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 August 2009

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 x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

Lisbon, Portugal, 6 August 2009

In 1H09, consolidated operating revenues amounted to Euro 3,231 million, a decrease of 0.3% y.o.y, and EBITDA reached Euro 1,197 million, an increase of 0.5% y.o.y. EBITDA margin increased by 0.3pp in 1H09 to 37.1%. Adjusting for the effects of the consolidation of Telemig, lower mobile termination rates (MTRs) and using constant exchange rate, consolidated operating revenues and EBITDA would have grown by 4.4% and by 4.5% y.o.y, respectively. Income from operations reached Euro 484 million. Net income amounted to Euro 256 million, an increase of 1.7% y.o.y, while basic earnings per share increased by 9.6% y.o.y to Euro 0.29. Capex amounted to Euro 506 million, compared to Euro 358 million in 1H08, an increase of 41.1% y.o.y, as a result of the investments in the rollout of the fibre network and the TV service in Portugal and of the investments in 3G and 3.5G in Brazil. Free cash flow increased from Euro 7 million to Euro 135 million in 1H09, as investments in 1H08 included the acquisition of Telemig.

As at 30 June 2009, net debt amounted to Euro 6,156 million and after-tax unfunded post retirement benefit obligations totalled Euro 1,291 million. Liquidity including cash, undrawn underwritten commercial paper and standby facilities stood at Euro 1,779 million.

Table 1 _ Consolidated financial highlights Euro million

	2Q09	**2Q08**	**y.o.y**	**1H09**	**1H08**	**y.o.y**
Operating revenues	1,627.0	1,668.2	(2.5)%	3,231.5	3,240.1	(0.3)%
Operating costs, excluding PRBs and D&A	1,032.1	1,082.6	(4.7)%	2,034.0	2,048.7	(0.7)%
EBITDA (1)	594.9	585.5	1.6%	1,197.5	1,191.5	0.5%
Income from operations (2)	230.4	261.6	(11.9)%	484.4	560.0	(13.5)%
Net income	89.7	112.1	(20.0)%	256.1	251.9	1.7%
Capex (3)	282.1	215.9	30.6%	505.9	358.4	41.1%
Capex as % of revenues (%)	17.3	12.9	4.4pp	15.7	11.1	4.6pp
EBITDA minus Capex	312.8	369.6	(15.4)%	691.6	833.1	(17.0)%
Free cash flow	226.7	(168.3)	n.m.	134.9	6.7	n.m.
Net debt	6,156.2	5,800.0	6.1%	6,156.2	5,800.0	6.1%
After-tax unfunded PRB obligations	1,291.4	1,107.1	16.7%	1,291.4	1,107.1	16.7%
EBITDA margin (%) (4)	36.6	35.1	1.5pp	37.1	36.8	0.3pp
Net debt / EBITDA (x)	2.6	2.5	0.1x	2.6	2.4	0.1x
EBITDA / net interest (x)	8.2	9.0	(0.8)x	8.3	10.3	(2.0)x
Basic earnings per share	0.10	0.12	(17.4)%	0.29	0.27	9.6%
Diluted earnings per share (5)	0.10	0.12	(15.6)%	0.29	0.26	9.0%

(1) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (2) Income from operations = income before financials and income taxes + curtailment costs + losses (gains) on disposal of fixed assets + net other costs (gains). (3) Excludes additional commitments under the terms of the UMTS licence (Euro 11.5 million in 1H09) and the acquisition of 3G licences in Brazil (Euro 227 million in 2Q08). (4) EBITDA margin = EBITDA / operating revenues. (5) 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

In 1H09, consolidated operating revenues decreased by 0.3% y.o.y to Euro 3,231 million, as a result of the negative impact of the 41% decline in MTRs between 30 June 2008 and 30 June 2009 at TMN, which more than offset growth in wireline and Vivo. Adjusting for the effects of the consolidation of Telemig, lower MTRs and using constant exchange rate, consolidated operating revenues would have increased by 4.4% y.o.y.

