



Earnings Announcement 2Q17



2Q17 Highlights

Strong year over year Revenue and Cash Flow growth in 2Q17 led by solid operational performance with growth still coming through in core RGUs;

- + 99.1 thousand **RGU** net adds of which:
 - + 4.9 thousand pay TV, +6.2 thousand fixed, -1.3 thousand DTH;
 - + 13.1 thousand fixed voice;
 - + 18.5 thousand fixed broadband;
 - + 62.0 thousand mobile.
- + 4.2% growth in Consolidated **Revenues**; 388.4 million euros
- +5.4% growth in Consolidated **EBITDA**; 156.7 million euros
- + 52.5% yoy in **Net Income**; 40.4 million euros
- + 49% **EBITDA-CAPEX**; 71.1 million euros
- **Free Cash Flow** 43.9 million euros; +3x
- Consolidated **CAPEX** – 15.1%; 85.7 million euros

Table 1.

2Q17 Highlights	2Q16	2Q17	2Q17 / 2Q16	1H16	1H17	1H17 / 1H16
Financial Highlights						
Operating Revenues	372.8	388.4	4.2%	743.1	769.4	3.5%
Telco Revenues	357.9	368.8	3.1%	710.4	731.8	3.0%
EBITDA	148.7	156.7	5.4%	286.5	300.3	4.8%
EBITDA Margin	39.9%	40.4%	0.5pp	38.6%	39.0%	0.5pp
Net Income Before Associates & Non-Controlling Interests	29.7	37.2	25.1%	60.6	63.3	4.4%
Net Income	26.5	40.4	52.5%	50.9	71.8	41.1%
EBITDA - Total CAPEX	47.7	71.1	49.0%	90.5	127.5	41.0%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	14.1	43.9	210.9%	23.9	102.1	n.a.
Operational Highlights (EoP)						
Total RGUs	8,746.4	9,254.3	5.8%	8,746.4	9,254.3	5.8%
Mobile	4,270.3	4,549.1	6.5%	4,270.3	4,549.1	6.5%
Pay TV	1,574.4	1,613.3	2.5%	1,574.4	1,613.3	2.5%
Fixed Voice	1,665.0	1,751.1	5.2%	1,665.0	1,751.1	5.2%
Broadband	1,206.4	1,308.0	8.4%	1,206.4	1,308.0	8.4%
Convergent RGUs	3,155.6	3,585.9	13.6%	3,155.6	3,585.9	13.6%
Convergent Customers	644.0	710.8	10.4%	644.0	710.8	10.4%
Convergent Customers as % of Fixed Access Customers	44.4%	47.1%	2.7pp	44.4%	47.1%	2.7pp
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	43.1	44.3	2.8%	43.4	44.4	2.3%
Operational Highlights (Net Adds)						
Total RGUs	151.3	99.1	(34.5%)	281.6	177.5	(37.0%)
Mobile	97.3	62.0	(36.2%)	147.2	93.4	(36.6%)
Pay TV	12.9	4.9	(61.8%)	30.6	12.7	(58.3%)
Fixed Voice	17.0	13.1	(23.0%)	41.7	26.4	(36.6%)
Broadband	23.9	18.5	(22.6%)	61.7	43.4	(29.6%)
Convergent RGUs	167.5	76.9	(54.1%)	301.8	198.7	(34.2%)
Convergent Customers	29.2	13.0	(55.4%)	53.1	30.6	(42.4%)

2Q17 Consolidated Results

NOS continues to strengthen market share in almost all of its core services as reflected in the most recent data published by ANACOM for end 1Q17. NOS' share of mobile subscribers was 24.4%, 1.6 pp greater than last year. Share of fixed internet and voice services grew by 0.8pp and 1.6pp to 37.7% and 35.1%, respectively whilst pay TV market share remained stable at 43.5%.

Total RGUs grew by 5.8% yoy to 9.25 million services with net adds of 99.1 thousand in 2Q17. The primary source of RGU growth for NOS is the network expansion project that NOS initiated in 2014, together with marginal growth in the HFC footprint. By the end of 2Q17 NOS covered a total of 3.787 million households with its fixed network, of which 449 thousand with FttH and the remaining 3.338 million with its Docsis 3.0 HFC network. NOS covered an additional 14.9 thousand households in 2Q17.

The Pay TV base continued to post healthy growth to 1,613 thousand subscribers, +2.5% yoy. During 2Q17, fixed access customers grew by 6.2 thousand subscribers to 1.282 million, representing 34% penetration of NOS' total network coverage. In new network geographies covered since the merger, customer penetration now stands at 24%, with some locations reaching close to 50%¹.

Fixed network rollout of own and competitors' fttH networks in areas previously covered only by satellite is, as anticipated, starting to reflect on the DTH customer base, with NOS posting negative net adds of 1.3 thousand in 2Q17. Offers based on DTH are more vulnerable to fixed NGN solutions given their higher Internet speeds and quality and interactivity of TV solutions. This is a trend that is set to continue although mitigated by customer migration wherever possible to NOS' own fixed network. NOS' net losses of DTH customers were compensated almost entirely by migrations to NOS' FttH access.

Customers continue to take up convergent solutions, albeit at a slower pace due to the already high level of penetration at 47.1% of the fixed network and 44.1% of the total customer base. Progressively more households are upgrading to the higher end UMA interface with its more sophisticated features amongst which its voice controlled remote, advanced search functionalities, NOS' cloud sharing service and 4K viewing capabilities amongst others, acting as key differentiators versus other offers in the market.

