If a prospectus supplement refers to any transfer agent initially designated by Dow with respect to any series of debt securities, Dow may at any time cancel the designation of the transfer agent or approve a change in the location through which the transfer agent acts, except that Dow will be required to maintain a transfer agent in each place of payment for the series.

Dow may at any time designate additional transfer agents with respect to any series of debt securities.

In the event of any redemption in part, Dow will not be required to:

issue, register the transfer of or exchange debt securities of any series during a period beginning at the opening of business 15 days before the date of the mailing of a notice of redemption of debt securities of that series selected to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; or

register the transfer of or exchange any registered security or portion of any registered security called for redemption, except the unredeemed portion of any registered security being redeemed in part.

Payments and Paying Agents

Unless otherwise indicated in the prospectus supplement, Dow will pay the principal of and any premium and interest on registered securities other than a global security at the office of one or more paying agents designated by Dow. At Dow's option, however, Dow may pay any interest by check mailed to the address of the payee entitled to the interest at the address which appears in the security register. Unless otherwise indicated in the prospectus supplement, payment of any installment of interest on registered securities will be made to the person in whose name the registered security is registered at the close of business on the record date for the applicable interest payment.

Unless otherwise indicated in the prospectus supplement, the principal office of the trustee in New York City will be Dow's sole paying agent for payments with respect to debt securities which may be issued only as registered securities. Any paying agent outside the United States and any other paying agent in the United States initially designated by Dow for the debt securities will be named in the prospectus supplement. Dow may at any time designate additional paying agents, or cancel the designation of any paying agent or approve a change in the office through which any paying agent acts, except that Dow will be required to maintain a paying agent in each place of payment for the series.

All amounts paid by Dow to a paying agent for the payment of principal of and any premium and interest on any debt security that remain unclaimed at the end of two years after the principal, premium or interest has become due and payable will be repaid to Dow and after the repayment the holder of the debt security or any coupon related to the debt security may look only to Dow for the payment of principal of and any premium and interest on the debt security.

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Global Securities

The debt securities of a series may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depository identified in the prospectus supplement. Global securities may be issued in registered form and in either temporary or permanent form. Unless and until it is exchanged for debt securities in definitive form, a temporary global security in registered form may not be transferred except as a whole by:

the depository for the global security to a nominee of the depository;

a nominee of the depository for the global security to the depository or another nominee of the depository; or

the depository for the global security or the nominee to a successor of the depository or a nominee of the successor.

Unless otherwise indicated in the prospectus supplement, registered debt securities issued in global form will be represented by one or more global securities deposited with, or on behalf of, The Depository Trust Company, New York, New York, which we refer to as DTC, or another depository appointed by Dow, and registered in the name of the depository or its nominee. The debt securities will not be issued in definitive form unless otherwise provided in the prospectus supplement.

DTC will act as securities depository for the securities. The debt securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered global security will be issued with respect to each \$500 million of principal amount and one or more additional certificates will be issued with respect to any remaining principal amount of debt securities.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and other similar organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Purchases of debt securities under the DTC system must be made by or through direct participants, which will receive a credit for the debt securities on DTC's records. The ownership interest of each actual purchaser of each debt security is in turn to be recorded on the direct and indirect participants' records. These beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owner entered into the transaction. Transfers of ownership interests in the debt securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of debt securities with DTC and their registration

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in the name of Cede & Co. will effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the debt securities; DTC's records reflect only the identity of the direct participants to whose accounts the debt securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Delivery of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the debt securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to debt securities. Under its usual procedures, DTC mails an omnibus proxy to Dow as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the debt securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments, if any, on the debt securities will be made to Cede & Co., as nominee of DTC. DTC's practice is to credit direct participants' accounts, upon DTC's receipt of funds and corresponding detail information from Dow or the trustee, on the applicable payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in street name, and will be the responsibility of that participant and not of DTC, the trustee or Dow, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. is Dow's responsibility or the trustee's, disbursement of payments to direct participants shall be the responsibility of DTC, and disbursement of payments to beneficial owners is the responsibility of direct and indirect participants.

