Earnings
Announcement
2Q20

Lisbon, 22 July 2020

2Q20 Highlights

The impact of COVID 19 on operating and financial results was significant during 2Q20, greater than that of the previous quarter due to nationwide lockdown for almost the entire quarter. Although the government announced gradual easing of retrictions from mid May, economic recovery has been very tenuous, with many businesses and sectors yet to open or working under very limited conditions.

All the main financial and operational impacts of the pandemic highlighted in our 1Q20 report persisted this quarter, namely the absence of cinema going due to theatre closures, significant decline of roaming revenues, suspension of premium sports channel billing and the more challenging B2B environment. In the case of premium sports channels, customers started to be billed again from 1 June 2020 with the restart of the Portuguese football league.

Operating highlights

- Core telecom operations demonstrated a resilient performance, as reflected in levels of subscriptions and relatively intact underlying contract billing, thus confirming the sector to be a pillar of stability against the general economic downturn. Subscriber gross adds and commercial activity started to pick-up with the deconfinement as from mid-May. Notwithstanding this good performance, total telco revenue growth was negative yoy due to maintained suspension of premium sports channel billing throughout April and May and insipient roaming revenues. Also, the B2B segment was more susceptible to the pressures of lockdown with business clients striving to contain costs and negotiate more lenient payment terms. Conscious of our national relevance as an agent of economic recovery, we accommodated a more flexibile stance towards account relations whilst also extending operational and technical support to companies grappling with the challenges of an almost overnight shift to remote and digitalized business models.

- Cinema operations had already come to a standstill in March with the closure of all theatres, a situation that was extended throughout the entire second quarter and that was only lifted at the beginning of July. Audiovisual revenues from the cinema distribution business also continued to suffer, albeit the remaining businesses within this unit sustained stable yoy performance.

- Technological investments were lower yoy, due to phasing of deployment plans which remain on track within the context of the FttH network sharing agreement and aligned with the strategic importance of delivering best in class NGN capabilities to as many households as possible. New ways of working, learning, communicating and delivering entertainment have driven, in just a few months, a surge in consumer demand and habits that would have taken years under more normal circumstances, thus reinforcing the need for continued technological upgrades and deployments. Our customer related CAPEX was only slightly down yoy reflecting a pickup in sales and retention activity with gradual deconfinement from mid-May;

Table 1.

2Q20 Highlights	2Q19	2Q20	2Q20 / 2Q19	1H19	1H20	1H20 / 1H19
Operating Highlights						
Homes Passed	4,494.7	4,684.7	4.2%	4,494.7	4,684.7	4.2%
% FttH	28.6%	35.0%	6.4pp	28.6%	35.0%	6.4pp
Total RGUs	9,537.5	9,760.7	2.3%	9,537.5	9,760.7	2.3%
Pay TV RGUs	1,617.1	1,647.9	1.9%	1,617.1	1,647.9	1.9%
Convergent + Integrated Customers	907.1	957.5	5.6%	907.1	957.5	5.6%
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	59.2%	61.0%	1.9pp	59.2%	61.0%	1.9pp
Mobile RGUs	4,769.1	4,869.9	2.1%	4,769.1	4,869.9	2.1%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.9	42.3	(5.9%)	44.9	42.3	(5.9%)
Financial Highlights						
Telco Revenues	347.0	319.9	(7.8%)	687.4	652.8	(5.0%)
Telco EBITDA	158.2	152.6	(3.5%)	305.1	294.4	(3.5%)
EBITDA Margin	45.6%	47.7%	2.1pp	44.4%	45.1%	0.7pp
Audiovisuals & Cinema Revenues	29.1	8.9	(69.2%)	54.9	30.7	(44.0%)
Audiovisuals & Cinema EBITDA	13.0	5.3	(59.6%)	26.3	16.2	(38.5%)
EBITDA Margin	44.8%	58.8%	14.1pp	48.0%	52.6%	4.7pp
Consolidated Revenues	365.6	321.3	(12.1%)	721.5	666.6	(7.6%)
Consolidated EBITDA	171.2	157.9	(7.8%)	331.4	310.6	(6.3%)
EBITDA Margin	46.8%	49.1%	2.3pp	45.9%	46.6%	0.7pp
Net Income Before Associates & Non-Controlling Interests	46.5	39.9	(14.3%)	88.2	37.8	(18.6%)
EBITDA - Total CAPEX Excluding Leasings	76.1	74.3	(2.3%)	149.0	138.8	(8.7%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	57.1	53.5	(6.4%)	100.0	88.1	(14.7%)

Financial Highlights

- The financial impacts of the pandemic were more material this quarter as a result of the more extensive period under lockdown. All business divisions were negatively affected however the relative magnitude of the pandemic was considerably more significant on the Cinema and Audiovisuals division, both in terms of revenues and profitability.

- Telecom revenues were down 7.8% in 2Q20 to 319.9 million euros impacted primarily by suspended premium sport channel revenues in April and May, the significant reduction of roaming traffic and B2B sales. Much of the Revenue decline was compensated by lower OPEX, primarily activity related direct costs, and as such, EBITDA declined by just 3.5% to 152.6 million euros.

- Cinema and Audiovisuals revenues fell by 69.2% to 8.9 million euros reflecting a 100% yoy decline in exhibition revenues. The impact on EBITDA was a decline of 59.6% yoy to 5.3 million euros, with lower revenues being mitigated by lower royalty costs.

