



Earnings

Announcement

1Q20

Lisbon, 06 May 2020

1Q20

Preliminary considerations

- NOS International Carrier Services (“NICS”): 1Q20 accounts are adjusted to reflect the announcement of the sale of NICS on 1 April 2020 ([“link to announcement”](#)), which is still pending regulatory approval. NICS’ accounts are deconsolidated from NOS’ Group continued operations and their contribution to Net Results appears as Discontinued Operations. Figures for FY19 have been restated accordingly. As a reference, in 2019 NICS generated Revenues of 141 million euros and its contribution to EBITDA was 1.1 million euros.
- COVID 19: The Portuguese government declared a state of emergency on 18 March, with renewal on 3 April and 17 April. As such, the country has been operating under lock-down with highly restrictive measures in place to minimize the spread of the virus and preserve the capacity of the national health service:
 - Since the start of the pandemic, NOS implemented a full time COVID-19 Crisis Office with the main purpose of providing NOS with the necessary conditions to manage the health, social and economic risks associated with the spread of the virus for its companies, employees and partners, and to monitor and analyse the evolution of the various phases of the pandemic. Priorities of the office are to minimize the health impact to employees and to all those with whom they are in contact and to guarantee business continuity in services considered critical, therefore ensuring availability of key resources – employees, suppliers, agents and partners, amongst others and the need to adapt to the specific requirements of clients. All work is being done in close coordination with the relevant health authorities, namely the Portuguese General Health Directorate.
 - To ensure employee health and safety and business continuity, from an early stage we implemented a number of protective measures such as remote work practices, on site personal protection and reinforced hygiene measures, travel restrictions to employees and visitor travel and also restrictions to participate in non-essential events and meetings. Organizational response to the crisis has been outstanding with more than 95% of NOS’ employees working in remote mode even before the national state of emergency was declared, and with 85% of outsourced work forces going remote in record time. Furthermore, thanks to the work of the past years on our digital transformation programme, the level of operational digitalization increased substantially enabling us to sustain best-in-class response levels in customer service and field force interventions. Although this accelerated growth in digitalization levels was triggered by an unprecedented humanitarian crisis, we are encouraged by the potential longer-term efficiency opportunities associated with a more structural shift in consumer behaviour towards online, digital platforms.

- At a time when citizens are being forced to change their social and professional habits, NOS' key objective is to keep customers connected to their core telecommunications and entertainment services. We have implemented a number of commercial measures with a direct impact on economic and financial performance, namely: an increase in mobile data allowances to provide easier service access, free premium sports channels subscription given the suspension of live sports events, reinforced service and maintenance capacity for the B2B segment and reinforced own store safety measures. Although the formal lock-down was only declared on 18 March, the nationwide implementation of social distancing measures and the clear slowdown in economic activity started to be felt towards the end of February, and as such impacted performance for all of March. The main operating impacts of the pandemic in our 1Q20 revenues were felt namely in:
 - Cinemas and Audiovisuals: complete closure of NOS' theatres on 16 March and postponement of a number of movie premieres;
 - Roaming and international calls: traffic and revenues impacted by restrictions imposed on international travel;
 - Premium sport channels: reduction in revenues with subscriptions being offered for free given the absence of live sports events;
 - Equipment: fall in sales due to closure of all non-essential retail activity namely in shopping centres and to general restrictions to circulation; This decline has been compensated to some degree with online sales in the short term, however this could present an opportunity for a longer term shift towards more efficient digital retail platforms;
 - Mobile data: stay-at-home policies dictating lower mobile data usage and higher wifi adoption. In addition, NOS upgraded mobile data allowances across the board to its mobile customers offering a 10 GB/30-day subscription to maintain communications and support remote work requirements during their confinement.
- Macroeconomic projections have also led NOS to review internal assumptions and ultimately to reinforce provisions in 1Q20 for accounts receivable and other contractual remunerations. Asset and Goodwill impairment tests were also revisited however no adjustments were made in this case.
- Estimates of future impacts are highly dependant on how much longer the strict containment measures are in place and as such, it is not possible to provide a reliable quantification of the financial impacts. Given the Portuguese Government decision to lift the State of Emergency on 3 May, with progressive easing of restrictive measures, we still expect to have a substantially impacted Q2 with April and May being fully impacted by the lockdown restrictions, and hopefully a gradually more normalized Q3 and Q4.
- Importantly, and in face of the current challenges, NOS has a robust capital structure with Net Debt to EBITDA (after lease contracts) of less than 2x and a strong liquidity position with cash and unused credit lines in excess of 415 million euros. This already sound financial position will be further enhanced with the announced sale of NOS Towering.

1Q20 Highlights

Operating

- Operating activity reflects the initial impacts of restrictions imposed by the COVID-19 related pandemic and subsequent restrictions to circulation and economic activity felt since the end of February;
- The Consumer business sustained a relatively stable level of net adds despite the marked slowdown in sales activity;
- The B2B segment also felt the impact of the economic slowdown, with some pressure felt in the SME segment with customers bracing themselves for the complete shutdown of their commercial operations for an indefinite period and thus, endeavouring to extract cost and payment flexibility;
- Wholesale and Others declined more sharply, with lower roaming in and wholesale mass calling service revenues;
- Strong pace of technological investment reflecting favourable deployment conditions given the strategic nature of the sector and the importance of ensuring best in class network capabilities. Lower commercial investment due to reduced sales activity;
- Complete shutdown of Cinema exhibition on 16 March, driving a sharp decline in box-office sales and distribution revenues, albeit traffic had already started to fall from the beginning of March.