Fixed Broadband and Voice services continued to post good growth of 18.5 thousand RGUs and 13.1 thousand RGUs respectively. By the end of 2Q17, penetration of fixed broadband services measured as a proportion of the fixed customer base was 76.7% and penetration of fixed voice services was 86.7%, reflecting the maturity of the market in terms of bundled offers.

¹ The penetration rate refers to customer activations in new FttH geographies.

Growth in convergence, stand-alone mobile segment and B2B services are the main drivers of mobile RGU growth with an additional 62 thousand net adds during the quarter. Demand for speed and higher data allowances increases quarter after quarter with the growth in the number of smartphones, 72% at the end of 2Q17, and particularly of 4G enabled devices which stood at 59%. Monthly average data usage on smartphones has grown by 70% to 1,603MB and by 61% to 1,960MB for 4G enabled devices.

Residential fixed access revenues per user (ARPU) grew by 2.8% yoy to 44.3 euros, reflecting continued growth in average RGUs per account, increased traffic revenues and primarily the annual price increase implemented at the end of 2016. Somewhat dampening these positive effects, ARPU comparison with the previous year was impacted primarily by lower termination rates (this effect will no longer be material going forward), lower revenues from discretionary subscription to premium services and lower contribution of VoD, amongst others. Adjusting for these impacts, base ARPU would have grown by 3.9% yoy.

RGU yoy growth in B2B was 8.0% in 2Q17 reaching 1.453 million services. NOS' strategy for the business segment is to continue to acquire its fair share of new accounts coming to the market whilst at the same time seeking to protect the value of legacy accounts and increase share of wallet of telecom and IT spend in existing accounts with full service solutions for the various subsegments. Although still a relatively small source of business revenues, yoy growth in IT service revenues has been very strong at close to 20%. A number of transformational projects are being implemented which are supportive of more value driven growth albeit slower than in previous years. The operational model in B2B sub segments has been revisited to guarantee that NOS is present in the most margin relevant stages of the customer relationship, becoming a producer rather than a pure reseller of services where relevant. NOS is well positioned to capture value from innovative services developing technological solutions supported by leading network assets and service platforms and strong institutional partnerships when appropriate. Continuous and open product and service innovation and excellence in service delivery are the foundations upon which NOS differentiates itself in the market. Total B2B and Wholesale revenues posted a 5.6% increase yoy. Business customer revenues posted growth of 3.0% and revenues from wholesale improved yoy by 9.3%. The Wholesale business has a different revenue and margin profile from the Corporate and Mass Business Segment, tending to present material volatility over the course of the year. A source of revenues that has been diminishing in past quarters is Mass Calling Services (MCS) due to the marketwide decline of this business, however solid growth in voice and data traffic and also roaming with the increase in tourism to Portugal is helping to mitigate the negative impact of MCS.

Cinemas and Audiovisuals

Table 2.

Operating Indicators ('000)	2Q16	1Q17	2Q17	2Q17 / 2Q16	2Q17 / 1Q17	1H16	1H17	1H17 / 1H16
Cinema ⁽¹⁾								
Revenue per Ticket (Euros)	4.7	4.8	4.7	0.0%	(2.3%)	4.7	4.8	0.4%
Tickets Sold	1,715.6	2,296.4	2,446.3	42.6%	6.5%	4,115.9	4,742.6	15.2%
Screens (units)	215	215	215	0.0%	0.0%	215	215	0.0%

(1) Portuguese Operations

NOS' Cinema ticket sales posted a yoy increase of 42.6% to 2.446 million tickets in 2Q17, in line with the performance of the market as a whole which improved by 42.7%^[1]. The comparison to 2Q16 is influenced by the fact that the Easter holiday period fell on the first quarter in 2016 whereas in 2017 it is reflected in 2Q17 numbers. Average revenue per ticket remained stable yoy at 4.7 euros in 2Q17.

The most successful films exhibited in 2Q17 were "The Fate of the Furious", "Pirates of the Caribbean: Dead Men Tell No Tales", "The Boss Baby", "Beauty and the Beast" and "Guardians of the Galaxy Vol.2".

NOS' gross box-office revenues increased by 42.6% in 2Q17, which compares with a 44.5% yoy improvement for the market as a whole. NOS continues to maintain its leading market position, with a market share of 62.5% in terms of gross revenues in 2Q17. Cinema Exhibition revenues increased by 38.6% yoy in 2Q17 to 16.2 million euros.

Revenues in the Audiovisuals division increased by 13.1% yoy to 19.1 million euros in 2Q17. This improvement in revenues was driven primarily by the positive yoy performance in Cinema Distribution. Of the top 10 cinema box-office hits in 2Q17, NOS distributed 7, "The Fate of the Furious", "Pirates of the Caribbean: Dead Men Tell No Tales", "Beauty and the Beast", "Guardians of the Galaxy Vol. 2", "The Mummy", "Wonder Woman", and "King Arthur: Legend of the Sword", therefore maintaining its leading position.

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

Consolidated Financial Statements

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

Consolidated Income Statement

Table 3.

