

PORTUGAL TELECOM SGPS SA
Form 6-K
April 10, 2015

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 March 2015

Commission File Number 1-13758

PORTUGAL TELECOM, SGPS, S.A.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

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

Yes No

Announcement | Lisbon | 27 March 2014

Oi discloses the 2014 fourth quarter results

PT SGPS, S.A. hereby informs on the material fact disclosed by Oi, S.A. on the 2014 fourth quarter results, as detailed in the company's document attached hereto.

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

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

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

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QUARTERLY REPORT

Consolidated Information and Earnings Release (Unaudited)

This report contains the operating and financial performance of Oi S.A. and its direct and indirect subsidiaries for the fourth quarter and full year of 2014.

Oi S.A. | www.oi.com.br/ir

Highlights

4Q14 RESULTS CONFIRM INFLECTION POINT IN 3Q14

- Oi recorded sequential growth in almost all aspects of the business (Revenues, EBITDA, OCF) confirming the inflection point in 3Q14.
- Consolidated net revenues amounted to R\$ 7,323 million in 4Q14, a 5.1% increase over 3Q14. This performance was driven by net revenues in Brazilian operations, which totaled R\$ 7,064 million (+4.8% q.o.q), mainly due to Personal Mobility, particularly customer revenues, which increased almost 10% over the previous quarter, due to the significant improvement in recharges and solid data growth. Brazilian operations revenues decreased 2.0% y.o.y, presenting improving trend if compared to the annual decrease of 5.1% in 3Q14.
- Net revenues from Residential segment increased 0.9% sequentially, mainly due to the improvement in broadband and pay TV revenues, as a result of the bundled offering sales and upselling strategy, which has been impacting positively the Residential ARPU. Corporate / SMEs segment also presented sequential revenues increase underpinned by the growth in IT and data Corporate services and improvement of SMEs mobility revenues, in line with the Company's commitment to the business profitability and productivity.
- In 4Q14, routine EBITDA reached R\$ 1,836 million, of which R\$ 1,689 million comes from Brazilian operations, presenting a sequential increase of 7.4%. This performance confirms the inflection point in 3Q14 and drives Oi towards the operational turnaround.
- Operational cash flow (routine EBITDA - Capex) presented significant improvement in both sequential (+218,4%) and annual (+26.9%) comparisons, registering R\$ 728 million in 4Q14, aligned with the Company's focus on operational efficiency, capital allocation optimization and cash burn reduction, based on its operational transformation.
- Oi recorded EBIT of R\$ 2,001 million in 4Q14, a sequential increase of 80.6%. In 2014, Company's EBIT was R\$ 5,680 million, 7.1% higher than in 2013, confirming the operational results improvement in 2014.
- Net income from continuing operations stood at R\$ 8 million in 2014. However, the discontinuation of PT Portugal generated accounting loss estimated in R\$ 4.164 million, part of which shall be recovered in the future. A portion of this accounting provision for losses (R\$ 1,020 million) relates to exchange variation gains over PT Portugal book value, which is currently registered on Shareholder's Equity and which should be reverted to future net income at the sales closing. Additionally, as disclosed, the negotiated sales price includes an earn-out of 500 million euros (R\$ 1,614 million), which depends on PT Portugal future revenues performance. Therefore, this part of the loss could also be

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reversed in the future. Finally, nearly R\$ 1,530 million of this loss is associated to the increase in PT Portugal employees' pension fund liabilities, in addition to other price adjustments that are usual in transactions of this nature. Therefore, despite the net income from continuing operations of R\$ 8 million in 2014, the consolidated net loss stood at R\$ 4,408 million, after the accounting impact from the discontinuation of PT Portugal.

03/27/2015

4Q14 Investor Relations

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Operating Results

Highlights

in R\$ million or otherwise stated	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Oi S.A. Pro-forma								
Revenue Generating Unit - Brazil (000)	74.495	74.466	75.035	0,0%	-0,7%	74.495	74.466	0,0%
Residential	17.463	17.837	17.401	-2,1%	0,4%	17.463	17.837	-2,1%
Personal Mobility	48.462	47.727	48.976	1,5%	-1,1%	48.462	47.727	1,5%
Corporate / SMEs	7.917	8.246	8.004	-4,0%	-1,1%	7.917	8.246	-4,0%
Public Telephones	653	655	653	-0,4%	-0,1%	653	655	-0,4%
Net Revenues	7.323	7.448	6.968	-1,7%	5,1%	28.546	29.325	-2,7%
Brazil	7.064	7.209	6.738	-2,0%	4,8%	27.613	28.422	-2,8%
Residential	2.473	2.606	2.451	-5,1%	0,9%	9.995	10.303	-3,0%
Personal Mobility	2.433	2.389	2.180	1,9%	11,6%	9.011	9.290	-3,0%
Corporate / SMEs	2.085	2.117	2.039	-1,5%	2,2%	8.311	8.456	-1,7%
Other services	73	97	67	-24,9%	9,3%	295	374	-21,0%
Others (1)	258	240	231	7,8%	11,8%	933	902	3,4%
EBITDA	3.195	3.653	2.260	-12,5%	41,4%	10.361	10.882	-4,8%
EBITDA Margin (%)	43,6%	49,0%	32,4%	-5,4p.p.	11,2p.p.	36,3%	37,1%	-0,8p.p.
Routine EBITDA	1.836	2.136	1.698	-14,0%	8,1%	7.116	7.694	-7,5%
Brazil	1.689	1.999	1.573	-15,5%	7,4%	6.612	7.213	-8,3%
Others (1)	147	136	125	8,0%	17,4%	504	481	4,8%
Routine EBITDA Margin (%)	25,1%	28,7%	24,4%	-3,6p.p.	0,7p.p.	24,9%	26,2%	-1,3p.p.
Net Earnings (Loss) from Continuing Operations	-87	1.183	52	n.m.	n.m.	8	1.493	n.m.
Consolidated Net Earnings (Loss) (2)	-4.421	1.183	5	n.m.	n.m.	-4.406	1.493	n.m.
Net Debt	30.563	31.331	47.799	-2,5%	-36,1%	30.563	31.331	-2,5%
Available Cash	2.732	3.016	3.805	-9,4%	-28,2%	2.732	3.016	-9,4%
CAPEX	1.108	1.562	1.470	-29,0%	-24,6%	5.278	6.446	-18,1%

Note: (1) Other international assets, most of which were classified as held-for-sale assets on December 31, 2014 and presented in the balance sheet separately.