Financial

- Slowdown in activity driving a significant decline in financial metrics, in particular in the Cinema and Audiovisuals and Wholesale segments;
- In the core Telco Unit, decline in Direct Costs with relatively flat Non Direct Costs was not enough to compensate the decline in revenues at the Telco EBITDA level. However EBITDA decline in the Telco unit was almost compensated by the decline in Customer Related CAPEX, due to the lower level of commercial activity and churn;
- FCF impacted by decline in EBITDA whilst maintaining overall levels of total CAPEX;
- Conservative capital structure at less than 2x Net Debt / EBITDA and liquidity further reinforced with successful completion of refinancing deals under stable market conditions;
- NOS Towering sale will further strengthen balance sheet with total potential proceeds of 550 million euros, 375 million euros of which to be received up-front upon finalization of deal.

Table 1.

1Q20 Highlights	1Q19	1Q20	1Q20 / 1Q19
Operating Highlights			
Homes Passed	4,449.5	4,639.6	4.3%
% FttH	27.4%	33.2%	5.9pp
Total RGUs	9,508.5	9,707.9	2.1%
Pay TV RGUs	1,616.8	1,644.0	1.7%
Convergent + Integrated Customers	896.1	942.0	5.1%
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	58.5%	60.2%	1.7pp
Mobile RGUs	4,749.5	4,847.1	2.1%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.9	44.2	(1.8%)
Financial Highlights			
Operating Revenues	355.9	345.4	(3.0%)
Telco Revenues	340.4	332.9	(2.2%)
EBITDA	160.2	152.7	(4.6%)
EBITDA Margin	45.0%	44.2%	(0.8pp)
Telco	146.9	141.8	(3.4%)
EBITDA Margin	43.1%	42.6%	(0.5pp)
Net Income Before Associates & Non-Controlling Interests	41.7	(2.0)	n.a.
EBITDA - Total CAPEX Excluding Leasings	72.9	64.5	(11.5%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	42.9	34.6	(19.2%)

Operating Review

Total RGU growth maintained a relatively stable performance with net adds of 20.5 thousand in 1Q20, despite the generalized slowdown in economic activity since lower sales were, in part, compensated by lower market-wide churn rates. Total RGUs increased by 2.1% yoy to 9.708 million services, with Consumer RGUs growing by 2.2% yoy to 8.216 million and Business Services growing 1.4% to 1.492 million. With the institution of pandemic related nationwide restrictions and stay-at-home recommendations, almost all proactive commercial initiatives were put on hold and marketing campaigns focused on institutional positioning and support during this unprecedented crisis. Pay TV subscribers grew by 5.3 thousand in 1Q20, of which 4.4 thousand over fixed access technology and with the DTH subscriber base posting net growth for the first time since 3Q16. The number of fixed broadband and voice customers grew by 10.2 thousand and 8.2 thousand respectively in the quarter, higher than the same quarter last year, further supported towards the end of the quarter by the relevance of residential fixed solutions due to stay-at-home recommendations. Post paid mobile net adds posted yoy growth of 31% to 21 thousand in 1Q20 driving a significant reduction in negative net adds in total mobile RGUs in comparison with the previous year, reducing from -18.2 to -4 thousand in 1Q20.

Customers subscribing to convergent and integrated packages recorded net adds of 11.3 thousand to 942 thousand, representing 60% of the fixed access customer base by the end of the quarter and clear evidence of the importance in the Portuguese market that customers place on taking their fixed and mobile services within the same monthly bill and of their appreciation of high bandwidth and more flexible, made-to-measure tariff plans with high usage allowances and content line up. Average Revenues in fixed residential services posted a marginal yoy decline of 1.8% to 44.2 euros, reflecting a combination of stability in basic monthly contract revenues which was diluted by a decline in more discretionary revenues such as premium channel revenues, off bundle traffic and roaming-out revenues.

On the content front, on 18 March NOS launched "TVI Ficção", a 24-hour channel with a selection of the most popular TVI produced series, soap-operas, sitcoms and mini-series. Already at the beginning of April, NOS launched an exclusive channel, "**Casa e Cozinha**", (House and Kitchen) specifically designed to appeal to viewers under isolation at home with creative and inspiring ideas for things to do such as new recipes, decoration, fashion and beauty, travel and well-being. "Casa e Cozinha" is produced by Dreamia, 50% owned by NOS and is included in the regular line-up in HD format and with access to all interactive functionalities such as restart TV, automatic and advanced recording and is also available over the NOS TV APP.

The competencies and technological platforms that we have been developing to serve our business customers and to partner in their transformation initiatives have served us well in the past weeks as reflected in our ability to provide fast and technologically cutting-edge support in their own deployment of remote work platforms. During the period we launched a specific offer sharing all internal information prepared for our own crisis response plan, with a regular and time critical flow of information providing customers with a benchmark on how to implement their own response strategies. We also launched a sophisticated Analytics programme to support public institutions and companies to monitor the COVID pandemic. Examples of success in the large corporate space were our ability to implement, in a 24-hour timeframe, IT solutions and platforms, such as VPNs, remote service desks and collaborative tools supporting our customers in their

move to work-from-home models. Although acceleration of these kinds of solutions in corporate and large businesses was driven by the pandemic, we believe it provides a platform for future expansion in the portfolio of IT and data solutions we provide our customers, a core element of our strategy for the business segment. On a more negative note, revenues, in particular in the smaller business segment, were impacted by the suspension of payment of premium sports channels in March, and the difficulties felt by many smaller clients to surpass an indefinite period of business shutdown. Wholesale revenues recorded a negative performance in the quarter reflecting the collapse of roaming-in revenues caused by global travel restrictions and also as a result of the decline in low-margin mass calling service (MCS) revenues due to lower game and reality show broadcasting.

Consistent with overall sector trends, traffic volumes have increased exponentially in recent weeks due to the almost overnight shift to remote work and learning platforms from home and the increase in time spent on entertainment and gaming platforms. The increase has been particularly relevant over fixed networks given the stay-at-home restrictions. Given the huge investments made in past years to deploy our nationwide next generation network, both fixed and mobile, with best in class capabilities and service levels, we have successfully withstood the peak in network demand, delivering services with only minimum levels of disruption. This ability to respond effectively in times of crisis, and guarantee critical business and social continuity, is a reflection of the strategic national relevance of nurturing well invested and financially sustainable telecommunications operators in the country.