A beneficial owner must give notice to elect to have its debt securities purchased or tendered, through its participant, to a tender agent, and shall effect delivery of debt securities by causing the direct participants to transfer the participant's interest in the debt securities, on DTC's records, to a tender agent. The requirement for physical delivery of debt securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the debt securities are transferred by direct participants on DTC's records and followed by a book-entry credit of tendered debt securities to the tender agent's account.

DTC may discontinue providing its services as securities depository with respect to the debt securities at any time by giving reasonable notice to Dow or the trustee. Under these circumstances, in the event Dow does not appoint a successor securities depository, debt security certificates will be printed and delivered.

Dow may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, debt security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Dow believes to be reliable, but Dow takes no responsibility for their accuracy.

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Certain Covenants Applicable to Senior Debt Securities

Limitations on Liens

The senior indenture provides that, subject to the exceptions described below and those set forth under Exempted Indebtedness, Dow may not, and may not permit any restricted subsidiary to, create or permit to exist any lien on any principal property, additions to principal property or shares of capital stock of any restricted subsidiary without equally and ratably securing the debt securities. This restriction will not apply to permitted liens, including:

liens on principal property existing at the time of its acquisition or to secure the payment of all or part of the purchase price;

liens existing on the date of the indenture;

liens on property or shares of capital stock, or arising out of any indebtedness of any corporation existing at the time the corporation becomes or is merged into Dow or a restricted subsidiary;

liens which secure debt owing to Dow or a subsidiary by a restricted subsidiary;

liens in connection with the issuance of tax-exempt industrial development or pollution control bonds or other similar bonds issued pursuant to Section 103(b) of the Internal Revenue Code to finance all or any part of the purchase price of or the cost of construction, equipping or improving property; provided that those liens are limited to the property acquired or constructed or the improvement and to substantially unimproved real property on which the construction or improvement is located; provided further, that Dow and its restricted subsidiaries may further secure all or any part of such purchase price or the cost of construction of any improvements and personal property by an interest on additional property of Dow and restricted subsidiaries only to the extent necessary for the construction, maintenance and operation of, and access to, the property so acquired or constructed or the improvement;

liens arising from assignments of money due under contracts with the United States or any State, or any department, agency or political subdivision of the United States or any State;

liens in favor of any customer arising in respect of payments made by or on behalf of a customer for goods produced for or services rendered to customers in the ordinary course of business not exceeding the amount of those payments;

any extension, renewal or replacement of any lien referred to in any of the previous clauses; and

statutory liens, liens for taxes or assessments or governmental charges or levies not yet due or delinquent or which can be paid without penalty or are being contested in good faith, landlord's liens on leased property, easements and liens of a similar nature as those described above.

Limitation on Sale and Lease-Back Transactions

The senior indenture provides that, subject to the exceptions set forth below under the section of this prospectus captioned Exempted Indebtedness, sale and lease-back transactions by Dow or any restricted subsidiary of any principal property are prohibited (except for temporary leases for a term, including any renewal thereof, of not more than three years and except for leases between Dow and a subsidiary or between subsidiaries) unless the net proceeds of the sale and leaseback transaction are at least equal to the fair value of the property.

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Exempted Indebtedness

Dow or any restricted subsidiary may create or assume liens or enter into sale and lease-back transactions not otherwise permitted under the limitations on liens and sale and lease-back transactions described above, so long as at that time and after giving effect to the lien or sale and lease-back transaction, the sum of:

(1) the aggregate outstanding indebtedness of Dow and its consolidated subsidiaries incurred after the date of the indenture and secured by the liens relating to principal property; plus

(2) the aggregate discounted value of the obligations for rental payments in respect to the sale and lease-back transactions relating to principal property;

does not exceed 10% of consolidated net tangible assets.

There are no covenants or provisions contained in the indenture which protect holders of debt securities in the event of a highly leveraged transaction.

Certain Definitions

The following are the meanings of terms that are important in understanding the covenants previously described:

Consolidated net tangible assets means the total assets of Dow and its consolidated subsidiaries as shown on or reflected in its balance sheet, less:

all current liabilities, excluding current liabilities that could be classified as long-term debt under generally accepted accounting principles and current liabilities that are by their terms extendible or renewable at the obligor's option to a time more than 12 months after the time as of which the amount of current liabilities is being computed;

advances to entities accounted for on the equity method of accounting; and

intangible assets.