(2) Consolidated Net Earnings include the discontinuation of operations of PT Portugal SGPS, S.A. (PT Portugal) since the asset is available for sale. Net Earnings from Discontinued Operations include the results of PT Portugal since May 5th and a loss of R\$ 4,164 million related with the recognition of these assets by their sales price.

Net Revenues:

Table 1 Breakdown of Net Revenues

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R\$ million	4Q14	4Q13	Quarter 3Q14	YoY	QoQ	2014	Full Year 2013	YoY	Weight % 4Q14	4Q13
Total Net Revenues										
(Pro-forma)	7,323	7,448	6,968	-1.7%	5.1%	28,546	29,325	-2.7%	100.0%	100.0%
Brazil	7,064	7,209	6,738	-2.0%	4.8%	27,613	28,422	-2.8%	96.5%	96.8%
Residential	2,473	2,606	2,451	-5.1%	0.9%	9,995	10,303	-3.0%	33.8%	35.0%
Personal Mobility	2,433	2,389	2,180	1.9%	11.6%	9,011	9,290	-3.0%	33.2%	32.1%
Service	2,152	2,228	1,978	-3.4%	8.8%	8,205	8,755	-6.3%	29.4%	29.9%
Customer	1,808	1,737	1,646	4.1%	9.9%	6,806	6,609	3.0%	24.7%	23.3%
Network Usage	344	490	332	-29.9%	3.5%	1,399	2,147	-34.8%	4.7%	6.6%
Sales of handsets, sim cards and others	281	161	202	74.8%	39.0%	806	535	50.7%	3.8%	2.2%
Corporate / SMEs	2,085	2,117	2,039	-1.5%	2.2%	8,311	8,456	-1.7%	28.5%	28.4%
Other services	73	97	67	-24.9%	9.3%	295	374	-21.0%	1.0%	1.3%
Others	258	240	231	7.8%	11.8%	933	902	3.4%	3.5%	3.2%

In 4Q14, consolidated net revenues reached R\$ 7,323 million, 1.7% down from 4Q13 and 5.1% higher than the previous quarter. Total revenues from operations in Brazil decreased by 2.0% y.o.y, while revenues from other operations (Africa) increased by 7.8% y.o.y. Annual revenues totaled R\$ 28,546 million in 2014, a 2.7% drop y.o.y.

BRAZIL

Net revenues from the Brazilian operations (Brazil) totaled R\$7,064 million in 4Q14, presenting a 2.0% decrease y.o.y, and a sequential increase of 4.8%. The main factors causing the annual drop in revenues were: (i) reduction of network usage revenues due to the regulated cut of interconnection tariffs in mobile voice services (MTR); (ii) decline in the fixed-to-mobile tariffs (VC) in local and long-distance calls; and (iii) decline in fixed line customer base. These effects were partially offset by (i) higher mobile revenue, on the back of increased recharges and greater handset and postpaid base sales; (ii) increased broadband and pay TV in residential segment; and (iii) improvements in data and IT revenues in Corporate / SMEs segment. Net revenues, excluding the impact of the regulatory tariffs reduction, grew by 0.5% y.o.y.

The 4.8% sequential performance in net revenues was mainly explained by the improvement in broadband and pay TV revenues, as well as the increase in handset sales due to Christmas season and higher mobile data and Corporate revenues. Annual net revenues came to R\$27,613 million (-2.8% versus 2013), driven by the impact of MTR cuts, VC tariffs reduction and the decline in the fixed line base, which more than offset the increased revenues of Residential broadband and pay TV, higher Corporate and Personal Mobility customer revenues, and greater handset sales. Excluding the impact of the regulatory tariffs reduction, annual net revenues would be virtually flat.

Residential

	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Residential								
Net Revenues (R\$ million)	2,473	2,606	2,451	-5.1%	0.9%	9,995	10,303	-3.0%
Revenue Generating Units (RGU) - (000)	17,463	17,837	17,401	-2.1%	0.4%	17,463	17,837	-2.1%
Fixed Line in Service	10,957	11,750	11,128	-6.8%	-1.5%	10,957	11,750	-6.8%
Fixed Broadband	5,259	5,258	5,241	0.0%	0.3%	5,259	5,258	0.0%
Pay TV	1,247	829	1,032	50.5%	20.8%	1,247	829	50.5%
ARPU Residential (R\$)	75.2	73.9	73.4	1.8%	2.5%	74.0	70.9	4.5%

In 4Q14, net revenues from Residential segment totaled R\$2,473 million (-5.1% y.o.y). This annual drop is explained by the decline in fixed line customer base and the regulatory reduction in fixed-to-mobile tariffs (VC), partially offset by the increase in broadband and pay TV revenues.

Sequentially, Residential net revenues increased by 0.9% mainly due to the improvement in broadband and pay TV revenues, as a result of the bundled offering sales and upselling strategy, which has been impacting positively the Residential ARPU. In 2014, net revenues from this segment reached R\$9,995 million, 3.0% down from 2013, primarily due to the reduction in the VC tariffs and the decrease in the fixed line base.