- The combined impact of these distinct trends on consolidated results was a 12.1% decline in Consolidated Revenues to 321.3 million euros and a 7.8% decline in EBITDA to 157.9 million euros.

- Telco EBITDA-CAPEX grew by 6.5% yoy to 73.2 million euros with lower CAPEX more than offsetting the decline in EBITDA.

- Total FCF fell 6.4% (3.6 million euros) to 53.5 million euros, less than the absolute fall in EBITDA due to lower CAPEX in the quarter, primarily driven by the phasing profile of investment in the mobile network.

- Our Balance Sheet remains very strong, with Net Financial Debt / EBITDA at 1.8x at the end of the quarter and will be further reinforced upon completion of the NOS Towering sale to Cellnex. Total potential proceeds of the deal are 550 million euros, 375 million euros of which to be received up-front upon finalization of the deal.

- At the end of June, the Competition Authority approved the sale of NICS - NOS International Carrier Services to Tofane, which had already been deconsolidated as from the start of 1Q20, with accounts restated for 2019.

- At the beginning of 3Q20, the Portuguese Competition Authority announced its non opposition to the agreement signed in April between NOS Comunicações and Cellnex to sell 100% of NOS Towering to the latter, which encompasses around 2,000 sites (towers and rooftops), for an upfront consideration of approximately 375 million euros, to be received on final closing of the transaction. In addition, NOS and Cellnex had 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. This agreement foresees a perimeter increase of up to 400 additional sites over the next 6 years. The total potential value of the agreements to be received over a 6-year period, is 550 million euros. As such, NOS Towering was considered an Asset Held for Sale for accounting purposes under IFRS 5.

Operating Review

We posted solid RGU performance in 2Q20 with net adds of 52.9 thousand, reflecting good growth when compared with both 2Q19 and 1Q20. The positive net adds performance was felt across almost all business lines, with fixed Pay TV net adds of 4.2 thousand, total mobile net adds of 22.8 thousand and fixed broadband net adds of 15.3 thousand. Within mobile two distinct trends occurred during the quarter. Post paid net adds more than doubled yoy to 48.4 thousand, however closure and social distancing of the main shopping centres and street retail formats and the drop in tourism, inevitably ended up penalizing pre-paid mobile performance in the quarter, with negative pre-paid net adds of 25.5 thousand. Subscribers to convergent and integrated bundles grew by 15.2 thousand, further increasing their weight in the fixed access customer base to 61% by the end of the quarter. These bundled services are core in Portuguese households and reflect the importance that customers place on subscribing to combined fixed and mobile services with high bandwidth and more flexible, made-to-measure tariff plans that include very high usage allowances and a rich content line up.

From a value perspective, core B2C contract revenues in fixed services were stable, with some upside from discretionary voice traffic driven by greater volumes of international calls. Equipment sales slowed during the initial phase of lockdown, however they have now started to recover strengthened by digital sales offers, and reinforced by campaigns rewarding customer loyalty, best price guaranteed equipment sold in instalments and client only campaigns for equipment renewal. Our "N Days" have proven a huge success with selected devices offered at best price promotions, four times a year. In addition, in mid-March we launched a laptop and tablet campaign in monthly instalments, leveraging increased need for work/learn from home solutions. On the downside, as is to be expected, revenues were impacted negatively by the suspension of premium sports channel billing still throughout April and May and the significant decline of roaming revenues.

Already this month, a number of offers have been launched, reinforcing our segmentation and digitalization strategy. On 3 July we included the Apple TV box in our portfolio of terminal equipment available within NOS bundles for an additional rental charge, providing a cutting edge 4K NOS user interface experience within the Apple ecosystem, and targeting a pro-digital, more premium customer segment.

On 14 July, we launched a new dedicated brand,"WOO" providing a broadband only solution for fixed and/or mobile, to meet the growing demand for digital only services. The offer can only be subscribed online through a dedicated APP, and all customer interactions are exclusively online. "WOO"'s distinctive characteristic within the NOS portfolio is the fact that it is a 100% native digital product from inception through to commercialization and servicing, thus avoiding the challenges and compromises that usually arise with the digitalization of legacy products and services. The offer targets a customer segment whose focus is high bandwidth connectivity, and is available with 100Mbps, 1 Gbps in fixed and 1000 minutes and a 10 GB allowance in mobile. Once the data allowance is used up, rather than connectivity being lost, subscribers are left with a minimum data and speed allowance to ensure messaging on social platforms. Payment is secured over the same formats as the majority of OTT APPS with monthly credit card debits.

Adoption of our digital platforms continues to record very strong growth with the pandemic, leveraging the structural progress made within our company wide transformation programme. Users of our NOS and WTF

APPS grew by around 50% and 30% respectively in comparison with before the pandemic and daily sessions on our NOS website and self care platforms grew by approximately 20%. Although deconfinement could abate the pace of digital adoption by consumers, a structural change is clearly underway, and we will strive to maximize this momentum to accelerate our digital optimization targets.

The B2B segment is experiencing a structural opportunity for transformation, with many businesses having to deal with the challenges posed by moving almost overnight from traditional interactions with their customers, suppliers and employees to new ways of working over remote, digital platforms. Connectivity, network quality, cloud, managed IT services and security are quintessential to ensuring operational continuity and service reliability. Against this backdrop, NOS' competencies and technological platforms have enabled us to provide our clients with fast and technologically cutting-edge support to deploy their own remote work platforms.