Intangible assets means the aggregate value, net of any applicable reserves, as shown on or reflected in Dow's balance sheet, of:

all trade names, trademarks, licenses, patents, copyrights and goodwill;

organizational and development costs;

deferred charges, other than prepaid items such as insurance, taxes, interest, commissions, rents and similar items and tangible assets being amortized; and

amortized debt discount and expense, less unamortized premium.

Principal property means any manufacturing facility having a gross book value in excess of 1% of consolidated net tangible assets that is owned by Dow or any restricted subsidiary and located within the United States, excluding its territories and possessions and Puerto Rico, other than any facility or portion of a facility which Dow's board of directors reasonably determines is not material to the business conducted by Dow and

its subsidiaries as a whole.

Restricted subsidiary means any subsidiary:

of which substantially all of the property of is located, and substantially all of the business is carried on, within the United States, excluding its territories and possessions and Puerto Rico; and

that owns or operates one or more principal properties; provided, however, restricted subsidiary shall not include a subsidiary that is primarily engaged in the business of a finance or insurance company, and branches of that finance or insurance company.

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Subsidiary means each corporation of which more than 50% of the outstanding voting stock is owned, directly or indirectly, by Dow or one or more of its subsidiaries, or by Dow and one or more of its subsidiaries.

Subordination of Subordinated Debt Securities

Unless otherwise indicated in an applicable prospectus supplement, the following provisions will apply to the subordinated debt securities.

The subordinated debt securities will, to the extent described in the subordinated indenture, be subordinate in right of payment to the prior payment in full of all senior indebtedness (as defined below). Upon any payment or distribution of assets to creditors pursuant to any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding of ours, the holders of senior indebtedness will be entitled to payment in full of any principal, premium, if any, and interest on such senior indebtedness, before the holders of the subordinated debt securities will be entitled to any payment in respect of any principal, premium, if any, or interest on the subordinated debt securities. Because of the subordination, our creditors may ratably recover less than the holders of senior indebtedness, and more than the holders of the subordinated debt securities, upon liquidation or insolvency.

If the maturity of any subordinated debt securities is accelerated, the holders at that time of all senior indebtedness then outstanding will first be entitled to receive payment in full of all amounts due thereon, before the holders of the subordinated debt securities will be entitled to receive any payment of any principal, premium, if any, and interest on the subordinated debt securities.

No principal, premium or interest payments may be made in respect of the subordinated debt securities if:

a default beyond any grace period in any payment of principal, interest or any other monetary amounts has occurred and is continuing regarding any senior indebtedness;

an event of default resulting in the acceleration of the maturity of any senior indebtedness has occurred and is continuing;

any judicial proceeding is pending regarding any such default; or

Dow dissolves, winds-up, liquidates or reorganizes, whether in bankruptcy, insolvency or otherwise.

For purposes of the subordination provisions of the subordinated indenture, the payment, issuance and delivery of cash, property or securities, other than stock and our specified subordinated securities, upon conversion of a subordinated debt security, is a principal payment in respect of the subordinated debt security.

The subordinated indenture does not limit or prohibit the incurrence of additional senior indebtedness, including indebtedness that is senior to the subordinated debt securities, but subordinate to our other obligations. The senior debt securities constitute senior indebtedness under the subordinated indenture.

The term senior indebtedness includes all amounts due on and obligations incurred in connection with any of the following, whether outstanding at the date the subordinated indenture is executed, or incurred or created after the subordinated indenture is executed, unless the instrument creating or evidencing the obligation provides that it is not senior in right of payment to the subordinated debt securities, or is equally senior with or junior to the subordinated debt securities:

our indebtedness, obligations and other liabilities, contingent or otherwise, incurred for money borrowed or evidenced by bonds, debentures, notes or similar instruments;

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our reimbursement obligations and other liabilities, contingent or otherwise, regarding letters of credit, bankers' acceptances issued for our account, interest rate protection agreements or currency exchange or purchase agreements;

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obligations and liabilities, contingent or otherwise, in respect of leases by us as lessee that are accounted for as capitalized lease obligations on our balance sheet in accordance with generally accepted accounting principles;

all direct or indirect guarantees or similar agreements in respect of, and obligations or liabilities (contingent or otherwise) to purchase or otherwise acquire or assure a creditor against our loss in respect of, indebtedness, obligations or liabilities of another person described in any of the three immediately preceding provisions;

any indebtedness described in any of the four immediately preceding provisions and that is secured by any mortgage, pledge, lien or other encumbrance existing on property owned or held by us, regardless of whether the indebtedness secured thereby has been assumed by us; and

any deferrals, renewals, extensions and refunds of, or amendments, modifications or supplements to, any indebtedness, obligation or liability described in any of the five immediately preceding provisions.