RGUs from Residential segment totaled 17,463 thousand in 4Q14 (-2.1% y.o.y) due to a 6.8% decline in fixed line RGUs partially offset by a 50.5% increase in pay TV customers. This annual drop has slowed down from previous quarters as a result of the consistent increase of the pay TV base, which reached 1,247 thousand customers at the end of 2014.

As the business core of the Residential segment is the multiproduct approach, the Company focuses on an integrated domicile aiming at increasing its share of wallet by selling multiple-play services, thus, increasing

ARPU and customer loyalty.

ARPU reached R\$75.2 in 4Q14, an improvement of 1.8% y.o.y mainly due to the success of the upselling and cross-selling strategies. The Residential ARPU benefitted from the solid increase on pay TV gross additions with better mix of acquisition and from the sale of higher speeds for the new fixed broadband customers together with the broadband upselling of current customers. Additionally, due to the multiproduct approach, churn rates of all Residential services have slightly improved from previous quarters.

Wireline

Oi ended 2014 with 10,957 thousand wireline customers in the Residential segment (-6.8% y.o.y) with net disconnections of 171 thousand fixed lines in this quarter, which represented an improvement compared to the net disconnections registered in 4Q13 and 3Q14. The Company has been working on implementing several initiatives towards the business turnaround. One of the initiatives is the roll-out of joint installation to the Residential products, which consists of installing fixed line and broadband in one single technical visit. The regional unit of Minas Gerais state has been using this model, presenting positive impact on the successful installation rate.

The decrease in net disconnections is also explained by the commercial focus on convergence using the pay TV as a strategic tool to offer bundled packages combining all services (fixed, broadband, pay TV and mobile services), as well as plans in the Personal Mobility segment that promote fixed-to-mobile convergence. Bundled offerings, such as *Oi Conta Total* (OCT) and *Oi Voz Total* (OVT), have lower churn rates when compared to unbundled products.

The bundled offerings have increased their penetration at the Company's base (customers with three or more Oi's services account for almost 24% of total households, nearly +3pp y.o.y) at the same time that it reduces the churn rates as more products are added to the households.

OCT is a triple-play postpaid offer that combines wireline, broadband and postpaid mobile, which can be combined with pay TV (quadruple-play) and mobile data packages. The OCT offers registered churn rate of 40% lower than the standalone wireline churn rate in 4Q14, which proves the positive impact on loyalty by selling bundled packages.

OVT is a double-play offer combining wireline and prepaid mobile, designed to promote fixed-to-mobile convergence and increase customer loyalty. This offer corresponded to approximately 14.5% of the Residential wireline base in 4Q14 and posted a 33.8% annual increase in the number of fixed lines bundled with prepaid. Additionally, the average penetration of SIM cards per OVT customer increased from 1.3 in 4Q13 to 1.6 in 4Q14 (+19%). OVT also recorded a lower churn rate than the standard wireline churn rate (-0.5pp).

Broadband

In 4Q14, in the Residential segment, Oi had 5,259 thousand fixed broadband RGUs, flat in the annual comparison. The Company started to recover the gross addition levels in response to the restructuring processes and the market receptivity to the bundled plans. Oi presented 18 thousand broadband net adds in the quarter.

The penetration of Oi's fixed broadband reached 48.0% of households with Oi services (+3.2pp y.o.y) as a result of the focus on improvements of customer profitability and retention, investments in the expansion and capacity of the broadband network and customer speed upgrade. In 4Q14, the average speed for Residential broadband RGUs increased by 17.6% y.o.y to 4.5 Mbps. Also, the share of RGUs with speeds equal to or greater than 5

Mbps and 10 Mbps improved by 10.6pp y.o.y to 49.6% and 4.6pp to 22.6%, respectively. In terms of gross additions, the contracted average speed was 5.4 Mbps (+32.6% y.o.y). Currently, around 64.5% of Oi's gross additions have speeds equal to or greater than 5 Mbps and 28.6% have speeds equal to or greater than 10 Mbps.

Broadband plays, together with pay TV, a key role in improving the share of wallet and profitability through cross-selling and upselling of bundled offerings. Therefore, broadband churn rate continued to be strictly under control, reflecting the focus on improving the quality of the customer base.

Pay TV

Oi ended 2014 with 1,247 thousand pay TV customers (+50.5% y.o.y and 20.8% q.o.q) with the record of the highest quarterly net adds ever (215 thousand). Oi's pay TV presented in 4Q14 an increase in gross adds of 23% q.o.q. According to ANATEL, Oi was the market leader in net adds in all the three months of 4Q14. Oi TV improved by 215 thousand net adds while the DTH market registered 134 thousand net disconnections this quarter; thus, Oi's DTH market share was 10.5% at the end of 2014 (+3.0pp y.o.y). Penetration of Oi TV reached 11.4% of households with Oi services in 4Q14 (+4.3pp y.o.y and +2.1pp q.o.q).

The solid performance of the Oi TV relies on its differentiated value proposal supported by the regional HD content and higher premium packages with competitive prices and by the improvement of mix of sales within the customer base. The Oi TV offer comprises more channels, including open HD channels, HD channels in all offers, a broad range of regional channels. All these differentials are supported by a strong satellite capacity, which will enable the Company to keep improving the pay TV product in the long term.

This offer is also providing a greater upselling potential in Oi's portfolio, driving ARPU growth and playing a strategic role in retaining and increasing the loyalty of residential customers, which translates to better performance in terms of churn rates when compared to the previous Oi TV platform. As seen recently, this offer is presenting a sustainable and consistent growth in terms of customer base, by adding quality customers with early churn and FPD (first payment default) strictly under control. In fact, the average monthly churn decreased an important 1.0pp despite the solid growth of the pay TV base.