Areas of strategic focus for us are hybrid cloud solutions and managed services, and we signed strategic partnerships with key cloud platforms in the last months, namely Google, AWS and Azure, with a view to positioning NOS as a preferred, specialist partner for hybrid solutions. On the managed services front we are recording very encouraging growth by offering, amongst others, management solutions for service desks, data bases, systems and data centres. During the peak of the pandemic we were particularly successful with the launch of a digital first, agile development programme targeting the SME segments, with 9 main service offerings in the IT and security arena. Mobility offers were strengthened during lockdown with provision of mobility centric offers, remote call centres and services for local councils and health professionals. We also secured a number of technological partnerships within the academic ecosystem making NOS a key provider of remote digital learning tools. We expanded on the offers already reported such as our sophisticated analytics programme to support public institutions to monitor the COVID pandemic. The transformational work we have been doing to improve, digitalize and automate operational processes, has provided the backdrop to be able to accelerate provision of solutions during the pandemic. In some cases we have reduced lead times of a couple of weeks to just a couple of days, bearing witness to the capabilities of our highly skilled and technologically advanced teams and platforms.

In terms of revenues, the B2B segment recorded mixed effects. On the one hand we achieved incremental revenues from provision of more data and IT managed services, but on the other we witnessed some deterioration due to selective contract renegotiations driven by financial distress situations. At a time when many of our customers are facing partial or complete lockdown of their operations and subsequent loss of revenues, we acknowledged our social responsibility to support them during this difficult period and thus reinforce our ties as a long-term partner. This was true across most sectors, with some of the most impacted being those dependent on hospitality, tourism and retail. Overall B2B revenues were also impacted by lack of premium sports channel billing during April and May and the significant decline of roaming revenues due to the drop in international travel.

In terms of demands on the network, traffic volumes remained very high, both fixed and mobile, with increases versus pre-COVID-19 levels of almost 50% in fixed and 25% in mobile internet traffic and of almost 100% in fixed and of 40% in mobile voice traffic. Despite the additional pressure, service levels remained intact with minimal disruption, a result of the significant investments made in past years to deploy our nationwide next generation network, both fixed and mobile. It is becoming ever more important, in a world scarred by the plights of the COVID-19 pandemic, for countries to recognize the strategic relevance of a well invested and financially sustainable telecommunications sector, thus ensuring critical business and social continuity.

Deployment of our FttH network continued throughout 2Q20, and is on schedule according to the terms of our network sharing agreement. By the end of 2Q20, we were covering 4.685 million households, an additional 45.1 thousand during the quarter and bringing total FttH penetration up to 35.0% as a proportion of total fixed footprint. Expansionary investment in the mobile network is going through a transitionary lull, having completed the Single RAN upgrade last year, we are now awaiting the final terms of the 5G license process, expected to be concluded by the end of 2020, to determine future mobile investment plans. As announced in February, we are in exclusive negotiations with Vodafone to reach a mobile network sharing agreement to enhance the efficiency of our investments and achieve larger and faster coverage of the national territory, thus delivering a reinforced service with more benefits for our customers. We believe this agreement will also be a significant contribution to the economic and digital development of the country. We will maintain exclusive strategic control of our networks, ensuring independence in the definition and provision of services to our customer base. The original timeline to reach a definitive agreement has been slightly pushed out beyond June due to the inevitable process delays caused by lockdown, however an agreement is likely to be achieved in the short term.

We signed a relevant technological deal during 2Q20, with the 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). A long-term agreement was also signed whereby Cellnex will provide NOS Group with active network hosting over the passive infrastructure acquired, for a period of 15 years with automatic renewal for equal periods. In addition, the transaction foresees a perimeter increase of up to 400 additional sites over the next 6 years. 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 for the sale of NOS Towering (2,000 sites) to be concluded during 2020. At the beginning of July, the Competition Authority announced its non-opposition to this transaction and final closing is now dependent on completion of internal formalities between the parties in the coming months. Once completed, we will be able to move ahead with technological optimization initiatives and expansion of our state-of-the-art mobile network and invest in the long-term value of the company. Through this strategic partnership, we are ensuring the supply of current and future needs in terms of passive mobile infrastructure. In addition to this agreement, we will continue to pursue other investment efficiency opportunities.

As regards our ongoing management of the operational impacts of the pandemic, we continue to demonstrate best in class response at all levels, incorporating social distancing recommendations in all processes and interactions whilst proactively supporting and engaging employees, customers, communities and business partners. After the challenges imposed by moving to remote work and social distancing with lockdown in 1Q20, this quarter was marked by the planning and implementation of a safe and gradual return to the workplace. This progressive deconfinement is being implemented with the return of progressive waves of employees, on a rotational weekly basis, with a mid-summer target of 50% occupancy levels. With the reopening of shopping centres we have now reopened the vast majority of our own and franchised stores, and floor traffic is gradually starting to recover, although still to significanty lower levels than pre-COVID-19.

Cinema and Audiovisuals

Table 2.