Profit and Loss Statement (Millions of Euros)	2Q16	1Q17	2Q17	2Q17 / 2Q16	2Q17 / 1Q17	1H16	1H17	1H17 / 1H16
Operating Revenues	372.8	381.0	388.4	4.2%	1.9%	743.1	769.4	3.5%
Telco	357.9	362.9	368.8	3.1%	1.6%	710.4	731.8	3.0%
Consumer Revenues	220.9	231.9	232.6	5.3%	0.3%	444.6	464.5	4.5%
Business and Wholesale Revenues	105.6	101.6	111.5	5.6%	9.7%	205.9	213.1	3.5%
Equipment Sales	10.5	10.8	10.5	0.6%	(2.9%)	23.1	21.3	(7.7%)
Others and Eliminations	20.9	18.6	14.3	(31.7%)	(23.1%)	36.8	32.8	(10.6%)
Audiovisuals	16.9	17.8	19.1	13.1%	7.3%	33.0	37.0	11.9%
Cinema ⁽¹⁾	11.7	15.3	16.2	38.6%	5.4%	27.3	31.5	15.3%
Others and Eliminations	(13.7)	(15.1)	(15.8)	15.4%	4.4%	(27.7)	(30.9)	11.4%
Operating Costs Excluding D&A	(224.2)	(237.4)	(231.6)	3.3%	(2.4%)	(456.6)	(469.0)	2.7%
W&S	(21.9)	(22.2)	(20.7)	(5.5%)	(6.7%)	(45.7)	(42.9)	(6.2%)
Direct Costs	(110.4)	(113.8)	(126.3)	14.4%	11.0%	(219.2)	(240.1)	9.5%
Commercial Costs ⁽²⁾	(18.7)	(20.0)	(20.7)	10.5%	3.6%	(44.4)	(40.6)	(8.4%)
Other Operating Costs	(73.2)	(81.4)	(64.0)	(12.6%)	(21.5%)	(147.3)	(145.4)	(1.3%)
EBITDA	148.7	143.6	156.7	5.4%	9.2%	286.5	300.3	4.8%
EBITDA Margin	39.9%	37.7%	40.4%	0.5pp	2.7pp	38.6%	39.0%	0.5pp
Telco	137.6	131.2	144.4	4.9%	10.0%	263.4	275.6	4.6%
EBITDA Margin	38.4%	36.2%	39.1%	0.7pp	3.0pp	37.1%	37.7%	0.6pp
Cinema Exhibition and Audiovisuals	11.1	12.4	12.4	11.8%	(0.2%)	23.1	24.7	7.1%
EBITDA Margin	42.8%	41.5%	39.9%	(2.9pp)	(1.6pp)	42.1%	40.7%	(1.4pp)
Depreciation and Amortization	(98.5)	(103.3)	(103.4)	5.0%	0.2%	(193.8)	(206.7)	6.7%
(Other Expenses) / Income	(3.6)	(3.4)	(4.5)	26.1%	34.7%	(6.0)	(7.9)	30.9%
Operating Profit (EBIT) ⁽³⁾	46.5	37.0	48.8	4.8%	32.0%	86.7	85.7	(1.1%)
Share of results of associates and joint ventures	(3.3)	5.3	3.6	n.a.	(32.3%)	(9.7)	9.0	n.a.
(Financial Expenses) / Income	(6.9)	(6.6)	(5.2)	(24.0%)	(21.0%)	(12.2)	(11.8)	(3.3%)
Income Before Income Taxes	36.4	35.7	47.2	29.7%	32.1%	64.8	82.9	27.9%
Income Taxes	(9.9)	(4.3)	(6.4)	(36.0%)	47.7%	(13.9)	(10.7)	(23.3%)
Net Income Before Associates & Non-Controlling Interests	29.7	26.1	37.2	25.1%	42.8%	60.6	63.3	4.4%
Income From Continued Operations	26.5	31.4	40.8	54.3%	30.0%	50.9	72.2	41.9%
o.w. Attributable to Non-Controlling Interests	0.0	0.0	(0.4)	n.a.	(1298.4%)	(0.0)	(0.4)	n.a.
Net Income	26.5	31.4	40.4	52.5%	28.5%	50.9	71.8	41.1%

(1) Includes operations in Mozambique.

(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold.

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

Operating Revenues

Consolidated Operating Revenues grew by 4.2% yoy to 388.4 million euros, with telco revenues growing by 3.1%, Audiovisuals by 13.1% and Cinema revenues by 38.6%.

In the telco operation, Consumer Revenues grew by 5.3% in 2Q17 to 232.6 million euros, reflecting a combination of higher growth in Residential revenues driven by continued take-up of convergent bundles and the full quarterly impact of the price increases and a pick-up in the pace of growth of stand alone personal revenues that have consolidated the inflexion of the negative growth trend of past quarters reflecting less migration to integrated bundles with the slowdown in convergent take-up and the impact of the price increases.

Business and Wholesale Revenues grew by 5.6% yoy to 111.5 million euros. Excluding Wholesale revenues, Business revenues grew by 3.3%, driven by good RGU performance, acquisition of new accounts and the price increase at the start of the year. Wholesale Revenues posted growth of more than 9% yoy due to strong performance of wholesale voice, data and roaming traffic volumes, offsetting in full the continued decline of the low margin mass calling service business which represented just 2% of total Business and Wholesale Revenues in 2Q17, compared with almost 4% in 2Q16.

Year on year telco revenue comparisons should be adjusted to reflect the regulatory impacts of lower MTRs which have been progressively coming down over the past years. The last relevant cut occurred in April 2016 when SMS MTRs declined 32.5% to €0.0083. The most recent cut to voice MTRs occurred already at the start of July 2017 with a reduction of 7.4% to €0.0075 per minute. Adjusting for MTR cuts in yoy telco revenue comparison in 2Q17, growth would have been 3.3%. In addition, midway through 1Q17, and as a result of the implementation of a remedy imposed at the time of the merger, NOS sold Optimus' FttH network to Vodafone, and consequently has ceased to receive a wholesale revenue stream.