Residential ARPU

In 4Q14, Oi registered approximately 62% of the households, or 6.9 million households, with more than one Oi product, representing an annual improvement of 2.8pp. As a result of the focus on bundled offering sales, combined with the upselling initiatives, Residential ARPU continued to post positive results, closing 4Q14 at R\$ 75.2 (+1.8% y.o.y). In 2014, ARPU stood at R\$ 74.0 (+4.5% y.o.y).

The Company's focus on convergence by offering multiple-play services, increases ARPU and customer loyalty, as the bundled offers have significant lower churn rate compared to unbundled services.

Personal Mobility

	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Personal Mobility								
Net Revenues (R\$ million)	2,433	2,389	2,180	1.9%	11.6%	9,011	9,290	-3.0%
Service	2,152	2,228	1,978	-3.4%	8.8%	8,205	8,755	-6.3%
Customer (1)	1,808	1,737	1,646	4.1%	9.9%	6,806	6,609	3.0%
Network Usage	344	490	332	-29.9%	3.5%	1,399	2,147	-34.8%
Sales of handsets, sim cards and others	281	161	202	74.8%	39.0%	806	535	50.7%
Revenue Generating Units (RGU) - (000)	48,462	47,727	48,976	1.5%	-1.1%	48,462	47,727	1.5%
Prepaid Plans	41,322	41,019	41,990	0.7%	-1.6%	41,322	41,019	0.7%
Postpaid Plans(2)	7,140	6,708	6,986	6.4%	2.2%	7,140	6,708	6.4%

Note: (1) Includes: subscriptions, outgoing calls, mobile long distance, roaming, data and value added services.

(2) Includes: high-end postpaid plans, *Oi Controle*, bundled mobile services (*Oi Conta Total* and *Oi Internet Total*) and 3G (mini-modem).

In 4Q14, net revenues from Personal Mobility reached R\$ 2,433 million (+1.9% y.o.y), chiefly due to improvement in customer revenues, partially offset by the drop in network usage and long-distance revenues related to the MTR cuts. Customer revenues amounted to R\$ 1,808 million in 4Q14, 4.1% up y.o.y, as a result of the annual growth of the postpaid base (+6.4%), the substantial increase in recharges volume and the solid growth of data revenues which totaled R\$613 million (+32.5% y.o.y) or 33.9% of total customer revenues (+7.3pp y.o.y).

Revenues from network usage dropped by 29.9% y.o.y to R\$ 344 million explained by the regulated cut in MTRs implemented in February 2014. As of February 24, 2014, MTRs declined further to R\$ 0.23275, R\$ 0.23961 and R\$ 0.23227 in Region I, II and III, respectively. This represented a 25% cut versus the previous level. MTRs are expected to decline an additional 33.3% as of February 24, 2015 to R\$ 0.15517, R\$ 0.15974 and R\$ 0.15485, respectively in Region I, II and III. ANATEL also approved in 2014 additional cuts to MTR for the years: (i) 2016: R\$ 0,09317, R\$ 0,10309 and R\$ 0,11218 in Region I, II and III, respectively; (ii) 2017: R\$ 0,04928, R\$ 0,05387 and R\$ 0,06816 in Region I, II and III, respectively; (iii) 2018: R\$ 0,02606, R\$ 0,02815 and R\$ 0,04141 in Region I, II and III, respectively; and (iv) 2019: R\$ 0,01379, R\$0,01471 and R\$ 0,02517 in Region I, II and III, respectively.

Handset sales totaled R\$ 281 million, 74.8% up y.o.y, supported by the smartphone sales increase, which reached 83% of total sales (versus 71% in 4Q13). Growth was concentrated in retailers, with positive margins (no subsidy), as a way to increase *Oi*'s presence in this channel, consequently, leveraging prepaid chip activation and growing 3G/4G smartphones penetration, which is a key driver to stimulate data ARPU and to expand penetration and mobile data revenues. Due to the growth of smartphone sales in 2014, 3G/4G handset penetration reached 39% of the total base in 4Q14 from 23% in 4Q13.

In the sequential comparison, net revenues from Personal Mobility increased by 11.6% as a result of increasing prepaid recharges, which registered a historical record in December 2014 with 11.4% growth y.o.y, higher data revenues (+22.6%) and increased handset sales due to Christmas season. 2014 full year net revenues totaled R\$ 9,011 million, 3.0% lower than in 2013, mainly driven by the 34.8% drop in network usage revenues as a result of MTR cuts. This drop was also partially offset by the solid performance of recharges, handset sales and data consumption.

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At the end of 2014, the Company had 48,462 thousand RGUs in the Personal Mobility segment (+1.5% y.o.y). Net additions totaled 735 thousand in the last 12 months (-48.3% y.o.y), of which 303 thousand were prepaid and 432 thousand were postpaid. In 4Q14, the Company recorded 514 thousand net disconnections, driven by a more

stringent prepaid cleanup policy, one of the several initiatives towards cost savings. Postpaid churn remained stable as a result of sales quality focus throughout the year.

At the end of 2014, Oi's mobile customer base (Personal Mobility + Corporate / SMEs) reached 50,940 thousand RGUs, 48,462 thousand of which in Personal Mobility and 2,478 thousand in Corporate/SMEs. In 4Q14, gross additions came to 6.5 million and net disconnections totaled 509 thousand.

Prepaid

In 4Q14, prepaid customers reached 41,322 thousand (+0.7% y.o.y and -1.6% q.o.q) with net adds of 303 thousand RGUs in the last 12 months (-74.4% y.o.y due to the stricter base cleanup policy as mentioned above). Oi continues to focus on prepaid, given its intrinsic characteristics of scale, low customer acquisition costs, no billing and collection costs, no bad debt and favorable impact on working capital, according to the Company's focus on cash generation and financial discipline. As mentioned above, the sequential drop in the prepaid customer base was explained by a stricter base cleanup policy.