In this regard, conditions to deploy telecoms infrastructure during this period have been comparatively favourable and as such, we have resumed a normalized pace of FttH expansion. By the end of 1Q20, we had guaranteed access to an additional 27 thousand FttH households net, through own deployment and wholesale access mostly within the framework of our FttH sharing agreement. FttH penetrations as a proportion of our total fixed coverage grew to 33.2% compared with 27.4% at the end of 1Q19 and an additional 1.4pp in comparison with the previous quarter.

The sophistication and resilience of our next generation networks, both fixed and mobile, has really been put to the test over the past weeks with the unprecedented change in usage intensity and traffic profiles, due to the almost overnight implementation of new, remote and digital ways of working and learning from home. The increased video and data usage and traffic related with work, academic, social and entertainment platforms led to a huge step up in traffic usage in a very short time frame. And our network passed with flying colours, delivering consistently best-in-class levels of service quality and experience. The relevance of the feat is evident in the increase in traffic on the network during this exceptional period, with an average of 30% more traffic in both fixed and mobile 4G and with an almost 50% escalation in upstream traffic since the last week of February. The ability to ensure this kind of nationwide service quality bears witness to the ongoing intense technological investment made over the years in both capacity, coverage and technological innovation, providing portuguese consumers with access to the very best network, next generation, capabilities and services at highly competitive prices, which compares particularly well with the vast majority of other international markets.

NOS' organizational response to the pandemic has been best in class at all levels with the company pioneering incorporation of measures that ensure social distancing recommendations in all processes and interactions whilst, at the same time, launching inclusive initiatives to support and engage employees,

customers, communities and business partners. The company-wide digitalization programme we have been pursuing over the past couple of years has provided the pillars to respond with robust and reliable solutions. NOS' companywide digital transformation programme is focused on addressing customer needs and accelerating the release of new digital features, contributing directly to sustained growth in demand and usage of digital channels. During 1Q20, due to the current context, we reinforced our focus on driving customer takeup of digital touchpoints, having recorded a 51% increase in the number of users of NOS customer service apps and also a marked acceleration of online equipment sales and customer acquisition, all of which key pillars of our digital transformation programme. Several new releases and campaigns were launched during the period, such as the 10GB mobile data allowance available only for redemption over digital channels which generated more than 40% take-up with digital customers. On the customer service front, where the majority of the workforce is outsourced, we were able to transfer 90% of the operation to work-from-home models in a little more than a week. In comparison with normal activity levels, both technical and non-technical inbound demand increased by more than 30% with issues mainly related to clients calling to request increased service capacity, with migration of customer traffic from stores and general enquiries about digital payment options. To meet the shift in demand we were able to reassign staff from frontline commercial activities ensuring 100% remote training for reassigned employees and, despite the significant increase in demand, service response levels were consistently maintained close to 90%. Regarding our installation and technical field force, the processes we have developed to digitalize and simplify customer interactions have proven especially important, enabling our technicians to adapt immediately to Covid-19 driven restrictions whilst still delivering benchmark levels of productivity and response times, and ensuring stringent health protection measures for both technicians and customers from the beginning of the pandemic.

Cinema and Audiovisuals

Table 2.

Operating Indicators ('000)	1Q19	1Q20	1Q20 / 1Q19
Cinema ⁽¹⁾			
Revenue per Ticket (Euros)	5.2	5.2	0.9%
Tickets Sold - NOS	1,847.2	1,526.6	(17.4%)
Tickets Sold - Total Portuguese Market ⁽²⁾	3,113.5	2,529.7	(18.7%)
Screens (units)	218	219	0.5%

⁽¹⁾ Portuguese Operations

⁽²⁾ Source: ICA - Portuguese Institute For Cinema and Audiovisuals

The sales of NOS cinema tickets declined by 17.4% in 1Q20, to 1.527 million tickets, a reflection of the performance of the market as a whole^[1], which declined by 18.7% in the same period. Performance of the cinema exhibition business was clearly impacted by the COVID-19 pandemic, **with NOS' cinemas being shut from 16 March. At the end of February, NOS' cinema exhibition business was growing well and outperforming the market, with year-to-date growth of 15.1% in terms of attendance, which compares with 12.1% for the**

^[1] Source: ICA - Portuguese Institute For Cinema and Audiovisuals

market as a whole. The top films exhibited by NOS in 1Q20 were **"1917"**, **"Bad Boys For Life"**, **"Birds of Prey (and the Fantabulous Emancipation of One Harley Quinn)"**, **"Jumanji: The Next Level"** and **"Sonic The Hedgehog"**. The average revenue per ticket, of 5.2 euros for 1Q20, marginally improved by 0.9% yoy. NOS' gross box-office revenues decreased by 16.7% in 1Q20, which compares with 17.4% for the market as a whole. Until the end of February, NOS was up by 16.3% year-to-date, with the market improving by 14.1%.

In the Audiovisuals area, NOS distributed 5 out of the top 10 cinema box-office hits in 1Q20, **"1917"**, **"Birds of Prey (and the Fantabulous Emancipation of One Harley Quinn)"**, **"Sonic The Hedgehog"**, **"Star Wars: Episode IX - The Rise of Skywalker"** and **"Frozen II"**, maintaining its status of clear leadership in this market.

Financial Performance

The following Consolidated Financial Statements have been subject to limited review.

Table 3.