Table 2 _ Consolidated income statement (1) Euro million

	2Q09	2Q08	y.o.y	1H09	1H08	y.o.y
Operating revenues	**1,627.0**	**1,668.2**	**(2.5)%**	**3,231.5**	**3,240.1**	**(0.3)%**
Wireline (2)	473.3	476.1	(0.6)%	965.3	953.7	1.2%
Domestic mobile TMN(2)	367.1	386.6	(5.1)%	737.1	773.0	(4.6)%
Brazilian mobile Vivo(1)	738.7	765.9	(3.6)%	1,442.4	1,431.4	0.8%
Other and eliminations	48.0	39.6	21.3%	86.7	82.1	5.5%
Operating costs, excluding PRBs and D&A	**1,032.1**	**1,082.6**	**(4.7)%**	**2,034.0**	**2,048.7**	**(0.7)%**
Wages and salaries	177.2	154.5	14.7%	338.8	311.2	8.9%
Direct costs	273.3	275.1	(0.6)%	534.7	518.3	3.2%
Commercial costs	261.7	315.5	(17.0)%	524.3	578.6	(9.4)%
Other operating costs	319.8	337.6	(5.3)%	636.3	640.6	(0.7)%
EBITDA (3)	**594.9**	**585.5**	**1.6%**	**1,197.5**	**1,191.5**	**0.5%**
Post retirement benefits	22.4	10.9	105.7%	44.8	21.9	105.0%
Depreciation and amortisation	342.1	313.0	9.3%	668.3	609.6	9.6%
Income from operations (4)	**230.4**	**261.6**	**(11.9)%**	**484.4**	**560.0**	**(13.5)%**
Other expenses (income)	**14.9**	**67.8**	**(78.1)%**	**17.6**	**79.4**	**(77.8)%**
Curtailment costs, net	1.6	62.7	(97.4)%	3.5	78.0	(95.5)%
Net losses (gains) on disposal of fixed assets	(0.4)	(4.2)	(89.7)%	0.1	(13.3)	n.m.
Net other costs (gains)	13.6	9.2	47.8%	14.0	14.6	(4.1)%
Income before financ. & inc. taxes	**215.5**	**193.9**	**11.2%**	**466.8**	**480.6**	**(2.9)%**
Financial expenses (income)	**35.9**	**30.1**	**19.4%**	**54.4**	**73.0**	**(25.6)%**
Net interest expenses	72.4	65.2	11.0%	144.7	115.6	25.2%
Equity in earnings of affiliates, net	(53.5)	(40.9)	30.9%	(102.2)	(74.5)	37.3%
Net other financial losses (gains)	17.1	5.8	194.7%	11.8	31.9	(62.9)%
Income before income taxes	**179.6**	**163.8**	**9.7%**	**412.4**	**407.6**	**1.2%**
Provision for income taxes	(62.3)	(35.5)	75.7%	(117.8)	(114.2)	3.2%
Income from continued operations	**117.3**	**128.3**	**(8.6)%**	**294.6**	**293.4**	**0.4%**
Losses (income) attributable to minority interests	(27.6)	(16.2)	70.0%	(38.5)	(41.6)	(7.4)%
Consolidated net income	**89.7**	**112.1**	**(20.0)%**	**256.1**	**251.9**	**1.7%**

(1) Considering a Euro/Real average exchange rate of 2.5946 in 1H08 and 2.9214 in 1H09. (2) The wireline and domestic mobile operating revenues include the impact of the decline in regulated mobile termination rates (MTRs). At TMN this impact amounted to Euro 40.3 million in 1H09 and Euro 21.5 million in 2Q09. (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 + other costs (gains).

In 1H09, wireline operating revenues increased by 1.2% y.o.y, supported by the inflection of retail revenues, which posted a 1.2% increase y.o.y, as a result of the continued strong performance of triple-play, pay-TV, broadband and its positive impact in the improvement of the trend of line loss.

The success of PT s triple-play and pay-TV offer (Meo) is demonstrated by strong growth in retail net additions, which reached 137 thousand in 1H09, underpinned by decelerating line loss and growth in flat fee broadband customers. Line loss reached 65 thousand in 1H09 compared to 110 thousand lines in 1H08. At the same time, PT continued to gain broadband market share as flat fee broadband net additions reached 78 thousand in 1H09 compared to 30 thousand in 1H08. As a result of this improved performance, PT had 443 thousand pay-TV customers at the end of 1H09, with 131 thousand net additions during the period, and equivalent to 56.7% penetration of the ADSL customer base. The ADSL retail customer base increased by 71 thousand customers, equivalent to a growth of 19.9% y.o.y, thus taking the number of ADSL customers to 781 thousand.

TMN s operating revenues decreased by 4.6% y.o.y due to the impact of lower MTRs (Euro 40 million), which more than offset the continued growth in customer revenues (+1.9% y.o.y in 1H09). Data revenues increased by 13.7% y.o.y in 1H09, and already account for 22.7% of service revenues. Excluding the impact of lower MTRs, TMN s operating revenues would have increased by 0.6% y.o.y in 1H09, underpinned by growth in customer revenues of 1.9% y.o.y.