Recharges continued to post solid results and reached higher volume and consumption levels at the end of 2014. The Company continued to encourage recharge consumption by promoting offers with daily rates and weekly/monthly packages as well as through the use of its one-to-one active campaign tool (ACM).

During November and December, a series of new actions were taken in order to boost prepaid ARPU, control usage and stimulate consumption and recharges, as follows: (i) repositioning of daily package offers; (ii) simplification of recharge portfolio available at the points-of-sale, increasing the average value of the top-ups; (iii) launch of new monthly and weekly voice+data+SMS packages; and (iv) end of unlimited data on weekly and monthly offers.

As a result of these actions, recharges grew at an accelerated pace during 4Q14 (1.8% y.o.y in October, 2.7% y.o.y in November and 11.4% y.o.y in December), reaching solid 5.4% y.o.y and 4.4% q.o.q growth. Oi's competitive position remained stable after these actions, since most competitors followed a similar strategy focused on ARPU increase in a slower growth environment, reinforcing the market trend.

For the full year of 2014, total recharge volume increased by 6.0% compared to 2013, outpacing the 0.7% annual increase in the prepaid customer base, in line with Oi's strategy towards profitability and productivity improvement.

Mobile internet revenues (excluding VAS and SMS revenues) in the prepaid segment grew by 76.3% y.o.y in 4Q14, maintaining its accelerated growth rate. Prepaid data traffic grew by 50.7% y.o.y, while the share of data usage in the recharge consumption rose 127.0% y.o.y. VAS revenues from prepaid segment increased by 45.7% y.o.y. This performance continued to be underpinned by results of VAS 2.0 services, such as *Oi Apps Club*, *Oi Conselheiro*, *Oi Saúde* (M-Health) and *Para Aprender* (M-Education), and the profitability of traditional services, such as voice mail, besides the continuous increase of VAS sales channels.

Postpaid

In 4Q14, postpaid customers in Personal Mobility totaled 7,140 thousand RGUs (+6.4% y.o.y and +2.2% q.o.q), with 14.7% share of the Personal Mobility base. The *Oi Controle* plan posted an annual increase of 13.7%, reaching 42.7% of total share of Oi's postpaid base, an increase of 2.7pp y.o.y. The postpaid churn rate has improved continuously, chiefly due to the improved quality of sales, which also explains the postpaid

base growth.

Oi Controle has a strategic value for the Company due to the absence of bad debt and favorable impact on working capital, in line with the advantages of prepaid offers, but with a heavier consumption profile similar to postpaid. Thus, this hybrid plan presents a more attractive ARPU (approximately 2x) and a lower churn rate compared to prepaid plans.

In 4Q14, the Company simplified and reduced its portfolio of postpaid and *Controle* plans offered to the market from 27 to 14 plans, combining voice and data packages across the entire portfolio. This streamlining initiative reduces the operational costs by simplifying the sales process and improves voice and data ARPU of new customers, consistent with the Company's focus on the operational turnaround.

Mobile internet revenues in the postpaid segment was 29.3% higher in 4Q14 than in the same quarter of 2013, due to the increased penetration of 3G/4G smartphones and data packages.

2G, 3G and 4G LTE Coverage

Oi's 2G coverage reached 3,386 municipalities, an annual increase of 44 new municipalities, covering 93% of the country's urban population. In 3G, the Company expanded its coverage in 120 new municipalities (13.5% y.o.y), totaling 1,011 municipalities, or 77% of the Brazilian urban population. The Company has been improving its coverage and 3G network capacity in order to follow the increasing demands for data usage and seize the opportunities in the mobile data segment.

The Company also offers 4G LTE services in 45 municipalities, which represents 36% of the urban population.

Mobile ARPU

Mobile ARPU treats total mobile revenue (Personal Mobility + Corporate / SMEs) as if it were generated by a separate mobile company, i.e. including revenue from traffic between Oi's mobile and wireline divisions (intercompany), but excluding revenue from mobile long-distance calls that belongs to the STFC license (fixed voice concession). This amount is then divided by the average customer base to calculate mobile ARPU.

Mobile ARPU reached R\$ 18.7 (-5.9% y.o.y and +7.5% q.o.q) in 4Q14, impacted by the 25% cut in MTR but partially offset by the increase in data revenues and prepaid recharge volume. Excluding interconnection revenues, mobile ARPU grew by 6.1% y.o.y.

Corporate / SMEs

	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Corporate / SMEs								
Net Revenues (R\$ million)	2,085	2,117	2,039	-1.5%	2.2%	8,311	8,456	-1.7%
Revenue Generating Units (RGU) - (000)	7,917	8,246	8,004	-4.0%	-1.1%	7,917	8,246	-4.0%
Fixed	4,822	5,105	4,909	-5.5%	-1.8%	4,822	5,105	-5.5%
Broadband	617	630	622	-2.0%	-0.9%	617	630	-2.0%
Mobile	2,478	2,511	2,472	-1.3%	0.2%	2,478	2,511	-1.3%

Obs: SMEs means small and medium enterprises.

Net revenues in the Corporate / SMEs segment amounted to R\$ 2,085 million (-1.5% y.o.y) in 4Q14. This performance was mainly due to the cut in MTR and VC tariffs, partially offset by the increase in IT and data revenues mainly in the Corporate segment. In the sequential comparison, net revenues increased by 2.2% as a result of the growth of IT and data Corporate services and an improvement of the SMEs mobility revenues due to the ARPU growth of the mobile base, in line with the Company's commitment to profitability and productivity.