Operating Indicators ('000)	2Q19	2Q20	2Q20 / 2Q19	1H19	1H20	1H20 / 1H19
Cinema (1)						
Revenue per Ticket (Euros)	5.2	-	n.a.	5.2	5.2	1.4%
Tickets Sold - NOS	2,249.7	0.0	(100.0%)	4,096.8	1,526.6	(62.7%)
Tickets Sold - Total Portuguese Market (2)	3,621.1	12.4	(99.7%)	6,734.5	2,542.1	(62.3%)
Screens (units)	218	219	0.5%	218	219	0.5%

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

Due to the pandemic, NOS' cinemas were closed from 16 March to 2 July with no revenue generating activity whatsoever. The reopening of theatres on 2 July has since taken place, under the strictest health and safety measures defined by the General Health Directorate and, additionally, certified by ISQ, an external entity which validated all procedures and awarded all NOS' cinema theatres the "Safe Places. Safe People" Seal of Trust. ISQ will also undertake quarterly audits to ensure safety standards are being maintained. Until 22 July, to encourage people to go back to the theatres, ticket prices have been cut for both normal 2D sessions and for the innovative IMAX, 4DX, ScreenX and XVision exhibition formats.

Although theatres have now re-opened under the most stringent safety standards, the level of cinema going is not set to accelerate by much in the first few months due to the postponement of a considerable number of blockbuster movies, originally scheduled for 3Q20, and which are now only going to be launched in 4Q20 or 2021. Examples of premieres delayed are "Top Gun: Maverick" (July to December), "Minions: The Rise of Gru" (July to 2021), "Soul" (June to November), "Wonderwoman 1984" (August to October), "The Hitman´s Wife's Bodyguard" (August to November). The more mainstream movies still scheduled for exhibition in 3Q20 are "Tenet", "Mulan" and "The King´s Man", and this is yet to be confirmed, depending on the opening of the US and other key markets.

In the Audiovisuals division, the cinema distribution activity was equally impacted by the lockdown, and therefore did not contribute any revenues in the quarter. The remaining business lines, such as rights management or VoD, declined slightly yoy but maintained a healthy and normal level of performance in comparison with previous periods.

Financial Performance

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

Table 3.

Profit and Loss Statement (Millions of Euros)	2Q19	2Q20	2Q20 / 2Q19	1H19	1H20	1H20 / 1H19
Operating Revenues	365.6	321.3	(12.1%)	721.5	666.6	(7.6%)
Telco	347.0	319.9	(7.8%)	687.4	652.8	(5.0%)
Consumer Revenues	244.7	237.3	(3.0%)	488.8	481.3	(1.5%)
Business Revenues	69.8	66.3	(5.0%)	141.9	138.4	(2.5%)
Wholesale and Others	32.6	16.3	(50.1%)	56.7	33.0	(41.7%)
Audiovisuals & Cinema (1)	29.1	8.9	(69.2%)	54.9	30.7	(44.0%)
Others and Eliminations	(10.5)	(7.6)	(27.8%)	(20.7)	(16.9)	(18.6%)
Operating Costs Excluding D&A	(194.4)	(163.4)	(16.0%)	(390.1)	(356.0)	(8.7%)
Direct Costs	(105.5)	(78.2)	(25.9%)	(206.2)	(175.9)	(14.7%)
Non-Direct Costs (2)	(88.9)	(85.1)	(4.2%)	(183.9)	(180.1)	(2.0%)
EBITDA (3)	171.2	157.9	(7.8%)	331.4	310.6	(6.3%)
EBITDA Margin	46.8%	49.1%	2.3pp	45.9%	46.6%	0.7pp
Telco	158.2	152.6	(3.5%)	305.1	294.4	(3.5%)
EBITDA Margin	45.6%	47.7%	2.1pp	44.4%	45.1%	0.7pp
Cinema Exhibition and Audiovisuals	13.0	5.3	(59.6%)	26.3	16.2	(38.5%)
EBITDA Margin	44.8%	58.8%	14.1pp	48.0%	52.6%	4.7pp
Depreciation and Amortization	(103.1)	(101.2)	(1.9%)	(200.5)	(201.7)	0.6%
(Other Expenses) / Income	(3.8)	(3.8)	0.3%	(7.1)	(49.5)	596.3%
Operating Profit (EBIT) (4)	64.3	52.9	(17.8%)	123.8	59.4	(52.0%)
Share of profits (losses) of associates and joint ventures	1.1	(0.9)	n.a.	1.3	(9.8)	n.a.
(Financial Expenses) / Income	(5.9)	(5.6)	(6.3%)	(12.4)	(11.3)	(8.7%)
Income Before Income Taxes	59.4	46.4	(22.0%)	112.8	38.4	(66.0%)
Income Taxes	(11.9)	(7.5)	(37.1%)	(23.2)	(10.3)	(55.6%)
Net Income Before Associates & Non-Controlling Interests	46.5	39.9	(14.3%)	88.2	37.8	(57.2%)
Income From Continued Operations	47.6	38.9	(18.2%)	89.5	28.0	(68.7%)
o.w. Attributable to Non-Controlling Interests	0.2	0.2	(2.6%)	0.3	0.5	113.1%
Discontinued Operations	(0.0)	6.3	n.a.	0.4	6.4	n.a.
Net Income	47.7	45.3	(5.0%)	90.2	35.0	(61.2%)

(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 was the case last quarter, several business segments continue to be impacted by the restrictions imposed by the pandemic. The biggest impacts within the Telco sector were felt in terms of: i) revenues from premium sports channel subscriptions, which were offered free of charge to subscribers during April and May due to absence of live matches (billing restarted in June with the restart of the Portuguese football league); ii) roaming and international travel revenues which have dropped to absolute lows due to the restrictions on non-essential international travel. The Cinema and Audiovisuals business was the most impacted on a relative basis given the complete closure of theatres since 16 March, which drove a collapse in ticket sales and lower audiovisuals revenues given the latter's high dependence on cinema distribution activity.

