PORTUGAL TELECOM

Comunicado | Lisboa | 21 de dezembro de 2011

Notação de risco da Moody's

A Moody's anunciou hoje a revisão do rating de crédito atribuído à Portugal Telecom SGPS, S.A. ("PT") e a da sua subsidiária PT International Finance B.V. ("PTIF"), diminuindo o rating de longo prazo de Baa3 para Ba1. O outlook mantém-se negativo.

De acordo com a Moody's, "apesar da PT ir manter fortes posições competitivas, em resultado da transformação do seu modelo de negócio, e de ter apresentado recentemente algumas melhorias no seu desempenho operacional, não tem resistência inquestionável no mercado doméstico ou diversificação geográfica para se demarcar da atual e futura envolvente de crédito implícita no rating de crédito soberano Ba2".

A Moody's reconhece "as posições competitivas robustas da PT, quer em termos de rede fixa como de rede móvel, o sucesso das suas estratégias de banda larga e de televisão por subscrição, assim como o facto das necessidades de financiamento estarem cobertas até ao fim do ano de 2013" e ainda que "as tendências operacionais implícitas têm vindo a melhorar nos últimos trimestres, suportadas pelos investimentos significativos em tecnologia de ponta e na rede, realizados pela PT no passado, e pela forte determinação da equipa de gestão em executar a estratégia definida". No entanto, a Moody's acredita que "os rácios financeiros manter-se-ão frágeis em resultado da pressão competitiva e regulatória e da maior deterioração do consumo das famílias e empresas".

Em anexo encontra-se o comunicado de imprensa da Moody's.

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Sociedade aberta
Capital social 26.895.375 euros
Número de Matrícula na Conservatória do Registo Comercial de Lisboa e de Pessoa Coletiva 503 215 058

A Portugal Telecom está cotada na Euronext e na New York Stock Exchange. Encontra-se disponível informação sobre a Empresa na Reuters através dos códigos PTC.LS e PT e na Bloomberg através do código PTC PL

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MOODY'S INVESTORS SERVICE

Rating Action: Moody's downgrades Portugal Telecom to Ba1; negative outlook

Global Credit Research - 21 Dec 2011

Madrid, December 21, 2011 -- Moody's Investors Service has today downgraded by one notch to Ba1 from Baa3 the senior unsecured long-term debt ratings of Portugal Telecom SGPS, SA ("PT") and the ratings of its fully-owned subsidiary PT International Finance B.V. ("PTIF"). Simultaneously, Moody's has withdrawn PT's Baa3 issuer rating and assigned to PT a corporate family rating (CFR) and probability of default Rating (PDR) of Ba1. The outlook remains negative.

RATINGS RATIONALE

Today's rating downgrade reflects Moody's expectation that, although PT will sustain strong market positions, as a result of the transformation of the business model, and has been showing recently some improvement in its underlying operating performance, it does not have the unquestionable domestic strength or the geographic diversity to distance itself from the current and future credit environment implied by the sovereign's Ba2 rating. In addition, the company´s recent investment in Brazil might not represent as much of a short-term mitigant, as previously expected, to the increasing business risk in Portugal.

"Moody's recognizes PT's strong market positions in terms of both fixed-line and mobile, the success of its broadband and pay-TV strategies, as well as the fact that funding needs are covered through the end of 2013. However, the downgrade reflects Moody's concern that the deteriorating macro environment in Portugal will impair the company's ability to improve credit metrics going forward to offset increasing business risk in Portugal," adds Carlos Winzer, the lead analyst for Portugal Telecom.

Although underlying operating trends are improving from previous quarters, supported by PT's past heavy investments in future proof technologies and the network and management's strong determination to execute the strategy, financial ratios will remain weak as a result of both competitive and regulatory pressures and a likely further deterioration in domestic consumer and business spending.

PT's rating is positioned one notch above that of the Republic of Portugal (RoP), to reflect a range of factors including (i) the relatively resilient, albeit highly competitive, underlying business; (ii) PT's leading market position supported by investments in innovation; (iii) its international diversification; (iv) management's excellent track record in executing the company's strategy under adverse circumstances; (v) high-quality infrastructure, which will support PT's revenues in the future and help to partially mitigate the negative effects of the weak macro environment in Portugal; and (vi) the company's strong liquidity, with its cash needs through the end of 2013 pre-funded. The Ba1 rating positioning, one notch above the sovereign, is in line with Moody's previously published guidance for the most resilient companies that would normally be expected to have a rating no more than two notches higher than the government of the country where the majority of their business is located. Moody's notes that the RoP's own Ba2 rating carries a negative outlook, reflecting issues specific to the country itself as well as to the ongoing crisis in the euro area generally. That being said, Moody's is cautiously optimistic that the Portuguese government is making slow but steady progress on its fiscal adjustment, indeed, the IMF and EU have just approved the second review of Portugal's economic adjustment program.