Senior indebtedness will not include trade accounts payable, accrued liabilities arising in the ordinary course of business or indebtedness to our subsidiaries.

The applicable prospectus supplement may further describe the provisions, if any, applicable to the subordination of the subordinated debt securities of a particular series.

Consolidation, Merger and Sale of Assets

Dow may not merge or consolidate or sell or convey all or substantially all of its assets unless:

the successor corporation is Dow or is a domestic corporation that assumes Dow's obligations on the debt securities and under the indenture; and

after giving effect to the transaction, Dow or the successor corporation would not be in default under the indenture.

Events of Default

With respect to any series of debt securities, any one of the following events will constitute an event of default under the indenture:

- (1) default by Dow for 30 days in the payment of any installment of interest on the debt securities of that series;
- (2) default by Dow in the payment of any principal on the debt securities of that series;
- (3) default by Dow in the payment of any sinking fund installment;
- (4) default by Dow in the performance, or breach by Dow, of any of the covenants or warranties contained in the indenture for the benefit of the debt securities of that series which is not remedied within a period of 90 days after receipt of written notice by Dow from the trustee or the holders of not less than 25% in principal amount of the debt securities of that series then outstanding;
- (5) Dow commences bankruptcy or insolvency proceedings or consents to any bankruptcy relief sought against it;
- (6) Dow becomes involved in involuntary bankruptcy or insolvency proceedings and an order for relief is entered against it, if that order remains in effect for more than 60 consecutive days; or

(7) any other event of default established in accordance with a supplemental indenture or board resolution with respect to any series of debt securities.

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No event of default described in clauses (1), (2), (3), (4) or (7) above with respect to a particular series of debt securities necessarily constitutes an event of default with respect to any other series of debt securities.

The indenture provides that if an event of default under clauses (1), (2), (3), (4) or (7) above (but only if the event of default under clauses (4) or (7) is with respect to less than all series of debt securities then outstanding) shall have occurred and be continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the then-outstanding debt securities of the series affected by the event of default, each affected series treated as a separate class, may declare the principal of all the debt securities of each affected series, together with accrued interest, to be due and payable immediately. If an event of default under clauses (4) or (7) above (but only if the event of default under clauses (4) or (7) is with respect to all of the series of debt securities then outstanding) shall have occurred and be continuing, either the trustee or the holders of not less than 25% in the aggregate principal amount of all the debt securities then outstanding, treated as one class, may declare the principal of all the debt securities, together with accrued interest, to be due and payable immediately. If an event of default under clauses (5) or (6) above shall have occurred, the principal of all the debt securities, together with accrued interest, will become due and payable immediately without any declaration or other act by the trustee or any holder. If prior to any judgment or decree for the payment of money due being entered or obtained, Dow delivers to the trustee an amount of money sufficient to pay all interest then due and the principal of any securities that have matured (other than through acceleration) and the trustee's expenses and Dow has cured any defaults under the indenture, then such declaration (including a declaration caused by a default in the payment of principal or interest, the payment for which has subsequently been provided) may be rescinded and annulled by the holders of a majority in principal amount of the debt securities of the series then outstanding, each such series treated as a separate class, or all debt securities treated as one class, as the case may be, as were entitled to declare such default. In addition, past defaults may be waived by the holders of a majority in principal amount of the debt securities of the series then outstanding, each series treated as a separate class, or all debt securities treated as one class, as the case may be, as were entitled to declare such default, except a default in the payment of the principal of or interest on the debt securities or in respect of a covenant or provision of the indenture that cannot be modified or amended without the approval of the holder of each debt security so affected.