Revenues

Consolidated revenues fell by 12.1% yoy to 321.3 million euros, reflecting a 7.8% decline in telecom revenues to 319.9 million euros and a 69.2% decline in Audiovisuals and Cinema revenues.

Within the Telco segment, B2C revenues recorded a 3.0% decline to 237.3 million euros. The decline is explained by the decline in premium sports channel revenues, roaming-out revenues and by lower DtH subscriber numbers yoy. B2B revenues posted a decline of 5.0% yoy to 66.3 million euros, similarly, affected by a reduction of revenues in B2B customers more severely hit by the pandemic, as well as lower revenues from premium sports channel revenues and discretionary traffic and roaming out revenues. Other Telco and Wholesale revenues fell to 16.3 million euros yoy led by the negative impact of lower roaming-in revenues, mass-calling services and advertising revenues.

The cinema business recorded no revenues whatsoever in the quarter due to complete closure of theatres as from 16 March. The impact of the pandemic should start to gradually reduce with the reopening of movie theatres from 2 July onwards, although stringent health and safety restrictions and movie release dates suggest that spectator levels will continue well below pre-pandemic levels. Total Cinema and Audiovisuals Revenues fell by 69.2% to 8.9 million euros, all of which generated by the Audiovisuals division which posted a solid performance in its rights distribution business.

EBITDA and Net Results

Total OPEX fell by 16% in 2Q20 to 163.4 million euros with the direct cost base down by 25.9% yoy to 78.2 million euros. The largest savings coming from programming and royalties and lower roaming traffic and MCS related interconnection costs. Non-direct costs posted a smaller decline of 4.2% to 85.1 million euros reflecting a combination of lower commercial costs and savings achieved in general third-party service provision such as cinema cleaning and maintenance expenses, a non-renewal of temporary staff contracts and a reduction in cinema rentals.

Consolidated EBITDA fell by 7.8% to 157.9 million euros, combining a 3.5% decline in Telco EBITDA to 152.6 million euros and a 59.6% decline in Audiovisuals and Cinema EBITDA to 5.3 million euros.

Net Results in 2Q20 declined by 5.0% to 45.3 million euros as a result of the decline in EBITDA. Additional items affecting yoy comparisons of Net Results were the 6.3% decline in net financial results and the lower level of provisions for income tax explained by the yoy decline of 22.0% in Earnings before Income Tax to 46.4 million euros. Contribution from Associated Companies posted another yoy deterioration to losses of 0.9 million euros on the back of weaker operating results and currency exchange differences at ZAP. Net Results in 2Q20 were also impacted by the accounting capital gain of 6.2 million euros resulting from the sale of NOS International Carrier Services.

CAPEX

Table 4.

CAPEX (Millions of Euros) [1]	2Q19	2Q20	2Q20 / 2Q19	1H19	1H20	1H20 / 1H19
Total CAPEX Excluding Leasing Contracts	95.2	83.5	(12.2%)	182.4	171.8	(5.8%)
Telco	89.5	79.4	(11.2%)	171.3	161.3	(5.8%)
% of Telco Revenues	25.8%	24.8%	(1.0pp)	24.9%	24.7%	(0.2pp)
o.w. Technical CAPEX	58.1	48.0	(17.3%)	103.0	96.5	(6.3%)
% of Telco Revenues	16.7%	15.0%	(1.7pp)	15.0%	14.8%	(0.2pp)
Baseline Telco	38.5	39.8	3.5%	71.2	69.6	(2.2%)
Network Expansion / Substitution and Integration Projects and Others	19.6	8.2	(58.2%)	31.8	26.9	(15.4%)
o.w. Customer Related CAPEX	31.4	31.4	(0.0%)	68.3	64.8	(5.1%)
% of Telco Revenues	9.1%	9.8%	0.8pp	9.9%	9.9%	(0.0pp)
Audiovisuals and Cinema Exhibition	5.6	4.1	(27.5%)	11.2	10.5	(5.9%)
Leasing Contracts	21.4	12.9	(39.9%)	25.1	24.1	(3.8%)
Total Group CAPEX	116.5	96.4	(17.3%)	207.5	195.9	(5.6%)

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

Total CAPEX (excluding leasing contracts) was 12.2% lower in 2Q20 at 83.5 million euros, driven by a 17.3% yoy decline in telco technical CAPEX essentially because of mobile deployment phasing. The pace of ongoing FttH deployment is on track, however investment in mobile networks is going through a more subdued phase given the completion last year of the single RAN upgrade and the delay in the 5G license auction process. Customer Related CAPEX was in line yoy at 31.4 million euros reflecting some pickup in commercial activity as from mid-May.