Revenues from domestic operations decreased by 1.5% y.o.y in 1H09 in great part due to substantially lower equipment sales, which declined by Euro 15 million, from 1H08 to 1H09. The financial performance of the domestic operations was also negatively impacted by lower MTRs. Excluding this adverse impact of MTRS, revenues from the domestic operations would have increased by 1.1% y.o.y.

Vivo s operating revenues increased by 0.8% y.o.y in Euros and by 13.5% y.o.y in Reais, on the back of continued customer growth (15.8% increase y.o.y in the customer base). Excluding the consolidation of Telemig and using constant exchange rate, Vivo s operating revenues would have increased by 7.7% y.o.y, with service revenues growing by 9.6% y.o.y.

Other revenues, including intra-group eliminations, increased by 5.5% y.o.y, in 1H09, mainly due to the improved revenue performance of PT s call centre business in Brazil, MTC in Namibia and Timor Telecom, which more than offset the loss of fees resulting from the termination of the management contract with Vivo in August 2008.

Table 3 _ Revenues by region Euro million

	2Q09	2Q08	y.o.y	1H09	1H08	y.o.y
Domestic operations (1)	805.5	827.1	(2.6)%	1,632.9	1,657.6	(1.5)%
Brazil (2)	764.6	786.0	(2.7)%	1,489.2	1,470.0	1.3%
Other and eliminations (3)	56.8	55.1	3.2%	109.4	112.6	(2.8)%
Total operating revenues	**1,627.0**	**1,668.2**	**(2.5)%**	**3,231.5**	**3,240.1**	**(0.3)%**
Weight (%)						
Domestic operations (1)	49.5	49.6	(0.1)pp	50.5	51.2	(0.6)pp
Brazil (2)	47.0	47.1	(0.1)pp	46.1	45.4	0.7pp
Other and eliminations (3)	3.5	3.3	0.2pp	3.4	3.5	(0.1)pp
Total operating revenues	**100.0**	**100.0**	**0.0pp**	**100.0**	**100.0**	**(0.0)pp**

(1) Domestic operations include the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro and PT Contact. (2) Considering a Euro/Real average exchange rate of 2.5946 in 1H08 and 2.9214 in 1H09. Includes mainly Vivo and Dedic. (3) Includes fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

The contribution from fully and proportionally consolidated international assets to operating revenues increased from 48.8% in 1H08 to 49.8% in 1H09. Brazil accounted for 46.1% of consolidated operating revenues, an increase of 0.7pp over 1H08, despite the adverse impact of the depreciation of the Real against the Euro in the period.

EBITDA increased by 0.5% y.o.y, in 1H09, to Euro 1,197 million, equivalent to a margin of 37.1%. Excluding the effects of the consolidation of Telemig, lower MTRs and using constant exchange rate, consolidated EBITDA would have increased by 4.5% y.o.y. EBITDA performance in the period was supported by growth at Vivo and other international assets, which was partially offset by the decrease in the domestic businesses, as a result of investments in triple-play, pay-TV and wireless broadband and the termination of Vivo s management fee.

Wireline EBITDA amounted to Euro 409 million in 1H09, equivalent to a 42.3% margin. EBITDA margin continued to be impacted primarily by higher programming, customer care and support service costs related to the roll-out of the pay-TV service. In 1H09, wages and salaries in the wireline segment increased by 1.5% y.o.y as a result of the decision to halt the redundancy programme and focus on insourcing, which in turn led to the reduction of the obligations related to salaries to pre-retired and suspended employees (Euro 53 million in 1H09) and corresponding cash payments.

In 1H09, TMN s EBITDA decreased by 1.7% y.o.y to Euro 331 million mainly as a result of the decrease in MTRs. EBITDA margin stood at 45.0%. Excluding the negative impact of Euro 20.6 million due to lower MTRs, TMN s EBITDA would have increased by 4.4% y.o.y in 1H09, as a result of strict cost discipline and growth in customer revenues.

In 1H09, Vivo s EBITDA increased by 20.4% y.o.y in 1H09, underpinned by customer growth and strict cost control. Excluding the consolidation of Telemig and using constant exchange rate, Vivo s EBITDA would have increased by 29.5% y.o.y. Vivo s EBITDA margin reached 29.0% in 1H09, an improvement of 4.7pp versus 1H08.