Notwithstanding the foregoing, at Dow's election, the sole remedy for an event of default specified in clause (4) above relating to the failure by Dow to comply with the covenant in the indenture requiring Dow to file with the trustee copies of the reports and other information it files with the SEC (Dow's SEC filing obligations) and for any failure by Dow to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act of 1939, as amended (the TIA), which similarly requires Dow to file with the trustee copies of the reports and other information it files with the SEC, shall for the first 270 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the debt securities of such series at an annual rate equal to 0.25% of the principal amount of the debt securities. This additional interest will accrue on the debt securities from and including the date on which an event of default relating to a failure to comply with Dow's SEC filing obligations or the failure to comply with the requirements of Section 314(a)(1) of the TIA first occurs to but not including the 270th day thereafter (or such earlier date on which the event of default shall have been cured or waived). On such 270th day (or earlier, if such event of default is cured or waived prior to such 270th day), such additional interest will cease to accrue and, if such event of default has not been cured or waived prior to such 270th day, then either the trustee or the holders of not less than 25% in the aggregate principal amount of the debt securities of such series then outstanding may declare the principal of all the debt securities of such series, together with accrued interest, to be due and payable immediately. This provision shall not affect the rights of holders in the event of the occurrence of any other event of default.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to be indemnified by the holders of debt securities before exercising any right or power under the indenture at the request of the holders of the debt securities. The indenture also provides that the holders of a majority in principal amount of the outstanding debt securities of all series affected, each series treated as a separate class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of such series.

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The indenture requires Dow to file annually with the trustee a certificate as to the absence of any default or specifying any default that exists.

Satisfaction and Discharge of Indenture

The indenture with respect to any series, except for the surviving obligations, including Dow's obligation to compensate the trustee and to pay the principal of and interest on the debt securities of that series, will be discharged and canceled upon the satisfaction of specified conditions, including:

payment of all the debt securities of that series; or

the deposit with the trustee of cash or U.S. government obligations or a combination of cash and U.S. government obligations sufficient for the payment or redemption in accordance with the indenture and the terms of the debt securities of that series.

Modification and Waiver

Dow and the trustee may modify and amend the indenture with the consent of the holders of more than 50% of the principal amount of the outstanding debt securities of each series which is affected. No supplemental indenture may, without the consent of the holders of all outstanding debt securities:

extend the final maturity of, reduce the rate or extend the time of payment of interest on, reduce the principal amount of, or reduce any amount payable on any redemption of, any debt securities; or

reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for any supplemental indenture.

Governing Law

The indenture and the debt securities will be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of laws principles thereof.

Information About the Trustee

The trustee's corporate trust office is located at 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602. The trustee's principal corporate trust office in New York City is located at 101 Barclay Street, New York, New York 10286.

DESCRIPTION OF WARRANTS

We may issue warrants, including warrants to purchase debt securities, as well as other types of warrants to purchase securities. Warrants may be issued independently or together with any securities and may be attached to or separate from the securities. The warrants are to be issued under warrant agreements to be entered into between us and a bank or trust company, as warrant agent. You should read the particular terms of the warrants, which will be described in more detail in the applicable prospectus supplement. The applicable prospectus supplement will also state whether any of the general provisions summarized below do not apply to the warrants being offered.

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Debt Warrants

The applicable prospectus supplement will describe the terms of debt warrants offered thereby, the warrant agreement relating to the debt warrants and the certificates representing the debt warrants, including the following:

the title of the debt warrants;

the aggregate number of debt warrants;

the price or prices at which the debt warrants will be issued;

the currency or currencies, including composite currencies or currency units, in which the price of the debt warrants may be payable;

the designation, aggregate principal amount and terms of the debt securities purchasable upon exercise of the debt warrants, and the procedures and conditions relating to the exercise of the debt warrants;

the designation and terms of any related debt securities with which the debt warrants are issued, and the number of the debt warrants issued with each debt security;

the currency or currencies, including composite currencies or currency units, in which any principal, premium, if any, or interest on the debt securities purchasable upon exercise of the debt warrants will be payable;

the date, if any, on and after which the debt warrants and the related debt securities will be separately transferable;

the principal amount of debt securities purchasable upon exercise of each debt warrant, and the price at which and the currency or currencies, including composite currencies or currency units, in which the principal amount of debt securities may be purchased upon exercise;

the date on which the right to exercise the debt warrants will commence, and the date on which the right will expire;

the maximum or minimum number of the debt warrants which may be exercised at any time;

a discussion of any material United States federal income tax considerations; and

any other terms of the debt warrants and terms, procedures and limitations relating to the exercise of the debt warrants.