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)	2Q19	2Q20	2Q20 / 2Q19	1H19	1H20	1H20 / 1H19
EBITDA	171.2	157.9	(7.8%)	331.4	310.6	(6.3%)
Total CAPEX Excluding Leasings	(95.1)	(83.5)	(12.2%)	(182.4)	(171.8)	(5.8%)
EBITDA - Total CAPEX Excluding Leasings	76.1	74.3	(2.3%)	149.0	138.8	(6.8%)
% of Revenues	20.8%	23.1%	2.3pp	20.6%	20.8%	0.2pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	4.7	5.0	5.6%	(3.1)	0.4	n.a.
Leasings (Capital & Interest) (1)	(15.6)	(16.9)	8.4%	(31.6)	(32.5)	2.8%
Operating Cash Flow	65.2	62.4	(4.3%)	114.3	106.8	(6.6%)
Interest Paid	(5.9)	(5.3)	(9.3%)	(8.8)	(7.9)	(10.3%)
Income Taxes Paid	(0.7)	(0.3)	(54.0%)	(1.1)	(3.9)	247.1%
Disposals	0.4	0.1	(77.5%)	0.9	0.1	(85.8%)
Other Cash Movements (2)	(1.9)	(3.3)	78.4%	(5.2)	(6.9)	33.7%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	57.1	53.5	(6.4%)	100.0	88.1	(11.9%)
Financial Investments	0.0	1.8	n.a.	0.0	1.8	n.a.
Acquisition of Own Shares	(3.5)	(2.9)	(19.0%)	(3.5)	(2.9)	(19.0%)
Dividends	(179.6)	0.0	(100.0%)	(179.6)	0.0	(100.0%)
Free Cash Flow	(126.0)	52.5	n.a.	(83.2)	87.1	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(0.8)	0.2	n.a.	(4.3)	(2.8)	(33.4%)
Change in Net Financial Debt	126.9	(52.7)	n.a.	87.4	(84.2)	n.a.

(1) Includes Long Term Contracts.
(2) Includes Cash Restructuring Payments and Other Cash Movements.

Free Cash Flow Before Dividends was 6.4%, (3.6 million euros), lower in 2Q20 at 53.5 million euros with the aforementioned decline in EBITDA of 13.4 million euros being partially compensated by the 11.6 million euro reduction in CAPEX Excluding Leases, thus reflecting some ability to dilute the impacts on cash generation of the pandemic related decline in operating activity. Additional factors contributing to the yoy decline in FCF were higher net lease payments (+ 1.3 million euros), marginally lower interest payments (-0.6 million euros), and an increase in other cash movements (+1.5 million euros), the latter linked to restructuring related items.

Consolidated Balance Sheet

Table 6.

Balance Sheet (Millions of Euros)	1H19	2019	1H20	1H20 / 1H19
Non-current Assets	2,519.2	2,534.3	2,405.9	(4.5%)
Current Assets	543.5	553.8	444.0	(18.3)%
Total Assets	3,062.7	3,088.2	2,971.4	(3.0)%
Total Shareholders' Equity	963.0	1,012.3	901.9	(6.3)%
Non-current Liabilities	1,225.4	1,333.3	1,109.0	(9.5)%
Current Liabilities	874.3	742.5	902.8	3.3%
Total Liabilities	2,099.7	2,075.9	2,069.5	(1.4)%
Total Liabilities and Shareholders' Equity	3,062.7	3,088.2	2,971.4	(3.0)%

Capital Structure and Funding

At the end of 1H20, Total Net Debt, including Leasings and Long-Term Contracts (according to IFRS16) amounted to 1,220.2 million euros. Net Financial Debt stood at 1,009.4 million euros with a cash and short-term investment position on the balance sheet of 17.1 million euros. At the end of 1H20, NOS also had 471 million euros in unissued commercial paper programmes.

Net Financial Debt / EBITDA After Lease Payments (last 4 quarters) now stands at 1.8x. 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 all-in average cost of debt stood at 1.3% for 2Q20 which compares with 1.5% in 2Q19. For 1H20, the all-in average cost of debt was 1.2%, which compares with 1.6% for 1H19.

The average maturity of debt at the end of 1H20 was 2.7 years. Taking into account loans issued at a fixed rate, interest rate hedging operations in place and the negative interest rate environment, as at 30 June 2020, the proportion of NOS' issued debt paying interest at a fixed rate was approximately 96%.

Table 7.

Net Financial Debt (Millions of Euros)	1H19	2019	1H20	1H20 / 1H19
Short Term	248.0	84.6	134.8	(45.7%)
Medium and Long Term	893.6	1,021.8	891.6	(0.2%)
Total Debt	1,141.6	1,106.4	1,026.4	(10.1%)
Cash and Short Term Investments	11.3	12.8	17.1	50.8%
Net Financial Debt (1)	1,130.3	1,093.6	1,009.4	(10.7%)
Net Financial Debt / EBITDA after lease payments (last 4 quarters) (2)	2.0x	1.9x	1.8x	n.a.
Leasings and Long Term Contracts	245.8	253.7	210.8	(14.2%)
Net Debt	1,376.1	1,347.3	1,220.2	(11.3%)
Net Debt / EBITDA	2.2x	2.1x	2.0x	n.a.
Net Financial Gearing (3)	59.0%	57.3%	57.7%	(1.3pp)

(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).

Appendix I

Table 8.