Other EBITDA decreased by 16.7% y.o.y to Euro 39 million in 1H09, mainly as a result of the loss of fees due to the termination of Vivo s management contract as from August 2008, notwithstanding the improved performance of MTC, in Namibia, and Timor Telecom.

Table 4 _ EBITDA by business segment (1) (2)

Euro million

	2Q09	**2Q08**	**y.o.y**	**1H09**	**1H08**	**y.o.y**
Wireline	200.6	225.9	(11.2)%	408.7	459.8	(11.1)%
Domestic mobile TMN	161.7	170.9	(5.4)%	331.4	337.3	(1.7)%
Brazilian mobile Vivo(1)	214.6	163.7	31.0%	418.2	347.4	20.4%
Other and eliminations	18.1	25.0	(27.7)%	39.1	47.0	(16.7)%
EBITDA (2)	**594.9**	**585.5**	**1.6%**	**1,197.5**	**1,191.5**	**0.5%**
EBITDA margin (%)	36.6	35.1	1.5pp	37.1	36.8	0.3pp
Domestic operations (3)	360.8	395.2	(8.7)%	737.0	793.8	(7.2)%
Brazil (1) (4)	217.4	168.8	28.8%	422.6	354.7	19.1%
Other (5)	16.7	21.4	(22.0)%	37.9	42.9	(11.8)%
Weight (%)						
Domestic operations	60.6	67.5	(6.9)pp	61.5	66.6	(5.1)pp
Brazil	36.5	28.8	7.7pp	35.3	29.8	5.5pp
Other	2.8	3.7	(0.8)pp	3.2	3.6	(0.4)pp
EBITDA	100.0	100.0	(0.0)pp	100.0	100.0	(00)pp

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(1) Considering a Euro/Real average exchange rate of 2.5946 in 1H08 and 2.9214 in 1H09. (2) EBITDA = income from operations + post retirement benefits + depreciation and amortisation. (3) Domestic operations includes the wireline segment, domestic mobile, PT Inovação, PT SI, PT Pro and PT Contact. (4) Includes mainly Vivo and Dedic. (5) Includes only fully consolidated international assets, namely MTC, CVT, CST and Timor Telecom, and also the holding companies.

Fully and proportionally consolidated international assets contributed to 41.1% of PT s consolidated EBITDA in 1H09, up from 34.6% in 1H08. Brazilian businesses accounted for 35.3% of EBITDA in 1H09, which compares to 29.8% in 1H08. EBITDA of the fully consolidated African businesses in 1H09 accounted for 4.7% of consolidated EBITDA, an increase of 0.6 pp y.o.y.

Post retirement benefit costs amounted to Euro 45 million in 1H09, compared to Euro 22 million in 1H08, primarily as a result of lower expected return on assets (Euro 20 million), following the devaluation of fund assets under management that occurred in 2008 due to market conditions.

Depreciation and amortisation costs increased by 9.6% y.o.y to Euro 668 million, reflecting higher contributions from: (1) Vivo, which accounted for approximately 78% of the increase in D&A, as a result of the acquisition and consolidation of Telemig and higher depreciation rates for the CDMA network, following the GSM network rollout, partially offset by the impact of the depreciation of the Real against the Euro in 1H09, and (2) the wireline business in Portugal, resulting from the investments in the rollout of pay-TV service, and also from the revaluation of ducts and certain real estate assets undertaken in 2008. Excluding the effects of the consolidation of Telemig and using constant exchange rate, consolidated D&A would have increased by 11.8% y.o.y.

Curtailment costs amounted to Euro 3 million in 1H09, as compared to Euro 78 million in the same period of last year, due to the halting of the redundancy programme.

Net losses on disposal of fixed assets amounted to Euro 0.1 million in 1H09, as compared to net gains of Euro 13 million in the same period of last year. Gains recorded in 1H08 were related to real estate disposals, which generated a cash inflow of Euro 15 million in the period.

Net interest expenses increased to Euro 145 million, equivalent to an increase of 25.2% y.o.y, of which: (1) Euro 22 million was due to the increase in PT s average net debt in the period, post completion of the share buyback programme undertaken in 2008 and to the acquisitions of Telemig and 3G licences in Brazil, and (2) Euro 5 million due to the increase in the average cost of debt in Brazil. In 1H09, consolidated average cost of debt was 4.9%. Excluding Brazil, the average cost of debt was 4.0% versus 4.0% in 1H08.