Certificates representing debt warrants will be exchangeable for new certificates representing debt warrants of different denominations, and debt warrants may be exercised at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement. Before the exercise of their debt warrants, holders of debt warrants will not have any of the rights of holders of the debt securities issuable upon

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exercise and will not be entitled to payment of principal of or any premium or interest on the debt securities issuable upon exercise.

Other Warrants

The applicable prospectus supplement will describe the following terms of any other warrants that we may issue:

the title of the warrants;

the securities (which may include common stock, preferred stock or depositary shares) for which the warrants are exercisable;

the price or prices at which the warrants will be issued;

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the currency or currencies, including composite currencies or currency units, in which the price of the warrants may be payable;

if applicable, the designation and terms of the common stock, preferred stock or depositary shares with which the warrants are issued, and the number of the warrants issued with each share of common stock or preferred stock or each depositary share;

if applicable, the date on and after which the warrants and the related common stock, preferred stock or depositary shares will be separately transferable;

if applicable, a discussion of any material United States federal income tax considerations; and

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

Exercise of Warrants

Each warrant will entitle the holder to purchase for cash the principal amount of debt securities or the number of shares of common stock or preferred stock or depositary shares at the exercise price as will in each case be described in, or can be determined from, the applicable prospectus supplement relating to the offered warrants. Warrants may be exercised at any time up to the close of business on the expiration date described in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Warrants may be exercised as described in the applicable prospectus supplement. Upon receipt of payment and the certificate representing the warrant properly completed and duly executed at the corporate trust office of the warrant agent or any other offices indicated in the applicable prospectus supplement, we will, as soon as practicable, forward the securities issuable upon exercise. If less than all of the warrants represented by the certificate are exercised, a new certificate will be issued for the remaining warrants.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

Dow may issue stock purchase contracts that obligate you to purchase from Dow, and obligate Dow to sell to you, a specified or varying number of shares of common stock at a future date or dates. Alternatively, the stock purchase contracts may obligate Dow to purchase from you, and obligate you to sell to Dow, a specified or varying number of shares of common stock or preferred stock at a future date or dates. The price per share of common stock or preferred stock may be fixed at the time the stock purchase contracts are entered into or may be determined by reference to a specific formula set forth in the stock purchase contracts. Any stock purchase contract may include anti-dilution provisions to adjust the number of shares to be delivered pursuant to the stock purchase contract upon the occurrence of specified events.

The stock purchase contracts may be entered into separately or as a part of stock purchase units consisting of a stock purchase contract and, as security for your obligations to purchase or sell the shares of common stock or preferred stock, as the case may be, under the stock purchase contracts, either:

common stock;

preferred stock;

debt securities; or

debt obligations of third parties, including U.S. Treasury securities.

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The stock purchase contracts may require Dow to make periodic payments to you or vice versa, and these payments may be unsecured or prefunded and may be paid on a current or deferred basis. The stock purchase

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contracts may require you to secure your obligations in a specified manner, and, in some circumstances, Dow may deliver newly issued prepaid stock purchase contracts upon release to you of any collateral securing your obligations under the original stock purchase contract.

The applicable prospectus supplement will describe the specific terms of any stock purchase contracts or stock purchase units and, if applicable, prepaid stock purchase contracts. However, that description will not purport to be complete and will be qualified in its entirety by reference to:

the stock purchase contracts;

the collateral arrangements and depositary arrangements, if applicable, relating to the stock purchase contracts or stock purchase units; and

if applicable, the prepaid stock purchase contracts and the document pursuant to which the prepaid stock purchase contracts will be issued.

PLAN OF DISTRIBUTION

Dow may sell the securities:

directly to purchasers, or

through agents, underwriters or dealers, or

through a combination of any of these methods of sale.

Dow may distribute the securities from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices.

Dow may determine the price or other terms of the securities offered under this prospectus by use of an electronic auction. Dow will describe how any auction will determine the price or any other terms, how potential investors may participate in the auction and the nature of the underwriters' obligations in the related supplement to this prospectus.