Cinema revenue growth was particularly strong in 2Q17 primarily due to the fact that Easter fell in the second quarter this year whereas last year it had fallen in the first, an effect that also benefitted the audiovisuals division. Movie going has been very strong yoy in 2017 to date, with revenues for the first six months up by 15.3% in the cinema business and by 11.9% in the audiovisuals division.

Operating Costs

Total Operating Costs increased by 3.3% to 231.6 million euros in 2Q17, representing 59.6% of Total Revenues, down 0.5 p.p. in comparison with 2Q16 despite the significant yoy increase in premium sports content costs, and by 2.7 pp in comparison with 1Q17.

Excluding Direct Costs, Operating Costs were down 7% yoy reflecting a combination of operating leverage from topline growth, efficiencies being achieved across the board and the release of a provision as explained below.

The 5.5% decline in 2Q17 Wages and Salaries is explained essentially by differences in employee variable remuneration as was the case of the decline in 1Q17 and by a temporary reduction in headcount.

Direct costs posted a significant increase of 14.4% yoy to 126.3 million euros due to higher programming costs as a result of more expensive premium sports content and the revision of the Sport TV distribution model from the start of the new football season in 2H16. In addition, wholesale traffic related costs increased significantly yoy along with the higher volume of activity over last year and the costs associated with movie royalties was also higher yoy due to the Easter effect mentioned above.

Commercial costs grew by 10.5% to 20.7 million euros, reflecting a combination of higher advertising costs due to more advertising activity in the quarter and a lower level of equipment costs driven by fewer handsets sold, as reflected in the level of revenues generated and due to a lower yoy level of non-capitalized commissions.

The 12.6% decline of other operating costs is explained almost entirely by the release of a provision of close to 7 million euros after the courts decided in favour of NOS in 2Q17 in a pending legal dispute regarding fixed termination terms with ANACOM.

Consolidated EBITDA posted yoy growth of 5.4% yoy to 156.7 million euros representing an EBITDA margin of 40.4% compared with 39.9% in 2Q16 and despite the aforementioned increase in premium sports content costs as from 2H16.

Telco EBITDA recorded growth of 4.9% to 144.4 million euros representing an EBITDA margin as a percentage of revenues of 39.1%, up 0.7 pp over 2Q16. Audiovisuals and Cinemas EBITDA grew by 11.8% yoy to 12.4 million euros led by the strong revenue growth of the quarter as explained above.

Net Income

Net Income grew by 52.5% in 2Q17 to 40.4 million euros.

In addition to the EBITDA growth described above, the most material contribution to the yoy variation remains the more positive contribution to results from NOS' share of Associates and Joint Ventures which grew to 3.6 million euros in 2Q17 compared with negative 3.3 million euros in 2Q16. This improvement in quarterly contribution is the result of a combination of the better exchange rate environment at ZAP together with a price increase and cost savings that helped drive improved results of the operation and also due to the change to the distribution model in 2H16 in Sport TV driving more positive financial results. The increase in Depreciations and Amortizations is explained, as in previous quarters, primarily by the large investments made in network assets and customer acquisition costs and also by write-offs driven by investment in network renewal. Although average cost of debt continued to decline to 2.1% in 2Q17 compared with 2.3% in 2Q16, net funding costs were slightly higher due primarily to a temporary increase in the average level of gross debt in the quarter to pay FY16 dividends of 102.6 million euros and despite the reversal of outstanding interest related with a pending legal case for which NOS reached a settlement in 2Q17. Income Tax provision amounted to 6.4 million euros in 2Q17 representing an effective tax rate of 13.5%. The volatility in quarterly tax rate varies due to a combination of factors of which the most relevant being accounting of deferred taxes and the contribution of the Share of Associates and Joint Ventures line. Adjusting for the contribution of Associates, effective tax rate would have been 14.6%.

CAPEX

Table 4.

CAPEX (Millions of Euros)	2Q16	1Q17	2Q17	2Q17 / 2Q16	2Q17 / 1Q17	1H16	1H17	1H17 / 1H16
Telco	92.7	77.7	77.6	(16.3%)	(0.1%)	177.6	155.3	(12.6%)
o.w. Technical CAPEX	45.8	36.0	42.4	(7.5%)	17.9%	87.8	78.4	(10.7%)
% of Telco Revenues	12.8%	9.9%	11.5%	(1.3pp)	1.6pp	12.4%	10.7%	(1.6pp)
Baseline Telco	34.9	26.8	35.9	3.0%	33.7%	62.4	62.8	0.5%
Network Expansion / Substitution and Integration Projects and Others	11.0	9.1	6.5	(40.9%)	(28.8%)	25.4	15.6	(38.4%)
o.w. Customer Related CAPEX	46.9	41.7	35.2	(24.9%)	(15.7%)	89.8	76.9	(14.4%)
% of Telco Revenues	13.1%	11.5%	9.5%	(3.6pp)	(2.0pp)	12.6%	10.5%	(0.2pp)
Audiovisuals and Cinema Exhibition	8.2	9.4	8.1	(1.8%)	(14.3%)	18.4	17.5	(5.0%)
Total Group CAPEX	101.0	87.1	85.7	(15.1%)	(1.7%)	196.1	172.8	(11.9%)
% of Total Group Revenues	27.1%	22.9%	22.1%	(5.0pp)	(0.8pp)	26.4%	22.5%	(0.1pp)

Total Group CAPEX declined by 15.1% yoy to 85.7 million euros in 2Q17, representing 22.1% of Consolidated Revenues.