Representing a substitution for its previous investment in Vivo, PT's 25.3% investment in Brazilian subsidiary Oi for EUR3.7 billion enhances PT´s international diversification and positions it to take advantage of the growth opportunities in the fixed-line and mobile segments in Brazil, by contributing to the development of innovative and technologically advanced services for customers. However, Oi, with declining market shares in all business segments, faces significant challenges in Brazil, as evidenced by the company's performance in Q3 2011, with its revenues declining by 2% compared with Q2 2011. Moody's also takes into consideration PT's proportional consolidation of its subsidiary Oi, despite PT not having control of the company and expecting to benefit from limited cash up-streaming from the investment through dividends. Moody's has analysed PT using both the proportional and the equity consolidation methods and considers that, even proportionally consolidating Oi, the financial and operating risks of PT group are no longer commensurate with the previous rating.

From a liquidity risk management perspective, Moody's believes that PT's liquidity profile should remain sound over the next 18 months. PT has no need to issue more debt until the end of 2013 and will only do so to take advantage of opportunities in the market. In Moody's view, internal sources and availability under long-term committed lines of credit should enable PT to cover its debt maturities of approximately EUR2.6 billion over the next 18 months and other expected cash demands over this period. As of end October 2011, PT had approximately EUR4.6 billion in cash, after PT collecting from Telefónica on October 31st the remaining EUR2 billion cash pending from the Vivo disposal. PT also has undrawn standby facilities of EUR75 million, plus a signed three-year EUR1.2 billion syndicated bank facility. We also note that the EUR1.2 billion of the committed bank facility is spread out amongst some 8 international banks and, as per PT, the maximum committed amount for one individual bank is EUR150 million. This mitigates the risk of an eventual liquidity constraint derived from banks´ lack of access to liquidity to fund the commitment.

Whilst acknowledging PT's business and geographical diversification, strong execution and its strong liquidity profile, Moody's notes the company's limited ability to disconnect itself from (i) stresses in the debt market for Portuguese issuers; and (ii) local economic and regulatory circumstances, which could worsen as a result of pressures on the sovereign.

Moody´s expects that PT will continue to take measures to sustain its EBITDA margins through further cost reductions, both in fixed and mobile, as done in the past, and to restrain capital spending if necessary to sustain adequate levels of free cash flow. Moody´s considers PT´s flexibility to cut capex as being substantial due to the investments the company has done in the modernization of its network and IT systems over the past two years.

The negative outlook reflects Moody's expectation that PT's financial ratios will remain relatively tight, with no headroom to absorb any increased competitive and/or regulatory pressures and weaker domestic consumer and business spending as a result of additional austerity measures and structural reforms to be implemented in Portugal in the short to medium term to address the country's budgetary and economic problems.

A further rating downgrade could occur if PT's performance significantly deteriorates beyond current expectations, (resulting, for example, in adjusted net leverage increasing to 3.25x or adjusted RCF/Net Debt decreasing to 15%) and/or should concerns develop at any point in time over liquidity or funding needs over the medium term. PT's ratings could also be pressured in the event of any change in ratings of the RoP.

In light of today's action, no upward rating changes are expected on PT's ratings in the short-to-medium term. The outlook could, however, be stabilised if Moody's perceived an improvement in the overall market conditions, including less pressure on revenues supported by improving consumer trends and a more benign competitive environment.

Moody's views debt claims at financing subsidiary PTIF as having a more complicated route to the cash flow and assets of PT because this subsidiary is supported by a keep well agreement. However, the difference is not currently considered sufficient to warrant a notching distinction between PTIF and PT.

PRINCIPAL METHODOLOGY

The principal methodology used in rating PT was the Global Telecommunications Industry Methodology published in December 2010. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Domiciled in Lisbon, PT is the leading telecommunications operator in Portugal, servicing 4.7 million fixed lines, which includes one million ADSL retail connections. In addition, PT had approximately 7.3 million mobile phone customers as of September 2011. Furthermore, PT has operations in other countries, including Brazil, Cape Verde, East Timor, Angola, Macau, Sao Tome and Principe, and Namibia. On 26 January 2011, PT announced the final agreement to acquire a 25% stake in Oi. PT's annual revenues amounted to EUR3.7 billion (ex Vivo and ex Oi) as of December 2010.

REGULATORY DISCLOSURES

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

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

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

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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