Dow may designate agents to solicit offers to purchase the securities from time to time. These agents may be deemed to be underwriters, as defined in the Securities Act of 1933, involved in the offer or sale of the securities. The prospectus supplement will name the agents and any commissions Dow pays them. Agents may be entitled to indemnification by Dow against certain liabilities, including liabilities under the Securities Act of 1933, under agreements between Dow and the agents, and the agents or their affiliates may extend credit to or engage in transactions with or perform services for Dow in the ordinary course of business. Unless otherwise indicated in the prospectus supplement, any agent will be acting on a reasonable efforts basis for the period of its appointment.

If Dow uses any underwriters in the sale of any of the securities, Dow will enter into an underwriting agreement with them at the time of sale and the names of the underwriters and the terms of the transaction will be set forth in the prospectus supplement that the underwriters use to make resales of the securities. The underwriters may be entitled under the relevant underwriting agreement to indemnification by Dow against certain liabilities, including liabilities under the Securities Act of 1933, and the underwriters or their affiliates may extend credit to or engage in transactions with or perform services for Dow in the ordinary course of business.

If Dow uses dealers in the sale of the securities, Dow will sell the securities to those dealers, as principal. The dealers may then resell the securities to the public at varying prices to be determined by them at the time of

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resale. Dealers may be entitled to indemnification by Dow against certain liabilities, including liabilities under the Securities Act of 1933, and the dealers or their affiliates may extend credit to or engage in transactions with or perform services for Dow in the ordinary course of business.

Shares of Dow common stock are principally traded on the New York Stock Exchange. Shares of Dow common stock also are listed on the Chicago, Pacific, Amsterdam, Berlin, Brussels, Dusseldorf, Frankfurt, Hamburg, Hannover, London, Paris, Switzerland and Tokyo exchanges and are traded on the Toronto, Boston, Cincinnati and Philadelphia Exchanges. Each series of securities will be a new issue and, other than the common stock, will have no established trading market. Dow may elect to list any series of securities on an exchange, and in the case of the common stock, on any additional exchange, but, unless otherwise specified in the applicable prospectus supplement, Dow will not be obligated to do so. Dow can give no assurance as to the liquidity of the trading market for any of the offered securities.

VALIDITY OF SECURITIES

In connection with particular offerings of the securities in the future, the validity of those securities, other than capital securities, will be passed upon for Dow by Kenneth D. Isley, Dow's Assistant General Counsel Corporate and Financial Law or another of Dow's lawyers named in the applicable prospectus supplement. Unless other indicated in the applicable prospectus supplement, Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois, will act as legal counsel to the underwriters, agents or dealers. Mayer, Brown, Rowe & Maw LLP has from time to time acted as counsel for Dow and its subsidiaries and may do so in the future.

EXPERTS

The consolidated financial statements, the related financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference, (which reports (1) express an unqualified opinion on the financial statements and financial statement schedule and include an explanatory paragraph referring to changes in the Company's method of accounting for defined benefit pension and other postretirement plans to conform to Statement of Financial Accounting Standards No. 158, (2) express an unqualified opinion on management's assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

Dow files reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy that information at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information relating to the Public Reference Room. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet site that contains reports, proxy statements and other information about issuers, including Dow, that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

You can also inspect reports, proxy statements and other information about Dow at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

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The SEC allows Dow to incorporate by reference information into this prospectus. This means that Dow can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is superseded by information that is included directly in this document.

This prospectus incorporates by reference Dow's Annual Report on Form 10-K for the year ended December 31, 2006.

Dow also incorporates by reference any future filings it makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until Dow has sold all of the securities to which this prospectus relates or the offering is otherwise terminated. Dow's subsequent filings with the SEC will automatically update and supersede information in this prospectus.

You may obtain a copy of any of the documents incorporated by reference in this registration statement at no cost by writing to or telephoning Dow at the following address and telephone number:

Office of the Corporate Secretary

The Dow Chemical Company

2030 Dow Center

Midland, Michigan 48674

Telephone: 989-636-1792

Dow has not authorized anyone to give any information or make any representation about Dow that is different from, or in addition to, that contained in this prospectus or in any of the materials that have been incorporated into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. This prospectus is an offer to sell or buy only the securities described in this document, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus speaks only as of the date of this document unless the information specifically indicates that another date applies.

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The Dow Chemical Company

% Notes due

Prospectus Supplement

, 2008

Joint Book-Running Managers

Merrill Lynch & Co.

HSBC

RBS Greenwich Capital