In 2014, net revenues came to R\$ 8,311 million, a 1.7% reduction over the previous year, basically due to the MTR cuts but offset to a certain extent by the continuous improvement of IT/data services, following Oi's strategy to increase the revenues of non-traditional services in this segment.

Oi closed 4Q14 with 7,917 thousand RGUs (-4.0% y.o.y) in the Corporate / SMEs segment, reflected by the focus on sales quality along with the SMEs channel restructuring.

SMEs

The SMEs segment has continued to focus on productivity as its main priority, adopting initiatives to improve margins. The segment is implementing initiatives towards the business transformation of the Company by simplifying the portfolio of offers, the commission model and the activity processes, besides focusing on the franchises as the main sales channel.

Oi registered improvement in FPD (first payment default) and reduced commission costs compared to the previous quarter. The SMEs segment has been focusing on the quality of processes, thus it has recorded sequential improvements in quality metrics, such as the reduction of the average time of installations and repairs, of 18% and 36% q.o.q, respectively.

Corporate

Data communication and IT services continued to drive the expansion of the Corporate revenues. Data Center, Cloud and IT offers combined with telecom solutions recorded a 40.6% annual revenues growth, contributing to a higher share (+3.9pp y.o.y) from non-voice services revenues, which represented 60.8% in 4Q14. In fact, the non-voice revenues were 11.6% up on 4Q13. The Corporate's strategy is to go after contracts with more everlasting revenues together with greater profitability.

Oi recorded an increase in data communications of 8.6% y.o.y (data ex-Velox increased by 11.4% y.o.y), mainly driven by networks and IP. In the annual comparison, the VPN networking accesses were 9.5% higher, while internet accesses (IP) were 48.4% and fixed digital trunking was 6.5% higher than 4Q13.

Additionally, the Corporate segment improved its accounts receivable amount by 15.8% y.o.y, reducing its turnover in 2 days when compared to 4Q13.

Operating Costs and Expenses

Table 2 Breakdown of Operating Costs and Expenses

Item - R\$ million	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Operating Expenses (Pro-forma)								
Brazil	5,375	5,210	5,165	3.2%	4.1%	21,001	21,209	-1.0%
Personnel	708	649	674	9.1%	5.1%	2,749	2,534	8.5%
Interconnection	621	905	627	-31.4%	-1.0%	2,675	3,966	-32.5%
Third-Party Services	1,644	1,528	1,541	7.6%	6.7%	6,202	6,120	1.3%
Network Maintenance Service	514	526	481	-2.2%	6.8%	1,907	2,328	-18.1%
Handset Costs/Other (COGS)	256	135	171	88.9%	49.2%	702	515	36.3%
Marketing	156	148	198	5.1%	-21.4%	651	539	20.9%
Rent and Insurance	763	533	763	43.2%	-0.1%	3,096	2,120	46.0%
Provision for Contingencies	285	138	137	106.7%	108.5%	779	657	18.6%
Provision for Bad Debt	112	117	140	-3.8%	-20.0%	629	923	-31.9%
Taxes and Other Expenses (Revenues)	316	531	432	-40.5%	-26.8%	1,611	1,508	6.8%
Others	111	103	105	7.5%	5.3%	429	421	1.7%
Routine OPEX	5,486	5,313	5,270	3.3%	4.1%	21,430	21,630	-0.9%

In 4Q14, total consolidated routine Opex reached the amount of R\$ 5,486 million, 3.3% up y.o.y, on a pro-forma basis, despite the 6.4% inflation rate in the period and the additional costs associated with the rentals of disposed assets since 2013. Annual routine Opex totaled R\$ 21,430 million, a slight drop of 0.9% y.o.y. Excluding the MTR cut impact on interconnection costs, the handset costs (has no impact on EBITDA) and the incremental costs related to the asset disposals, consolidated routine Opex in 4Q14 increased by 1.1% y.o.y and, in FY14, it decreased by 1.1% y.o.y, compared to the inflation rate of 6.4% mentioned before. The performance reflects the commitment to the Company's operational turnaround.

In that sense, the Company established in its 2015 budget a plan that has the cost reduction as its main lever. To ensure that the gains will be captured throughout the year, an office was created to be responsible for monitoring and supporting the execution of the Plan for 2015. Around 250 such initiatives have been identified and many of them are in the process of being executed, focusing on efficiency and operational improvement. This process is underpinned by specialized external consultants, with tools and methodologies focused on the implementation of the initiatives and cash generation.

Personnel

Personnel costs and expenses in Brazil totaled R\$ 708 million in 4Q14 (+9.1% y.o.y), explained by provision adjustments related to the 2015 profit sharing and the collective bargaining agreement adjusted by inflation. In the sequential comparison, the 5.1% growth in personnel was mainly due to an increasing in profit sharing provisions.

Total personnel expenses in 2014 amounted to R\$ 2,749 million in the Brazilian operations, 8.5% up on 2013, as a result of the inflation-linked collective bargaining agreement, occurred in December 2013, the insourcing of part of Oi's internal network maintenance operations in 2Q13 and the increasing in profit sharing provisions in 4Q14 as mentioned above.

Interconnection

Interconnection costs in Brazil closed 4Q14 at R\$ 621 million (-31.4% y.o.y), basically explained by the 25%

MTR cuts, effective in 1Q14, and lower mobile voice off-net traffic, which reflects Oi's focus on promoting the on-net traffic. Annual interconnection costs reached R\$ 2,675 million in Brazil, 32.5% down from the previous year, also explained by the MTR cuts and lower off-net traffic.

Third-Party Services

In 4Q14, costs and expenses related to third-party services in the Brazilian operations amounted to R\$ 1,644 million, 7.6% up on 4Q13 and 6.7% higher than 3Q14, chiefly due to higher expenses with TV content, VAS, sales commissions and the increase in electricity tariffs occurred in this quarter.