Profit and Loss Statement (Millions of Euros)	1Q19	1Q20	1Q20 / 1Q19
Operating Revenues	355.9	345.4	(3.0%)
Telco	340.4	332.9	(2.2%)
Consumer Revenues	244.1	243.6	(0.2%)
Business Revenues	72.2	71.6	(0.8%)
Wholesale and Others	24.1	17.7	(26.6%)
Audiovisuals & Cinema ⁽¹⁾	25.8	21.8	(15.5%)
Others and Eliminations	(10.3)	(9.3)	(9.3%)
Operating Costs Excluding D&A	(195.7)	(192.7)	(1.6%)
Direct Costs	(100.7)	(97.7)	(3.0%)
Non-Direct Costs ⁽²⁾	(95.0)	(95.0)	(0.0%)
EBITDA ⁽³⁾	160.2	152.7	(4.6%)
EBITDA Margin	45.0%	44.2%	(0.8pp)
Telco	146.9	141.8	(3.4%)
EBITDA Margin	43.1%	42.6%	(0.5pp)
Cinema Exhibition and Audiovisuals	13.3	10.9	(17.9%)
EBITDA Margin	51.6%	50.1%	(1.5pp)
Depreciation and Amortization	(97.3)	(100.5)	3.2%
(Other Expenses) / Income	(3.3)	(45.7)	n.a.
Operating Profit (EBIT) ⁽⁴⁾	59.5	6.5	(89.0%)
Share of profits (losses) of associates and joint ventures	0.2	(8.8)	n.a.
(Financial Expenses) / Income	(6.4)	(5.7)	(10.8%)
Income Before Income Taxes	53.3	(8.0)	n.a.
Income Taxes	(11.4)	(2.9)	(74.9%)
Net Income Before Associates & Non-Controlling Interests	41.7	(2.0)	n.a.
Income From Continued Operations	41.9	(10.9)	n.a.
o.w. Attributable to Non-Controlling Interests	0.1	0.4	n.a.
Discontinued Operations	0.4	0.1	(67.5%)
Net Income	42.5	(10.4)	n.a.

(1) Includes cinema operations in Mozambique.

(2) Non-Direct Costs Include Commercial & Customer Related Costs and Operating & Structure Costs

(3) EBITDA = Operating Profit + Depreciation and Amortization + Integration Costs + Net Losses/Gains on Disposal of Assets + Other Non-Recurrent Losses/Gains

(4) EBIT = Income Before Financials and Income Taxes.

As explained in the preliminary notes at the start of this report, several business segments have been particularly impacted by the restrictions imposed. Within the Telco sector, the biggest impacts were felt in terms of: i) revenues from premium channel subscriptions, which are being offered free of charge to subscribers during this period due to the fact that no live matches are being broadcast; ii) roaming and international travel revenues which have dropped to absolute lows due to the restrictions on non-essential international travel; iii) pressure in the B2B segment, with some companies being forced to negotiate their cost structure and payment terms and also in the Wholesale and Others line, due to lower roaming in and

wholesale mass calling service revenues; iv) lower equipment sales due to the closure of all non-essential retail activity, in particular of shopping centres. The Cinema and Audiovisual business is the most impacted on a relative basis given the complete closure of exhibition theatres since 16 March, and postponement of movie premieres, driving a collapse in ticket sales and lower audiovisuals revenues given the latter's high dependence on cinema distribution activity.

Financial statements are also impacted by the deconsolidation of NICS due to the announcement of its sale on 1 April 2020. As the transaction is still pending regulatory approval, NICS' contribution to results is recorded in the P&L under discontinued operations. All accounts have been restated to reflect the adjustment as from 1Q19. For reference, in full year 2019, NICS contributed to consolidated accounts with revenues of 141 million euros and EBITDA of 1.1 million euros.

Revenues

Consolidated revenues fell 3% yoy to 345.4 million euros, as a result of the significant slowdown in commercial activity as from mid-March as discussed above, before the nationwide pandemic related restrictions started to be implemented.

In the Telco segment, revenues fell by 2.2% yoy to 332.9 million euros reflecting different patterns between segments.

The Consumer segment recorded a marginal decline yoy in revenues of 0.2% to 243.6 million euros, combining a decline of 1.8% in Residential Revenues to 196.3 million euros, explained by the aforementioned decline in premium sports channel revenues, discretionary traffic and roaming-out revenues and by lower DtH subscriber numbers yoy and a 7.1% increase in stand-alone mobile revenues. Business revenues posted a decline of 0.8% yoy to 71.6 million euros, similarly affected by lower revenues from premium channel sales and discretionary traffic and roaming out revenues and also due to significantly lower volumes of equipment sales. Other Telco and Wholesale revenues fell to 17.7 million euros yoy driven by the negative impact primarily from lower roaming-in revenues, mass calling service revenues and advertising revenues.

The impact of the pandemic on the cinema business was felt from the beginning of the month with a significant reduction in spectators in the build up to the nationwide lock-down and subsequent closure of the theatres on 16 March. The impact on quarterly numbers was material and is set to continue until lock-down restrictions are lifted and with gradual recovery thereon. Total Cinema and Audiovisuals Revenues fell by 15.5% to 21.8 million euros with a drop in Cinema Revenues of 16.8% to 11.5 million euros and in Audiovisuals Revenues of 19.3% to 12.2 million euros, the latter due to its almost 50% revenue exposure to cinema distribution.

EBITDA and Net Results

Total OPEX fell by 1.6% in 1Q20 to 192.7 million euros with the direct cost base down by 3% yoy to 97.7 million euros, in line with the decline in Revenues and with the largest savings deriving from the more than 50% reduction in cinema royalties and mass-calling interconnection costs. Non-direct costs remained flat reflecting a combination of lower commercial costs due primarily to a postponement of regular advertising campaigns for the period. This was offset in main part by a yoy increase in duct and circuit related costs, the latter led by the increased scale of the network.