Telco CAPEX fell by 16.3% to 77.6 million euros, representing 21% of Telco Revenues, down from 25.9% in 2Q16. Technical CAPEX which includes network expansion, upgrade and integration related investments, was 42.4 million euros in 2Q17, down by 7.5% yoy and representing 11.5% of telco revenues. Technical CAPEX does not follow a linear pattern quarter on quarter due to the specifics and phasing of projects underway. The second half of the year is set to be more intense in terms of execution, the main expansionary or non recurrent projects in the pipeline being mobile investments to meet additional coverage and capacity requirements, the Docsis 3.1 upgrade of the HFC network and some IT investment projects, namely the development of a new CRM system and integration related projects.

Customer Acquisition CAPEX of 35.2 million euros, down 24.9% yoy, represented 9.5% of telco revenues, compared with 13.1% in 2Q16. The decline in Customer Related CAPEX is mainly a result of the lower level of commercial activity driving a lower level of gross adds as explained in the operational section of this report.

Cash Flow

Table 5.

Cash Flow (Millions of Euros)	2Q16	1Q17	2Q17	2Q17 / 2Q16	2Q17 / 1Q17	1H16	1H17	1H17 / 1H16
EBITDA	148.7	143.6	156.7	5.4%	9.2%	286.5	300.3	4.8%
Total CAPEX	(101.0)	(87.1)	(85.7)	(15.1%)	(1.7%)	(196.1)	(172.8)	(11.9%)
EBITDA - Total CAPEX	47.7	56.5	71.1	49.0%	25.8%	90.5	127.5	41.0%
% of Revenues	12.8%	14.8%	18.3%	5.5pp	3.5pp	12.2%	16.6%	4.4pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(18.9)	(7.7)	(13.2)	(30.3%)	72.0%	(38.8)	(20.9)	(46.2%)
Operating Cash Flow	28.8	48.8	57.9	101.2%	18.6%	51.7	106.7	106.3%
Long Term Contracts	(4.4)	(2.9)	(3.8)	n.a.	n.a.	(8.3)	(6.7)	(19.0%)
Cash Restructuring Payments	(2.3)	(5.3)	(5.9)	158.0%	11.8%	(5.7)	(11.3)	96.2%
Interest Paid	(4.2)	(6.7)	(4.9)	17.8%	(26.2%)	(9.7)	(11.6)	20.4%
Income Taxes Paid	(4.5)	(0.3)	(0.0)	n.a.	n.a.	(5.4)	(0.3)	n.a.
Disposals	0.4	24.6	0.7	73.6%	(97.1%)	0.8	25.3	n.a.
Other Cash Movements	0.4	(0.0)	0.0	(100.0%)	n.a.	0.4	0.0	(100.0%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	14.1	58.2	43.9	210.9%	(24.5%)	23.9	102.1	n.a.
Acquisition of Own Shares	(13.3)	0.0	0.0	(100.0%)	n.a.	(20.7)	0.0	(100.0%)
Dividends	(82.1)	0.0	(102.6)	25.0%	n.a.	(82.1)	(102.6)	25.0%
Free Cash Flow	(81.3)	58.2	(58.7)	(27.8%)	n.a.	(78.9)	(0.5)	(99.3%)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(7.2)	0.8	(2.2)	(69.4%)	n.a.	(8.9)	(1.4)	(84.3%)
Change in Net Financial Debt	88.5	(59.0)	60.9	(31.2%)	n.a.	87.8	1.9	(97.8%)

EBITDA – CAPEX increased by 49% to 71.1 million euros in 2Q17, representing 18.3% as a percentage of revenues, a very material increase led by the 5.4% increase in EBITDA and the lower yoy level of CAPEX, as discussed previously. Investment in working capital and non cash items in the quarter was similar to that of 2Q16 and as such the increase in EBITDA-CAPEX was almost entirely passed through to Operating Cash Flow which grew by 101.2% to 57.9 million euros.

Total FCF before dividends, financial investments and own shares acquisitions was 43.9 million euros in 2Q17, representing a very material increase from the 14.1 million euros recorded in 2Q16. Due to the FY16 dividend payment made in 2Q17 of 102.6 million euros, total FCF was negative by 58.7 million euros driving a temporary increase in the level of gross debt as explained in the section below.

Consolidated Balance Sheet

Table 6.

Balance Sheet (Millions of Euros)	2016	2Q17
Non-current Assets	2,453.0	2,425.8
Current Assets	529.6	496.3
Total Assets	2,982.6	2,922.1
Total Shareholders' Equity	1,053.1	1,025.8
Non-current Liabilities	1,168.7	1,210.5
Current Liabilities	760.8	685.8
Total Liabilities	1,929.5	1,896.3
Total Liabilities and Shareholders' Equity	2,982.6	2,922.1

Capital Structure

At the end of 1H17, Net Financial Debt stood at 1,114.2 million euros.

Total financial debt was 1,116.3 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.0 million euros. At the end of 1H17, NOS also had 285 million euros of unissued commercial paper programmes. The all-in average cost of NOS' Net Financial Debt stood at 2.1% for 2Q17, down from 2.3% in 2Q16 and in line with 2.1% in 1Q17. For 1H17, the all-in average cost of NOS' Net Financial Debt amounted to 2.1%.