Annual costs and expenses with third-party services came to R\$ 6,202 million in Brazil, a slight increase of 1.3% against 2013, as a result of higher cost with TV content acquisitions and IT projects for the World Cup, partially offset by lower third-party costs related to the Company's focus on sales quality.

Network Maintenance Service

In this quarter, network maintenance service costs decreased by 2.2% y.o.y in Brazil, reaching R\$ 514 million, as a response to Oi's commitment in improving efficiency and productivity. In the sequential comparison, these costs increased by 6.8% due to adjustments on PSR (network service providers) contracts. Annual network maintenance service costs in Brazil stood at R\$ 1,907 million, 18.1% down from 2013, explained by the insourcing of the internal maintenance plant in 2013 and the cost-savings discipline.

Handset Costs/Other (COGS)

In 4Q14, the handset costs totaled R\$ 256 million in the Brazilian operations (+88.9% y.o.y and +49.2% q.o.q). As seen in previous quarters, Oi continued to drive its handset sales volume through partnerships with retailers as a strategic initiative to increase its presence in this channel, leveraging prepaid chip activation and increasing penetration of smartphones in its customer base. This led the Company to post a higher volume of handset sales and a 74.8% y.o.y increase in handset revenues. It is worth noting that Oi sells handsets aiming positive margins, thus, it does not adopt a subsidy strategy. Annual handset costs came to R\$ 702 million in Brazil, 36.3% up on 2013.

Marketing

Advertising expenses in Brazil ended 4Q14 at R\$ 156 million (+5.1% y.o.y). This performance mainly resulted from the marketing campaigns to the new Oi TV offer. In the sequential comparison, the 21.4% drop was explained by higher costs with media and promotions related to the FIFA's World Cup event in 3Q14. Annual advertising expenses in Brazil totaled R\$ 651 million, 20.9% up y.o.y, mainly due to the re-launch of Oi TV and the World Cup.

Rent and Insurance

In Brazil, rent and insurance expenses reached R\$ 763 million (+43.2% y.o.y) in this quarter. This performance was chiefly due to the incremental operational leasing related to the Brazilian assets sold since 2013, including GlobeNet and mobile and fixed towers, in the amount of R\$ 128 million, and higher expenses with the rent of satellite capacity. Annual rent and insurance expenses amounted to R\$ 3,096 million, 46.0% up on 2013, explained by the same reasons mentioned above together with the annual contractual adjustments.

Provision for Contingencies

The Brazilian operations expenses with provision for contingencies reached R\$ 285 million in 4Q14, +106.7% y.o.y and +108.5% q.o.q, resulting mainly from the increase in labor provisions and in the largest number of claims in the Special Civil Court (JEC) in the quarter. Annual expenses with provision for contingencies ended 2014 at R\$ 779 million, 18.6% up against 2013, primarily as a result of the increase in 4T14.

Provision for Bad Debt

In 4Q14, provisions for bad debt stood at R\$ 112 million (-3.8% y.o.y and -20.0% q.o.q). This reduction reveals the improvement in credit policy as a continuation of the initiatives to improve churn and sales quality. Provisions for bad debt amounted to 1.6% of net revenues in 4Q14, virtually flat from 4Q13 (1.6%). Additionally, provisions for bad debt totaled in 2014 R\$ 629 million (-31.9% y.o.y), representing 2.3% of FY14 net revenues, an improvement from 3.2% registered in 2013.

EBITDA**Table 3 EBITDA and EBITDA Margin**

	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Oi S.A. Pro-forma								
EBITDA (R\$ million)	3,195	3,653	2,260	-12.5%	41.4%	10,361	10,882	-4.8%
Brazil	3,048	3,496	2,134	-12.8%	42.8%	9,857	9,583	2.9%
Others	147	157	125	-6.0%	17.4%	504	1,300	-61.2%
EBITDA Margin (%)	43.6%	49.0%	32.4%	-5.4p.p.	11.2p.p.	36.3%	37.1%	-0.8p.p.
Non-routine Items	-1,359	-1,517	-561			-3,246	-3,188	
Reported OPEX	4,127	3,796	4,709	8.7%	-12.4%	18,185	18,442	-1.4%
Routine EBITDA (R\$ million)	1,836	2,136	1,698	-14.0%	8.1%	7,116	7,694	-7.5%
Brazil	1,689	1,999	1,573	-15.5%	7.4%	6,612	7,213	-8.3%
Others	147	136	125	8.0%	17.4%	504	481	4.8%
Routine EBITDA Margin (%)	25.1%	28.7%	24.4%	-3.6p.p.	0.7p.p.	24.9%	26.2%	-1.3p.p.
Brazil	23.9%	27.7%	23.3%	-3.8p.p.	0.6p.p.	23.9%	25.4%	-1.4p.p.
Others	57.0%	56.9%	54.3%	0.1p.p.	2.7p.p.	54.0%	53.3%	0.7p.p.

In 4Q14, consolidated EBITDA reached R\$ 3,195 million (-12.5% y.o.y and +41.4% q.o.q), while EBITDA from Brazil stood at R\$ 3,048 million (-12.8% y.o.y and +42.8% q.o.q) and EBITDA from other operations (Africa) reached R\$ 147 million (-6.0% y.o.y and +17.4% q.o.q). Annual EBITDA came to R\$ 10,361 million, 4.8% down from 2013, on the back of lower revenues despite the slight decrease in costs and expenses.

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In the Brazilian operations, routine EBITDA totaled R\$ 1,689 million in 4Q14 (-15.5% y.o.y), negatively impacted by lower revenues from operations (-2.0% y.o.y) and higher costs and expenses (+3.2% y.o.y). In the sequential comparison, routine EBITDA improved by 7.4% underpinned by higher revenues (+4.8% q.o.q). EBITDA margin in Brazil reached 23.9% in 4Q14 compared to 23.3% in the previous quarter, reaffirming the Company's view that 3Q14 was the inflection point.