Consolidated EBITDA fell by 4.6% to 152.7 million euros combining a 3.4% decline in Telco EBITDA to 141.8 million euros and a 17.9% decline in Audiovisuals and Cinema EBITDA to 10.9 million euros, the latter decline a reflection of the complete closure of the cinema theatres in March due to the COVID-19 pandemic. Variable costs represent a little more than 60% of OPEX in the cinema operation, under more normal operating circumstances, related mostly with royalties.

Net Results in 1Q20 were negative by 10.4 million euros led by a decline in EBIT to 6.5 million euros. Due to the impacts of the COVID-19 pandemic, non-recurrent items increased by 42.4 million euros, the majority of which reflecting reinforcement of operating provisions for customer bad debt, onerous contracts and personal protective equipment. Net financial expenses were 10.8% lower yoy at 5.7 million euros, reflecting lower levels of average gross debt and respective average cost of debt. Contribution from Associated Companies deteriorated significantly yoy to losses of 8.8 million euros, with similar negative contribution from Sport TV due to impairments recorded in the quarter and at ZAP due to provisions booked. Finally, provisions for taxes reduced to 2.9 million euros, from 11.4 million euros in 1Q19, led by the significantly lower level of Earnings Before Taxes.

CAPEX

Table 4.

CAPEX (Millions of Euros) ⁽¹⁾	1Q19	1Q20	1Q20 / 1Q19
Total CAPEX Excluding Leasing Contracts	87.3	88.2	1.1%
Telco	81.7	81.8	0.1%
% of Telco Revenues	24.0%	24.6%	0.6pp
o.w. Technical CAPEX	44.9	48.5	7.9%
% of Telco Revenues	13.2%	14.6%	1.4pp
Baseline Telco	32.8	29.8	(9.0%)
Network Expansion / Substitution and Integration Projects and Others	12.1	18.7	53.7%
o.w. Customer Related CAPEX	36.8	33.4	(9.4%)
% of Telco Revenues	10.8%	10.0%	(0.8pp)
Audiovisuals and Cinema Exhibition	5.5	6.4	16.2%
Leasing Contracts	3.7	11.3	203.2%
Total Group CAPEX	91.0	99.5	9.4%

⁽¹⁾ CAPEX = Increase in Tangible and Intangible Fixed Assets, Contract Costs and Rights of Use

Total CAPEX in 1Q20 of 88.2 million euros (excluding leasing contracts) was marginally higher than the levels of the previous year with Telco CAPEX in line at 81.8 million euros, representing 24.6% of Telco Revenues. Technical telco CAPEX was 7.9% higher at 48.5 million euros with expansionary CAPEX up by 53.7% yoy at 18.7 million euros, the majority of which relating to the FttH deployment programme underway, which was fully maintained, guaranteeing service providers with much needed continuity of service. Customer Related CAPEX was down 9.4% yoy at 33.4 million euros as a consequence of the lower level of commercial activity driving lower contract related sales commissions, installation costs and investment in customer premise equipment.

With the implementation of IFRS16 as from 2019, and as in previous quarters, the level of operational leasing contracts is isolated in the table above to provide a better proxy of cash CAPEX for the period and to reduce quarterly volatility resulting from operating lease capitalization under the new accounting rules.

Cash Flow

Table 5.

Cash Flow (Millions of Euros)	1Q19	1Q20	1Q20 / 1Q19
EBITDA	160.2	152.7	(4.6%)
Total CAPEX Excluding Leasings	(87.3)	(88.2)	1.1%
EBITDA - Total CAPEX Excluding Leasings	72.9	64.5	(11.5%)
% of Revenues	20.5%	18.7%	(1.8pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.8)	(4.5)	(41.8%)
Leasings (Capital & Interest) ⁽¹⁾	(16.0)	(15.6)	(2.7%)
Operating Cash Flow	49.1	44.4	(9.6%)
Interest Paid	(3.0)	(2.6)	(12.2%)
Income Taxes Paid	(0.4)	(3.6)	n.a.
Disposals	0.4	0.0	(94.1%)
Other Cash Movements ⁽²⁾	(3.3)	(3.6)	8.5%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	42.9	34.6	(19.2%)
Financial Investments	0.0	0.0	n.a.
Acquisition of Own Shares	0.0	0.0	n.a.
Dividends	0.0	0.0	n.a.
Free Cash Flow	42.9	34.6	(19.2%)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(3.4)	(3.1)	(9.8%)
Change in Net Financial Debt	(39.5)	(31.5)	(20.0%)

⁽¹⁾ Includes Long Term Contracts.

⁽²⁾ Includes Cash Restructuring Payments and Other Cash Movements.

Free Cash Flow Before Dividends decreased in 1Q20 to 34.6 million euros as a consequence of the 11.5% yoy decline in EBITDA - CAPEX to 64.5 million euros which was in part offset by the lower level of non-cash adjustments and change in working capital and marginally lower cash lease charges that, in combination, drove a decline in Operating Cash Flow of 9.6% to 44.4 million euros.

The absolute decline in Operating Cash Flow of 4.7 million euros in 1Q20 was lower than the decline in Consolidated Revenues of 10.5 million euros and in EBITDA of 7.4 million, indicative of some ability to partially contain business activity impacts on cash generation.

Consolidated Balance Sheet

Table 6.

Balance Sheet (Millions of Euros)	1Q19	2019	1Q20	1Q20 / 1Q19
Non-current Assets	2,510.5	2,534.3	2,533.1	0.9%
Current Assets	518.7	553.8	520.2	0.3%
Total Assets	3,029.2	3,088.2	3,085.7	1.9%
Total Shareholders' Equity	1,098.1	1,012.3	1,002.4	(8.7)%
Non-current Liabilities	1,147.6	1,333.3	1,412.3	23.1%
Current Liabilities	783.6	742.5	640.8	(18.2)%
Total Liabilities	1,931.2	2,075.9	2,083.3	7.9%
Total Liabilities and Shareholders' Equity	3,029.2	3,088.2	3,085.7	1.9%

Capital Structure and Funding

At the end of 1Q20, Total Net Debt, including Leasings and Long-Term Contracts (according to IFRS16) amounted to 1,311.1 million euros. Total Debt stood at 1,127.5 million euros and was offset with a cash and short-term investment position on the balance sheet of 65.4 million euros. At the end of 1Q20, NOS also had 350 million euros in unissued commercial paper programmes.