During the 1H17 NOS executed two financing deals to refinance existing lines:

- In March, a new commercial paper program with a maximum amount of 75M Euros and maturing in 2021, with Banco Millennium bcp; and
- In June, a new commercial paper program with a maximum amount of 100M Euros, 50% of which amortized in 2021, and the remaining in 2023, with Banco Santander Totta.

Net Financial Gearing was 52.1% at the end of 1H17 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 2.0x. The average maturity of NOS' Net Financial Debt at the end of 1H17 was 3.1 years.

Taking into account the loans issued at a fixed rate, the interest rate hedging operations in place, and the negative interest rate environment, as at 30 June 2017, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 67%.

Table 7.

Net Financial Debt (Millions of Euros)	2016	2Q17	2Q17 / 2016
Short Term	213.9	153.6	(28.2%)
Bank and Other Loans	196.4	138.7	(29.4%)
Financial Leases	17.5	15.0	(14.2%)
Medium and Long Term	900.7	962.6	6.9%
Bank and Other Loans	871.8	939.4	7.8%
Financial Leases	28.9	23.2	(19.8%)
Total Debt	1,114.6	1,116.3	0.1%
Cash and Short Term Investments	2.3	2.0	(13.1%)
Net Financial Debt	1,112.3	1,114.2	0.2%
Net Financial Gearing ⁽¹⁾	51.4%	52.1%	0.7pp
Net Financial Debt / EBITDA	2.0x	2.0x	n.a.

⁽¹⁾ Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity).

Appendix I

Table 8.

Operating Indicators ('000)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Telco ⁽¹⁾						
Aggregate Indicators						
Homes Passed	3,632.8	3,701.0	3,741.4	3,763.9	3,772.3	3,787.2
Total RGUs	8,595.1	8,746.4	8,941.5	9,076.8	9,155.2	9,254.3
Mobile	4,173.0	4,270.3	4,395.6	4,455.7	4,487.1	4,549.1
Pre-Paid	2,055.3	2,048.3	2,089.3	2,071.3	2,034.2	2,027.3
Post-Paid	2,117.8	2,222.0	2,306.3	2,384.4	2,452.8	2,521.8
ARPU / Mobile Subscriber (Euros)	8.5	8.5	8.8	8.4	8.4	8.6
Pay TV	1,561.5	1,574.4	1,586.1	1,600.6	1,608.4	1,613.3
Fixed Access ⁽²⁾	1,229.7	1,240.0	1,250.8	1,265.6	1,276.2	1,282.4
DTH	331.8	334.4	335.4	335.0	332.3	331.0
Fixed Voice	1,647.9	1,665.0	1,692.1	1,724.7	1,738.0	1,751.1
Broadband	1,182.5	1,206.4	1,236.8	1,264.6	1,289.5	1,308.0
Others and Data	30.2	30.4	30.8	31.2	32.2	32.7
3,4&5P Subscribers (Fixed Access)	995.8	1,018.2	1,040.3	1,061.8	1,083.5	1,096.6
% 3,4&5P (Fixed Access)	81.0%	82.1%	83.2%	83.9%	84.9%	85.5%
Convergent RGUs	2,988.0	3,155.6	3,272.9	3,387.2	3,509.0	3,585.9
Convergent Customers	614.8	644.0	661.2	680.2	697.8	710.8
Fixed Convergent Customers as % of Fixed Access Customers	42.8%	44.4%	45.1%	45.8%	46.5%	47.1%
% Convergent Customers	39.4%	40.9%	41.7%	42.5%	43.4%	44.1%
IRIS & UMA Subscribers	899.6	927.3	955.1	982.6	1,007.4	1,024.4
IRIS & UMA as % of 3,4&5P Subscribers (Fixed Access)	90.3%	91.1%	91.8%	92.5%	93.0%	93.4%
Net Adds						
Homes Passed	32.7	68.2	40.4	22.5	8.3	14.9
Total RGUs	130.3	151.3	195.0	135.3	78.4	99.1
Mobile	50.0	97.3	125.3	60.0	31.4	62.0
Pre-Paid	(20.3)	(6.9)	41.0	(18.0)	(37.0)	(7.0)
Post-Paid	70.2	104.2	84.4	78.1	68.4	69.0
Pay TV	17.7	12.9	11.8	14.5	7.8	4.9
Fixed Access	14.3	10.3	10.7	14.8	10.6	6.2
DTH	3.4	2.5	1.0	(0.4)	(2.7)	(1.3)
Fixed Voice	24.6	17.0	27.1	32.6	13.3	13.1
Broadband	37.7	23.9	30.4	27.8	24.9	18.5
Others and Data	0.3	0.2	0.4	0.4	1.0	0.6
3,4&5P Subscribers (Fixed Access)	27.3	22.5	22.1	21.5	21.6	13.1
Convergent RGUs	134.3	167.5	117.3	114.3	121.8	76.9
Convergent Customers	23.9	29.2	17.2	19.0	17.6	13.0
IRIS & UMA Subscribers	34.5	27.7	27.8	27.5	24.8	17.0

⁽¹⁾ Portuguese Operations

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

Table 9.