Annual routine EBITDA in Brazil stood at R\$ 6,612 million (-8.3% y.o.y). It is worth noting that the EBITDA in 2014 was impacted by the incremental rent expenses associated with the Brazilian asset disposals totaling R\$ 615 million. Excluding this impact, routine EBITDA would have been virtually flat compared to 2013.

The non-routine Opex items accounted for R\$ 1,359 million in 4Q14, explained by the gain from the sale of 1,641 mobile towers concluded in December 2014, totaling R\$ 1,077 million, the reversal of provisions of R\$ \$290 million related to the adhesion to Refis (tax refinancing program), and costs with labor rescission in the amount of R\$ 8 million.

Capex

Table 4 Capex

R\$ million	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Capex - Pro-forma								
Brazil	1,056	1,515	1,431	-30.3%	-26.2%	5,074	6,250	-18.8%
Others	53	47	39	12.2%	35.1%	205	196	4.3%
Total	1,108	1,562	1,470	-29.0%	-24.6%	5,278	6,446	-18.1%

4Q14 investments stood at R\$ 1,108 million (-29.0% y.o.y and -24.6% q.o.q) in consolidated basis. Capex in Brazil reached R\$ 1,056 million (-30.3% y.o.y and -26.2% q.o.q). Annual Capex totaled R\$ 5,278 million, 18.1% down compared to 2013. The performance shows the Company's pursuit to improve the capital allocation efficiency, focusing on improving the Company's cash flow profile.

In the Brazilian operations, R\$ 923 million (87.4% of total Capex) was allocated to network in 4Q14, targeted at (i) improving quality of the mobile network and carrying on the 3G and 4G coverage expansion, (ii) improving infrastructure to support TV, broadband and fixed line services, and (iii) expansion projects.

Operational Cash Flow (EBITDA - Capex)

Table 5 Operational Cash Flow

R\$ million	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Oi S.A. - Pro-forma								
Routine EBITDA	1,836	2,136	1,698	-14.0%	8.1%	7,116	7,694	-7.5%
Capex	1,108	1,562	1,470	-29.0%	-24.6%	5,278	6,446	-18.1%
Routine Operational Cash Flow (EBITDA - Capex)	728	574	229	26.9%	218.4%	1,837	1,248	47.3%

Table 6 Operational Cash Flow of Brazilian operations

R\$ million Oi S.A.	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Routine EBITDA	1,689	1,999	1,573	-15.5%	7.4%	6,612	7,213	-8.3%
Capex	1,056	1,515	1,431	-30.3%	-26.2%	5,074	6,250	-18.8%
Routine Operational Cash Flow (EBITDA - Capex)	634	484	142	30.8%	345.2%	1,538	963	59.7%

Routine EBITDA minus Capex improved by 26.9% y.o.y and 218.4% q.o.q, reaching R\$728 million in 4Q14. In Brazil, routine EBITDA minus Capex totaled R\$ 634 million in 4Q14, 30.8% up y.o.y and a sequential growth of 345.2%. This performance is explained by higher routine EBITDA registered in this quarter, when compared to the previous quarter, and by the focus on capital allocation efficiency explained before, in line with Oi's commitment to improve its cash flow profile.

Depreciation / Amortization

In 4Q14, the Company reported depreciation and amortization expenses of R\$ 1,194 million (+5.9% y.o.y and +3.7% q.o.q). Annual depreciation and amortization expenses stood at R\$ 4,602 million, 3.2% up on 2013.

Table 7 Depreciation and Amortization

R\$ million Depreciation and Amortization Pro-forma	4Q14	4Q13	3Q14	YoY	QoQ	2014	2013	YoY
Total	1,194	1,128	1,151	5.9%	3.7%	4,602	4,458	3.2%

Financial Results**Financial Results****Table 8 Financial Results (Oi S.A. Consolidated)**

R\$ Million	4Q14	4Q13	3Q14	2014	2013
Oi S.A. Consolidated					
Net Interest (on fin. investments and loans and financing)	-719	-659	-617	-2,579	-2,174
Net FX result (on fin. investments and loans and financing)	-265	-196	-237	-995	-785
Other Financial Income / Expenses	-336	31	-141	-974	-316
Net Financial Income (Expenses)	-1,320	-825	-995	-4,547	-3,274

Oi S.A. posted in 4Q14 net financial expenses of R\$ 1,320 million, a sequential growth of 32.7% and 60.0% up y.o.y. In 2014, net financial expenses reached R\$4,547 million (+38.8% y.o.y).

The sequential performance is explained mainly by the increase in other financial expenses, which grew by R\$195 million as a result of higher taxes and contingencies. The net interest growth (R\$ 102 million) was chiefly due to higher Selic, CDI and IPCA in 4Q14 and lower financial revenues related to a reduced average cash balance in the quarter.

Looking at the full year, the debt-related financial expenses were explained by the 18.6% annual interest increase due to higher CDI, IPCA and interest from foreign currency, and as a result of the 26.7% annual growth in net FX result related to the extension of Oi's derivative position and higher CDI, which resulted in greater hedging costs. Additionally, other financial expenses presented significant growth due to: (i) reversal of interest and monetary restatement over PIS/COFINS included in the tax refinancing program (Refis) occurred in 2013; (ii) depreciation, in 2014, of PT SGPS shares held by Oi; and (iii) monetary restatement of the sale of the right to use Oi's fixed towers.

Net Earnings (Loss)**Table 9 Net Earnings (Loss) (Oi S.A. Consolidated)**

R\$ Million	4Q14	4Q13
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