The all-in average cost of debt stood at 1.1% for 1Q20 which compares with 1.7% in 1Q19. Net Financial Debt / EBITDA After Lease Payments (last 4 quarters) now stands at 1.9x. NOS targets a leverage ratio in the range of 2x Net Financial Debt / EBITDA after lease payments, which represents a solid and conservative capital structure that NOS is committed to maintain.

The average maturity of debt at the end of 1Q20 was 3.0 years. Taking into account loans issued at a fixed rate, interest rate hedging operations in place and the negative interest rate environment, as at 31 March 2020, the proportion of NOS' issued debt paying interest at a fixed rate was approximately 100%.

On 27 March, NOS announced that it had reached agreements regarding the contractual terms for three financing deals for a total amount of 280 million euros, with three banking institutions:

- 100 million euros maturing in 2025, with Santander, to refinance existing facilities that mature in 2020;
- 90 million euros with BPI and 90 million euros with BBVA, both maturing in 12 months with a view to increase liquidity.

These transactions will enable NOS to refinance all facilities maturing in 2020 and will significantly increase its liquidity position, whilst increasing average debt maturity and maintaining a very attractive average cost of debt.

Table 7.

Net Financial Debt (Millions of Euros)	1Q19	2019	1Q20	1Q20 / 1Q19
Short Term	180.3	84.6	23.1	(87.2%)
Medium and Long Term	826.1	1,021.8	1,104.4	33.7%
Total Debt	1,006.4	1,106.4	1,127.5	12.0%
Cash and Short Term Investments	3.0	12.8	65.4	n.a.
Net Financial Debt ⁽¹⁾	1,003.4	1,093.6	1,062.1	5.8%
Net Financial Debt / EBITDA after lease payments (last 4 quarters) ⁽²⁾	1.8x	1.9x	1.9x	n.a.
Leasings and Long Term Contracts	240.6	253.7	249.0	3.5%
Net Debt	1,244.0	1,347.3	1,311.1	5.4%
Net Debt / EBITDA	2.0x	2.1x	2.1x	n.a.
Net Financial Gearing ⁽³⁾	53.3%	57.3%	56.8%	3.6pp

(1) Net Financial Debt = Borrowings - Leasings - Cash

(2) EBITDA After Lease Payments = EBITDA - Lease Cash Payments (Capital & Interest)

(3) Net Financial Gearing = Net Debt / (Net Debt + Total Shareholders' Equity).

Subsequent Events

NOS International Carrier Services (NICS) sale to Tofane Global (1 April 2020)

NOS announced it had reached an agreement with Tofane Global, S.A.S. to sell all of NOS International Carrier Services S.A.'s share capital to iBasis, TOFANE's fully owned subsidiary and to supply NOS group companies with wholesale international voice and SMS services, which were previously provided by NOS ICS. Completion of this agreement is subject to non-opposition by the Competition Authority. In 2019 NOS ICS generated revenues of approximately **€141 million** and contributed with **€1.1 million euros to NOS' Consolidated EBITDA**. Considering the approval of the transaction before 31 March 2020, accounts have been restated accordingly for 1Q20 and for FY19. With this transaction, NOS will increase its focus on its core telecom business whilst optimizing the underlying cost structure for international voice and SMS traffic.

NOS Tower Sale to Cellnex (14 April 2020)

NOS announced it had reached an agreement to sell 100% of the share capital of NOS Towering S.A. to Cellnex, encompassing the disposal of approximately 2,000 sites (towers and rooftops). The parties also signed a long-term agreement whereby Cellnex will provide NOS Group with active network hosting over the passive infrastructure acquired, for a period of 15 years which renews automatically for equal periods. In addition, this agreement foresees a perimeter increase of up to 400 additional sites over the next 6 years. The execution of these agreements is subject to the verification of the usual conditions in this type of transaction, notably, if applicable, the non-opposition by the Competition Authority. This operation, which will be accounted as a sale and lease back transaction, was approved after 31 March 2020.

The potential value of the agreements to be reached over a 6-year period is 550 million euros, with an upfront payment of approximately 375 million euros. The expected impact on pro forma operating cash flow for NOS in year 1 is approximately 22 million euros, therefore driving an implied multiple on the initial 2000 site perimeter of 17x and a combined multiple for the full perimeter of 20x. Given IFRS16 accounting standards the appropriate multiple for valuation comparisons should be EV/OCF impact as lease contract costs are accounted below EBITDA.

This agreement will enable NOS to continuously optimize and expand its state-of-the-art mobile network, while reinforcing its ability to invest in the long-term value of the company. By joining forces with Cellnex in Portugal, through this strategic partnership, NOS ensures the supply of current and future needs of its passive mobile infrastructure. In addition to this agreement, NOS will continue to pursue other investment efficiency opportunities.

Appendix I

Table 8.