Operating Indicators ('000)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Telco ⁽¹⁾						
Indicators per Segment						
Consumer						
Total RGUs	7,285.8	7,400.6	7,560.0	7,658.9	7,724.7	7,801.2
Pay TV	1,448.8	1,458.1	1,466.3	1,478.3	1,483.6	1,487.1
Fixed Access	1,144.9	1,152.1	1,160.0	1,172.0	1,180.1	1,185.0
DTH	303.9	306.0	306.2	306.3	303.5	302.1
IRIS & UMA Subscribers	859.0	883.3	908.6	933.3	955.7	970.5
Broadband	1,072.5	1,093.3	1,119.3	1,143.5	1,167.1	1,182.9
Fixed Voice	1,354.6	1,365.6	1,381.4	1,393.3	1,402.0	1,408.6
Mobile	3,409.9	3,483.7	3,593.0	3,643.8	3,671.8	3,722.6
% 1P (Fixed Access)	6.9%	6.4%	5.7%	5.4%	5.1%	4.8%
% 2P (Fixed Access)	12.8%	12.0%	11.8%	11.2%	10.6%	10.1%
% 3,4&5P (Fixed Access)	80.3%	81.5%	82.5%	83.5%	84.4%	85.0%
ARPU / Unique Subscriber With Fixed Access (Euros)	43.7	43.1	42.8	43.5	44.5	44.3
Net Adds						
Total RGUs	105.3	114.8	159.3	98.9	65.8	76.5
Pay TV	13.3	9.2	8.2	12.0	5.3	3.5
Fixed Access	10.6	7.2	8.0	11.9	8.1	4.9
DTH	2.7	2.1	0.2	0.1	(2.8)	(1.4)
IRIS & UMA Subscribers	30.6	24.3	25.3	24.8	22.4	14.8
Broadband	33.3	20.8	26.0	24.2	23.6	15.7
Fixed Voice	17.7	11.0	15.8	11.9	8.8	6.6
Mobile	41.0	73.8	109.3	50.8	28.1	50.7
Business						
Total RGUs	1,309.3	1,345.8	1,381.5	1,417.9	1,430.5	1,453.1
Pay TV	112.7	116.3	119.9	122.3	124.8	126.2
IRIS & UMA Subscribers	40.6	44.1	46.6	49.2	51.7	53.8
Broadband	140.2	143.5	148.3	152.3	154.6	157.9
Fixed Voice	293.3	299.4	310.7	331.4	335.9	342.5
Mobile	763.1	786.6	802.7	811.9	815.2	826.5
ARPU per RGU (Euros)	16.8	16.4	16.0	15.9	15.7	15.6
Net Adds						
Total RGUs	25.0	36.5	35.7	36.4	12.7	22.6
Pay TV	4.4	3.6	3.6	2.4	2.5	1.4
IRIS & UMA Subscribers	4.0	3.5	2.5	2.7	2.4	2.1
Broadband	4.7	3.3	4.8	4.0	2.3	3.3
Fixed Voice	6.9	6.1	11.3	20.7	4.5	6.6
Mobile	9.0	23.5	16.1	9.2	3.3	11.3
Cinema ⁽¹⁾						
Revenue per Ticket (Euros)	4.8	4.7	4.7	4.8	4.8	4.7
Tickets Sold	2,400.3	1,715.6	2,663.4	2,317.6	2,296.4	2,446.3
Screens (units)	215	215	215	215	215	215

(1) Portuguese Operations

Appendix II

Table 10.

Profit and Loss Statement (Millions of Euros)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17
Operating Revenues	370.3	372.8	381.0	390.9	1,515.0	381.0	388.4
Telco	352.5	357.9	360.4	371.6	1,442.5	362.9	368.8
Consumer Revenues	223.7	220.9	223.4	226.7	894.8	231.9	232.6
Business and Wholesale Revenues	100.3	105.6	104.2	104.9	415.0	101.6	111.5
Equipment Sales	12.7	10.5	14.3	16.3	53.7	10.8	10.5
Others and Eliminations	15.8	20.9	18.5	23.6	79.0	18.6	14.3
Audiovisuals	16.1	16.9	19.6	19.0	71.6	17.8	19.1
Cinema ⁽¹⁾	15.7	11.7	17.3	15.5	60.2	15.3	16.2
Others and Eliminations	(14.0)	(13.7)	(16.3)	(15.3)	(59.3)	(15.1)	(15.8)
Operating Costs Excluding D&A	(232.4)	(224.2)	(235.7)	(265.9)	(958.2)	(237.4)	(231.6)
W&S	(23.8)	(21.9)	(23.0)	(24.4)	(93.1)	(22.2)	(20.7)
Direct Costs	(108.8)	(110.4)	(115.7)	(122.9)	(457.8)	(113.8)	(126.3)
Commercial Costs ⁽²⁾	(25.6)	(18.7)	(29.1)	(31.2)	(104.6)	(20.0)	(20.7)
Other Operating Costs	(74.1)	(73.2)	(68.0)	(87.5)	(302.7)	(81.4)	(64.0)
EBITDA	137.9	148.7	145.2	125.0	556.7	143.6	156.7
EBITDA Margin	37.2%	39.9%	38.1%	32.0%	36.9%	37.7%	40.4%
Telco	125.8	137.6	131.4	111.8	506.7	131.2	144.4
EBITDA Margin	35.7%	38.4%	36.5%	30.1%	35.4%	36.2%	39.1%
Cinema Exhibition and Audiovisuals	12.1	11.1	13.8	13.1	50.1	12.4	12.4
EBITDA Margin	41.5%	42.8%	43.2%	42.9%	41.5%	41.5%	39.9%
Depreciation and Amortization	(95.3)	(98.5)	(98.7)	(99.1)	(391.6)	(103.3)	(103.4)
(Other Expenses) / Income	(2.4)	(3.6)	(5.5)	(10.9)	(22.4)	(3.4)	(4.5)
Operating Profit (EBIT) ⁽³⁾	40.2	46.5	41.1	15.0	142.8	37.0	48.8
Share of results of associates and joint ventures	(6.4)	(3.3)	1.4	2.3	(5.9)	5.3	3.6
(Financial Expenses) / Income	(5.4)	(6.9)	(6.5)	(5.8)	(24.6)	(6.6)	(5.2)
Income Before Income Taxes	28.4	36.4	35.9	11.5	112.2	35.7	47.2
Income Taxes	(4.0)	(9.9)	(8.6)	0.3	(22.2)	(4.3)	(6.4)
Net Income Before Associates & Non-Controlling Interests	30.8	29.7	25.9	9.5	95.9	26.1	37.2
Income From Continued Operations	24.5	26.5	27.3	11.8	90.0	31.4	40.8
o.w. Attributable to Non-Controlling Interests	(0.0)	0.0	0.2	0.2	0.4	0.0	(0.4)
Net Income	24.4	26.5	27.5	12.0	90.4	31.4	40.4