Operating Indicators ('000)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Telco [1]						
Homes Passed	4,449.4	4,494.7	4,571.1	4,612.6	4,639.6	4,684.7
Total RGUs	9,508.5	9,537.5	9,613.6	9,687.3	9,707.9	9,760.7
o.w. Consumer RGUs	8,037.7	8,062.6	8,131.5	8,196.2	8,216.2	8,247.9
o.w. Business RGUs	1,470.8	1,474.9	1,482.1	1,491.1	1,491.7	1,512.8
Mobile	4,749.5	4,769.1	4,808.8	4,851.1	4,847.1	4,869.9
Pre-Paid	1,995.0	1,994.0	2,013.1	2,008.2	1,983.2	1,957.7
Post-Paid	2,754.5	2,775.1	2,795.6	2,842.9	2,863.9	2,912.2
Pay TV Fixed Access [2]	1,326.3	1,329.7	1,347.3	1,356.0	1,360.4	1,364.5
Pay TV DTH	290.5	287.4	284.1	282.7	283.7	283.4
Fixed Voice	1,728.0	1,729.3	1,738.5	1,748.5	1,756.7	1,766.7
Broadband	1,382.5	1,389.5	1,402.0	1,414.3	1,424.5	1,439.8
Others and Data	31.7	32.5	32.9	34.8	35.5	36.4
3,4&5P Subscribers (Fixed Access)	1,170.0	1,176.7	1,198.2	1,209.4	1,216.9	1,224.7
% 3,4&5P (Fixed Access)	88.2%	88.5%	88.9%	89.2%	89.5%	89.8%
Convergent + Integrated RGUs	4,521.0	4,574.9	4,622.1	4,704.5	4,754.6	4,823.9
Convergent + Integrated Customers	896.1	907.2	914.8	930.7	942.3	957.5
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	58.5%	59.2%	59.1%	59.8%	60.2%	61.0%
% Convergent + Integrated Customers	55.4%	56.1%	56.1%	56.8%	57.3%	58.1%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.9	44.9	44.6	44.7	44.2	42.3
Net Adds						
Homes Passed	55.0	45.3	76.4	41.4	27.0	45.1
Total RGUs	(23.8)	29.0	76.1	73.7	20.5	52.9
o.w. Consumer RGUs	(33.8)	24.9	68.9	64.7	20.0	31.7
o.w. Business RGUs	10.0	4.1	7.2	9.0	0.6	21.2
Mobile	(18.2)	19.6	39.7	42.3	(4.0)	22.8
Pre-Paid	(34.3)	(1.0)	19.1	(4.9)	(25.0)	(25.5)
Post-Paid	16.1	20.6	20.5	47.2	21.0	48.4
Pay TV Fixed Access	1.8	3.4	17.6	8.7	4.4	4.2
Pay TV DTH	(8.4)	(3.0)	(3.3)	(1.4)	0.9	(0.2)
Fixed Voice	(2.6)	1.3	9.2	9.9	8.2	10.0
Broadband	3.4	7.0	12.6	12.2	10.2	15.3
Others and Data	0.1	0.8	0.4	1.9	0.7	0.8
3,4&5P Subscribers (Fixed Access)	6.8	6.8	21.4	11.2	7.6	7.8
Convergent + Integrated RGUs	38.2	53.9	47.2	82.4	50.1	69.3
Convergent + Integrated Customers	6.3	11.1	7.6	15.9	11.6	15.2

(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	2Q20
Operating Revenues	355.9	365.6	370.5	366.4	1,458.4	345.4	321.3
Telco	340.4	347.0	347.4	346.6	1,381.4	332.9	319.9
Consumer Revenues	244.1	244.7	248.3	253.0	990.1	244.0	237.3
Business Revenues	72.2	69.8	71.4	75.5	288.9	72.1	66.3
Wholesale and Others	24.1	32.6	27.7	18.1	102.5	16.8	16.3
Audiovisuals & Cinema (1)	25.8	29.1	33.6	30.3	118.8	21.8	8.9
Others and Eliminations	(10.3)	(10.5)	(10.5)	(10.6)	(41.8)	(9.3)	(7.6)
Operating Costs Excluding D&A	(195.7)	(194.4)	(197.8)	(230.5)	(818.4)	(192.7)	(163.4)
Direct Costs	(100.7)	(105.5)	(101.4)	(112.0)	(419.7)	(97.7)	(78.2)
Non-Direct Costs (2)	(95.0)	(88.9)	(96.4)	(118.5)	(398.8)	(95.0)	(85.1)
EBITDA (3)	160.2	171.2	172.7	135.9	640.0	152.7	157.9
EBITDA Margin	45.0%	46.8%	46.6%	37.1%	43.9%	44.2%	49.1%
Telco	146.9	158.2	157.0	121.9	583.9	141.8	152.6
EBITDA Margin	43.1%	45.6%	45.2%	35.2%	42.3%	42.6%	47.7%
Cinema Exhibition and Audiovisuals	13.3	13.0	15.7	14.0	56.0	10.9	5.3
EBITDA Margin	51.6%	44.8%	46.7%	46.3%	47.2%	50.1%	58.8%
Depreciation and Amortization	(97.3)	(103.1)	(97.5)	(123.3)	(421.3)	(100.5)	(101.2)
(Other Expenses) / Income	(3.3)	(3.8)	(6.9)	(3.9)	(17.9)	(45.7)	(3.8)
Operating Profit (EBIT) (4)	59.5	64.3	68.3	8.7	200.7	6.5	52.9
Share of profits (losses) of associates and joint ventures	0.2	1.1	1.0	(3.3)	(1.0)	(8.8)	(0.9)
(Financial Expenses) / Income	(6.4)	(5.9)	(6.8)	(5.6)	(24.7)	(5.7)	(5.6)
Income Before Income Taxes	53.3	59.4	62.5	(0.3)	175.0	(8.0)	46.4
Income Taxes	(11.4)	(11.9)	(15.1)	5.8	(32.6)	(2.9)	(7.5)
Net Income Before Associates & Non-Controlling Interests	41.7	46.5	46.4	8.8	143.4	(2.0)	39.9
Income From Continued Operations	41.9	47.6	47.4	5.5	142.4	(10.9)	38.9
o.w. Attributable to Non-Controlling Interests	0.1	0.2	(0.0)	0.0	0.3	0.4	0.2
Discontinued Operations	0.4	(0.0)	0.6	(0.1)	0.8	0.1	6.3
Net Income	42.5	47.7	47.9	5.4	143.5	(10.4)	45.3