Operating Indicators ('000)	1Q19	2Q19	3Q19	4Q19	1Q20
Telco ⁽¹⁾					
Homes Passed	4,449.5	4,494.7	4,571.1	4,612.6	4,639.6
Total RGUs	9,508.5	9,537.5	9,613.6	9,687.3	9,707.9
o.w. Consumer RGUs	8,037.7	8,062.6	8,131.5	8,196.2	8,216.2
o.w. Business RGUs	1,470.8	1,474.9	1,482.1	1,491.1	1,491.7
Mobile	4,749.5	4,769.1	4,808.8	4,851.1	4,847.1
Pre-Paid	1,995.0	1,994.0	2,013.1	2,008.2	1,983.2
Post-Paid	2,754.5	2,775.1	2,795.6	2,842.9	2,863.9
Pay TV Fixed Access ⁽²⁾	1,326.3	1,329.7	1,347.3	1,356.0	1,360.4
Pay TV DTH	290.5	287.4	284.1	282.7	283.7
Fixed Voice	1,728.0	1,729.3	1,738.5	1,748.5	1,756.7
Broadband	1,382.5	1,389.5	1,402.0	1,414.3	1,424.5
Others and Data	31.7	32.5	32.9	34.8	35.5
3,4&5P Subscribers (Fixed Access)	1,170.0	1,176.7	1,198.2	1,209.4	1,218.2
% 3,4&5P (Fixed Access)	88.2%	88.5%	88.9%	89.2%	89.5%
Convergent + Integrated RGUs	4,521.0	4,574.7	4,622.1	4,704.5	4,753.7
Convergent + Integrated Customers	896.1	907.1	914.8	930.7	942.0
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	58.5%	59.2%	59.1%	59.8%	60.2%
% Convergent + Integrated Customers	55.4%	56.1%	56.1%	56.8%	57.3%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.9	44.9	44.6	44.7	44.2
Net Adds					
Homes Passed	55.0	45.2	76.4	41.4	27.0
Total RGUs	(23.8)	29.0	76.1	73.7	20.5
o.w. Consumer RGUs	(33.8)	24.9	68.9	64.7	20.0
o.w. Business RGUs	10.0	4.1	7.2	9.0	0.6
Mobile	(18.2)	19.6	39.7	42.3	(4.0)
Pre-Paid	(34.3)	(1.0)	19.1	(4.9)	(25.0)
Post-Paid	16.1	20.6	20.5	47.2	21.0
Pay TV Fixed Access	1.8	3.4	17.6	8.7	4.4
Pay TV DTH	(8.4)	(3.0)	(3.3)	(1.4)	0.9
Fixed Voice	(2.6)	1.3	9.2	9.9	8.2
Broadband	3.4	7.0	12.6	12.2	10.2
Others and Data	0.1	0.8	0.4	1.9	0.7
3,4&5P Subscribers (Fixed Access)	6.8	6.8	21.4	11.2	8.8
Convergent + Integrated RGUs	38.3	53.6	47.4	82.4	49.1
Convergent + Integrated Customers	6.3	11.0	7.7	15.9	11.3

⁽¹⁾ Portuguese Operations.

⁽²⁾ Fixed Access Subscribers include customers served by the HFC, FTTH and ULL networks and indirect access customers.

Appendix II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Operating Revenues	355.9	365.6	370.5	366.4	1,458.4	345.4
Telco	340.4	347.0	347.4	346.6	1,381.4	332.9
Consumer Revenues	244.1	244.7	248.3	253.0	990.1	243.6
Business Revenues	72.2	69.8	71.4	75.5	288.8	71.6
Wholesale and Others	24.1	32.6	27.7	18.1	102.5	17.7
Audiovisuals & Cinema ⁽¹⁾	25.8	29.1	33.6	30.3	118.8	21.8
Others and Eliminations	(10.3)	(10.5)	(10.5)	(10.6)	(41.8)	(9.3)
Operating Costs Excluding D&A	(195.7)	(194.4)	(197.8)	(230.5)	(818.4)	(192.7)
Direct Costs	(100.7)	(105.5)	(101.4)	(112.0)	(419.7)	(97.7)
Non-Direct Costs ⁽²⁾	(95.0)	(88.9)	(96.4)	(118.5)	(398.8)	(95.0)
EBITDA ⁽³⁾	160.2	171.2	172.7	135.9	640.0	152.7
EBITDA Margin	45.0%	46.8%	46.6%	37.1%	43.9%	44.2%
Telco	146.9	158.2	157.0	121.9	583.9	141.8
EBITDA Margin	43.1%	45.6%	45.2%	35.2%	42.3%	42.6%
Cinema Exhibition and Audiovisuals	13.3	13.0	15.7	14.0	56.0	10.9
EBITDA Margin	51.6%	44.8%	46.7%	46.3%	47.2%	50.1%
Depreciation and Amortization	(97.3)	(103.1)	(97.5)	(123.3)	(421.3)	(100.5)
(Other Expenses) / Income	(3.3)	(3.8)	(6.9)	(3.9)	(17.9)	(45.7)
Operating Profit (EBIT) ⁽⁴⁾	59.5	64.3	68.3	8.7	200.7	6.5
Share of profits (losses) of associates and joint ventures	0.2	1.1	1.0	(3.3)	(1.0)	(8.8)
(Financial Expenses) / Income	(6.4)	(5.9)	(6.8)	(5.6)	(24.7)	(5.7)
Income Before Income Taxes	53.3	59.4	62.5	(0.3)	175.0	(8.0)
Income Taxes	(11.4)	(11.9)	(15.1)	5.8	(32.6)	(2.9)
Net Income Before Associates & Non-Controlling Interests	41.7	46.5	46.4	8.8	143.4	(2.0)
Income From Continued Operations	41.9	47.6	47.4	5.5	142.4	(10.9)
o.w. Attributable to Non-Controlling Interests	0.1	0.2	(0.0)	0.0	0.3	0.4
Discontinued Operations	0.4	(0.0)	0.6	(0.1)	0.8	0.1
Net Income	42.5	47.7	47.9	5.4	143.5	(10.4)

(1) Includes cinema operations in Mozambique.

(2) Non-Direct Costs include Commercial & Customer Related Costs and Operating & Structure Costs

(3) EBITDA = Operating Profit + Depreciation and Amortization + Integration Costs + Net Losses/Gains on Disposal of Assets + Other Non-Recurrent Losses/Gains

(4) EBIT = Income Before Financials and Income Taxes.