(1) Includes operations in Mozambique.

(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold.

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

Table 11.

CAPEX (Millions of Euros)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17
Telco	84.9	92.7	87.0	91.6	356.3	77.7	77.6
o.w. Technical CAPEX	42.0	45.8	42.5	41.3	171.6	36.0	42.4
% of Telco Revenues	11.9%	12.8%	11.8%	11.1%	11.9%	9.9%	11.5%
Baseline Telco	27.6	34.9	30.0	28.3	120.8	26.8	35.9
Network Expansion / Substitution and Integration Projects and Others	14.4	11.0	12.4	13.0	50.8	9.1	6.5
o.w. Customer Related CAPEX	42.9	46.9	44.6	50.3	184.7	41.7	35.2
% of Telco Revenues	12.2%	13.1%	12.4%	13.5%	12.8%	11.5%	9.5%
Audiovisuals and Cinema Exhibition	10.2	8.2	9.5	8.4	36.4	9.4	8.1
Total Group CAPEX	95.1	101.0	96.6	100.0	392.7	87.1	85.7
% of Total Group Revenues	25.7%	27.1%	25.3%	25.6%	25.9%	22.9%	22.1%

Table 12.

Cash Flow (Millions of Euros)	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17
EBITDA	137.9	148.7	145.2	125.0	556.7	143.6	156.7
Total CAPEX	(95.1)	(101.0)	(96.6)	(100.0)	(392.7)	(87.1)	(85.7)
EBITDA - Total CAPEX	42.8	47.7	48.7	24.9	164.1	56.5	71.1
% of Revenues	11.6%	12.8%	12.8%	6.4%	10.8%	14.8%	18.3%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(19.8)	(18.9)	(0.9)	(2.4)	(42.1)	(7.7)	(13.2)
Operating Cash Flow	22.9	28.8	47.7	22.5	122.0	48.8	57.9
Long Term Contracts	(3.8)	(4.4)	(4.7)	(4.1)	(17.1)	(2.9)	(3.8)
Cash Restructuring Payments	(3.4)	(2.3)	(6.0)	(4.1)	(15.8)	(5.3)	(5.9)
Interest Paid	(5.5)	(4.2)	(5.9)	(3.4)	(18.9)	(6.7)	(4.9)
Income Taxes Paid	(0.9)	(4.5)	(9.5)	(6.3)	(21.1)	(0.3)	(0.0)
Disposals	0.4	0.4	2.9	1.3	5.0	24.6	0.7
Other Cash Movements	0.0	0.4	(0.2)	(0.2)	0.0	(0.0)	0.0
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	9.7	14.1	24.3	5.9	54.1	58.2	43.9
Acquisition of Own Shares	(7.3)	(13.3)	0.0	0.0	(20.7)	0.0	0.0
Dividends	0.0	(82.1)	0.0	0.0	(82.1)	0.0	(102.6)
Free Cash Flow	2.4	(81.3)	24.3	5.9	(48.7)	58.2	(58.7)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(1.7)	(7.2)	(2.4)	(4.0)	(15.2)	0.8	(2.2)
Change in Net Financial Debt	(0.7)	88.5	(21.9)	(1.9)	63.9	(59.0)	60.9

Table 13.

Net Financial Debt (Millions of Euros)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Short Term	144.4	71.9	116.3	213.9	156.3	153.6
Bank and Other Loans	123.9	52.8	98.5	196.4	139.0	138.7
Financial Leases	20.5	19.1	17.8	17.5	17.3	15.0
Medium and Long Term	905.1	1,065.6	999.4	900.7	898.9	962.6
Bank and Other Loans	873.1	1,033.2	968.7	871.8	872.2	939.4
Financial Leases	32.1	32.4	30.7	28.9	26.6	23.2
Total Debt	1,049.5	1,137.5	1,115.8	1,114.6	1,055.1	1,116.3
Cash and Short Term Investments	1.8	1.3	1.5	2.3	1.8	2.0
Net Financial Debt	1,047.7	1,136.2	1,114.2	1,112.3	1,053.3	1,114.2
Net Financial Gearing ⁽¹⁾	49.2%	52.9%	51.7%	51.4%	49.2%	52.1%
Net Financial Debt / EBITDA	1.9x	2.1x	2.0x	2.0x	1.9x	2.0x

⁽¹⁾ Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity).

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