Equity in earnings of affiliates includes primarily PT s share in the earnings of Unitel, CTM, Médi Télécom and UOL, and amounted to Euro 102 million in 1H09, compared to Euro 74 million in 1H08, up by 37.3% y.o.y. In 1H08, equity in earnings of affiliates included a Euro 9 million gain related to the disposal of PT s interest in Banco Best.

Net other financial losses, which include foreign currency gains, net gains on financial assets and other financial expenses, amounted to Euro 12 million in 1H09, as compared to Euro 32 million in 1H08. Net foreign currency gains amounted to Euro 2 million in 1H09, an improvement over the net losses of Euro 13 million in 1H08, which were mainly related to the impact of the depreciation of the US Dollar against the Euro on net assets denominated in US Dollars. Net gains on financial assets amounted to Euro 7 million in 1H09 (losses of Euro 4 million in 1H08) due to the change in fair value of free-standing cross-currency derivative instruments. Other financial expenses, which include banking services, commissions, financial discounts and other financing costs, increased to Euro 21 million in 1H09, compared to Euro 15 million in 1H08.

Provision for income taxes increased from Euro 114 million in 1H08 to Euro 118 million in 1H09 corresponding to an effective tax rate of 28.0% in 1H08 and 28.6% in 1H09.

Income attributable to minority interests decreased to Euro 38 million in 1H09, compared to Euro 42 million in 1H08. The reduction in this caption is primarily attributable to the decrease in minority interests from: (1) Vivo, which amounted to Euro 13 million in 1H09 compared to Euro 16 million in 1H08, and (2) Africatel, which amounted to Euro 21 million in 1H09 compared to Euro 24 million in 1H08. The reduction in Vivo s minority interests is mainly related to the increase in D&A costs, in part related to the acquisition of Telemig, which more than offset the impact of the improvement in EBITDA.

Net income increased by 1.7% y.o.y in 1H09 to Euro 256 million, compared to Euro 252 million in 1H08. In addition to the EBITDA increase in the period, PT benefited from lower curtailment costs and higher income from affiliates, which more than offset higher post retirement benefits, depreciation and amortisation and interest costs. In 1H08, net income included a Euro 13 million gain related to real estate disposals and a Euro 9 million gain related to the disposal of PT s interest in Banco Best.

Earnings per Share

In 1H09, basic earnings per share increased by 9.6% y.o.y to Euro 29 cents, benefiting from the reduction in the number of shares outstanding following the completion of the share buyback programme.

The average number of shares outstanding decreased by 7.2% to 876 million in 1H09, whilst the diluted average number of shares outstanding over the same period declined by 6.8% to 941 million. At the end of June 2009, the number of shares outstanding, adjusted for the 20.6 million own shares recognised in the statement of financial position, was 876 million.

Table 5 _ Earnings per share Million (shares outstanding); Euro (per share data)

	2Q09	2Q08	y.o.y	1H09	1H08	y.o.y
Average number of shares oustanding						
Basic	875.9	911.5	(3.9)%	875.9	944.0	(7.2)%
Diluted (1)	940.5	976.2	(3.7)%	940.5	1,008.6	(6.8)%
Earnings per share						
Basic	0.10	0.12	(17.4)%	0.29	0.27	9.6%
Diluted (1) (2)	0.10	0.12	(15.6)%	0.29	0.26	9.0%

(1) Diluted shares are calculated assuming the full exercise of convertible bonds. (2) Diluted earnings are computed adjusting for the costs of convertible bonds.

Capex

Total capex increased by 41.1% y.o.y in 1H09 to Euro 506 million, equivalent to 15.7% of revenues, as a result of growth in wireline and Vivo, which more than offset capex reductions at TMN.

Wireline capex increased from Euro 126 million in 1H08 to Euro 227 million in 1H09, primarily as a result of: (1) the FTTH rollout and investments in network upgrades to provide increased bandwidth, related to the continued success of IPTV services, and (2) a strong growth in pay-TV net additions resulting in increased customer-related capex (Euro 35 million) during 1H09.

TMN s capex decreased by 27.6% y.o.y to Euro 58 million in 1H09The decrease in TMN s capex is primarily explained by the investments in the continued deployment of 3G/3.5G networks, both in terms of capacity and coverage, carried out in 2008, which resulted in improved quality of mobile voice and data services in Portugal. As a result, in a recent study undertaken by the Portuguese telecoms regulator, TMN was considered as having the most reliable and stable network performance in Portugal.

Table 6 _ Capex by business segment (1) Euro million

	2Q09	2Q08	y.o.y	1H09	1H08	y.o.y
Wireline	125.9	77.0	63.5%	227.3		