Table 10.

CAPEX (Millions of Euros) ⁽¹⁾	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Total CAPEX Excluding Leasing Contracts	87.3	95.2	92.2	99.7	374.4	88.2
Telco	81.7	89.5	83.6	89.7	344.5	81.8
% of Telco Revenues	24.0%	25.8%	24.1%	25.9%	24.9%	24.6%
o.w. Technical CAPEX	44.9	58.1	47.5	52.6	203.1	48.5
% of Telco Revenues	13.2%	16.7%	13.7%	15.2%	14.7%	14.6%
Baseline Telco	32.8	38.5	30.6	34.2	136.0	29.8
Projects and Others	12.1	19.6	16.9	18.4	67.1	18.7
o.w. Customer Related CAPEX	36.8	31.4	36.1	37.0	141.4	33.4
% of Telco Revenues	10.8%	9.1%	10.4%	10.7%	10.2%	10.0%
Audiovisuals and Cinema Exhibition	5.5	5.6	8.7	10.0	29.9	6.4
Leasing Contracts	3.7	21.4	11.2	33.6	69.8	11.3
Total Group CAPEX	91.0	116.5	103.4	133.3	444.2	99.5

(1) CAPEX = Increase in Tangible and Intangible Fixed Assets, Contract Costs and Rights of Use

Table 11.

Cash Flow (Millions of Euros)	1Q19	2Q19	3Q19	4Q19	2019	1Q20
EBITDA	160.2	171.2	172.7	135.9	640.0	152.7
Total CAPEX Excluding Leasings	(87.3)	(95.1)	(92.2)	(99.7)	(374.4)	(88.2)
EBITDA - Total CAPEX Excluding Leasings	72.9	76.1	80.4	36.2	265.6	64.5
% of Revenues	20.5%	20.8%	21.7%	9.9%	18.2%	18.7%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.8)	4.7	(5.6)	0.6	(8.1)	(4.5)
Leasings (Capital & Interest) ⁽¹⁾	(16.0)	(15.6)	(16.9)	(16.5)	(65.0)	(15.6)
Operating Cash Flow	49.1	65.2	57.9	20.4	192.6	44.4
Interest Paid	(3.0)	(5.9)	(3.0)	(4.2)	(16.0)	(2.6)
Income Taxes Paid	(0.4)	(0.7)	(7.6)	(10.2)	(19.0)	(3.6)
Disposals	0.4	0.4	0.5	0.0	1.4	0.0
Other Cash Movements ⁽²⁾	(3.3)	(1.9)	(3.4)	(3.6)	(12.2)	(3.6)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	42.9	57.1	44.4	2.4	146.8	34.6
Financial Investments	0.0	0.0	0.0	(0.2)	(0.2)	0.0
Acquisition of Own Shares	0.0	(3.5)	0.0	(3.2)	(6.7)	0.0
Dividends	0.0	(179.6)	0.0	0.0	(179.6)	0.0
Free Cash Flow	42.9	(126.0)	44.4	(1.0)	(39.8)	34.6
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(3.4)	(0.8)	(3.4)	(3.4)	(11.0)	(3.1)
Change in Net Financial Debt	(39.5)	126.9	(41.0)	4.3	50.7	(31.5)

(1) Includes Long Term Contracts.

(2) Includes Cash Restructuring Payments and Other Cash Movements.

Table 12.

Net Financial Debt (Millions of Euros)	1Q19	2Q19	3Q19	4Q19	1Q20
Short Term	180.3	248.0	171.6	84.6	23.1
Medium and Long Term	826.1	893.6	948.8	1,021.8	1,104.4
Total Debt	1,006.4	1,141.6	1,120.4	1,106.4	1,127.5
Cash and Short Term Investments	3.0	11.3	31.2	12.8	65.4
Net Financial Debt ⁽¹⁾	1,003.4	1,130.3	1,089.3	1,093.6	1,062.1
Net Financial Debt / EBITDA after lease payments (last 4 quarters) ⁽²⁾	1.8x	2.0x	1.9x	1.9x	1.9x
Leasings and Long Term Contracts	240.6	245.8	239.8	253.7	249.0
Net Debt	1,244.0	1,376.1	1,329.1	1,347.3	1,311.1
Net Debt / EBITDA	2.0x	2.2x	2.1x	2.1x	2.1x
Net Financial Gearing ⁽³⁾	53.3%	59.0%	57.0%	57.3%	56.8%

⁽¹⁾ Net Financial Debt = Borrowings - Leasings - Cash

⁽²⁾ EBITDA After Lease Payments = EBITDA - Lease Cash Payments (Capital & Interest)

⁽³⁾ Net Financial Gearing = Net Debt / (Net Debt + Total Shareholders' Equity).

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Enquiries

Chief Financial Officer: José Pedro Pereira da Costa

Phone: (+351) 21 799 88 19

Analysts/Investors: Maria João Carrapato

Phone: (+351) 21 782 47 25 / E-mail: ir@nos.pt

Press: Isabel Borgas / Irene Luis

Phone: (+351) 21 782 48 07 / E-mail: comunicacao.corporativa@nos.pt

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Audio webcast available [here](#)

Conference ID: 5518786

Standard International: +44 (0) 203 0095710

Portugal Local: +351(0)308807203

Portugal Toll Free: 800783295

UK Local: +44(0)8444933857

UK Toll Free: 08003767425

US Local: +19177200178

US Toll Free: + 18668692321

REPLAY Dial in details:

Available until 09/05/2020 18:30 GMT

Confirmation Code: 5518786

Standard International: +44 (0) 3333009785

US Local: +1 (917) 677-7532

US Toll Free: +1 (866) 331-1332

UK Local: +44 (0)8445718951

UK Toll Free: 08082380667

Rua Actor António Silva
nº9, Campo Grande
1600-404 Lisboa
www.nos.pt/ir