(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	2Q20
Total CAPEX Excluding Leasing Contracts	87.3	95.2	92.2	99.7	374.4	88.2	83.5
Telco	81.7	89.5	83.6	89.7	344.5	81.8	79.4
% of Telco Revenues	24.0%	25.8%	24.1%	25.9%	24.9%	24.6%	24.8%
o.w. Technical CAPEX	44.9	58.1	47.5	52.6	203.1	48.5	48.0
% of Telco Revenues	13.2%	16.7%	13.7%	15.2%	14.7%	14.6%	15.0%
Baseline Telco	32.8	38.5	30.6	34.2	136.0	29.8	39.8
Projects and Others	12.1	19.6	16.9	18.4	67.1	18.7	8.2
o.w. Customer Related CAPEX	36.8	31.4	36.1	37.0	141.4	33.4	31.4
% of Telco Revenues	10.8%	9.1%	10.4%	10.7%	10.2%	10.0%	9.8%
Audiovisuals and Cinema Exhibition	5.5	5.6	8.7	10.0	29.9	6.4	4.1
Leasing Contracts	3.7	21.4	11.2	33.6	69.8	11.3	12.9
Total Group CAPEX	91.0	116.5	103.4	133.3	444.2	99.5	96.4

(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	2Q20
EBITDA	160.2	171.2	172.7	135.9	640.0	152.7	157.9
Total CAPEX Excluding Leasings	(87.3)	(95.1)	(92.2)	(99.7)	(374.4)	(88.2)	(83.5)
EBITDA - Total CAPEX Excluding Leasings	72.9	76.1	80.4	36.2	265.6	64.5	74.3
% of Revenues	20.5%	20.8%	21.7%	9.9%	18.2%	18.7%	23.1%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.8)	4.7	(5.6)	0.6	(8.1)	(4.5)	5.0
Leasings (Capital & Interest) [1]	(16.0)	(15.6)	(16.9)	(16.5)	(65.0)	(15.6)	(16.9)
Operating Cash Flow	49.1	65.2	57.9	20.4	192.6	44.4	62.4
Interest Paid	(3.0)	(5.9)	(3.0)	(4.2)	(16.0)	(2.6)	(5.3)
Income Taxes Paid	(0.4)	(0.7)	(7.6)	(10.2)	(19.0)	(3.6)	(0.3)
Disposals	0.4	0.4	0.5	0.0	1.4	0.0	0.1
Other Cash Movements [2]	(3.3)	(1.9)	(3.4)	(3.6)	(12.2)	(3.6)	(3.3)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	42.9	57.1	44.4	2.4	146.8	34.6	53.5
Financial Investments	0.0	0.0	0.0	(0.2)	(0.2)	0.0	1.8
Acquisition of Own Shares	0.0	(3.5)	0.0	(3.2)	(6.7)	0.0	(2.9)
Dividends	0.0	(179.6)	0.0	0.0	(179.6)	0.0	0.0
Free Cash Flow	42.9	(126.0)	44.4	(1.0)	(39.8)	34.6	52.5
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(3.4)	(0.8)	(3.4)	(3.4)	(11.0)	(3.1)	0.2
Change in Net Financial Debt	(39.5)	126.9	(41.0)	4.3	50.7	(31.5)	(52.7)

(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	2Q20
Short Term	180.3	248.0	171.6	84.6	23.1	134.8
Medium and Long Term	826.1	893.6	948.8	1,021.8	1,104.4	891.6
Total Debt	1,006.4	1,141.6	1,120.4	1,106.4	1,127.5	1,026.4
Cash and Short Term Investments	3.0	11.3	31.2	12.8	65.4	17.1
Net Financial Debt (1)	1,003.4	1,130.3	1,089.3	1,093.6	1,062.1	1,009.4
Net Financial Debt / EBITDA after lease payments (last 4 quarters) (2)	1.8x	2.0x	1.9x	1.9x	1.9x	1.8x
Leasings and Long Term Contracts	240.6	245.8	239.8	253.7	249.0	210.8
Net Debt	1,244.0	1,376.1	1,329.1	1,347.3	1,311.1	1,220.2
Net Debt / EBITDA	2.0x	2.2x	2.1x	2.1x	2.1x	2.0x
Net Financial Gearing (3)	53.3%	59.0%	57.0%	57.3%	56.8%	57.7%

(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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