Earnings
Announcement
3Q20

20

Lisbon, 04 November 2020

Highlights of the quarter

The continued strong performance of our underlying telco business is recognition of how much customers value our communication and entertainment services in their day to day lives.

3Q20

- We grew in all services with a return to more normalized commercial activity after lockdown; 125 thousand additional RGUs in 3Q20 compared with 76 thousand in 3Q19 and 53 thousand in the previous quarter;
- Our core Telecom Revenues posted a strong quarterly improvement to -1.4% yoy compared with -7.8% yoy in 2Q20;
- Continued best in class response to new ways of living, working and socializing, with progressive shifts towards more digital and efficient interactions at all levels of customer experience and operational processes;
- Lacklustre cinema going due to the continued postponement of major movie launches, a worldwide issue, is putting a drag on total revenues, however month over month spectator numbers are showing some tenuous signs of improvement;
- Across the board OPEX efficiencies helped to offset revenue declines, with telco EBITDA down just 1% in 3Q20 compared with -3.5% in 2Q20;
- We accelerated our investment in the quarter to 97.8 million euros, having increased our footprint to 4.796 million households, 37.8% of which already with FttH, reflecting our commitment to extend the best Gigabit broadband coverage to all Portuguese households;
- In 3Q20 we successfully completed our tower sale agreement in exchange for total proceeds of 550 million euros – close to 375 million of which were already received in September;
- As such, our capital structure was further strengthened to a ratio of 1.4x Net Financial Debt / EBITDA and we continue to fund our business at an average cost of debt of just 1.2% - at the forefront of our sector and reasserting our investment grade rating;
- Already into 4Q20, we successfully negotiated a pioneering active and passive mobile network sharing agreement with Vodafone, which will enable faster, more efficient and environmentally sustainable deployment and running of nationwide networks;

- The strength and efficiency of our telecom operating model, our consolidated market position and one of the strongest balance sheets in the sector, give us the conviction that we possess the best assets and resources to undertake our future investment commitments, namely those associated with 5G deployment and still provide an attractive and sustainable level of shareholder remuneration.

The impact of COVID 19 on operating and financial results was significantly less during 3Q20, although still the cause of a negative yoy comparison. Of the main financial and operational impacts of the pandemic, highlighted in our 1Q20 report, the ones that still had a significant impact this quarter were, first and foremost, the very weak levels of cinema attendance due to the continued postponement of major movie launches, the yoy drop in roaming revenues due to worldwide travel avoidance and remaining concerns around the resilience of some B2B accounts, in particular of companies most exposed to the tourism and hospitality sector.

Table 1.

3Q20 Highlights	3Q19	3Q20	3Q20 / 3Q19	9M19	9M20	9M20 / 9M19
Operating Highlights						
Homes Passed	4,571.1	4,796.0	4.9%	4,571.1	4,796.0	4.9%
% FttH	30.6%	37.8%	7.2pp	30.6%	37.8%	7.2pp
Total RGUs	9,613.6	9,885.8	2.8%	9,613.6	9,885.8	2.8%
Pay TV RGUs	1,631.4	1,656.4	1.5%	1,631.4	1,656.4	1.5%
Convergent + Integrated Customers	914.8	967.6	5.8%	914.8	967.6	5.8%
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	59.1%	61.3%	2.2pp	59.1%	61.3%	2.2pp
Mobile RGUs	4,808.8	4,972.0	3.4%	4,808.8	4,972.0	3.4%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.6	43.4	(2.8%)	44.8	43.3	(3.4%)
Financial Highlights						
Telco Revenues	347.4	342.7	(1.4%)	1,034.8	995.5	(3.8%)
Telco EBITDA	157.0	155.5	(1.0%)	462.1	449.9	(2.6%)
EBITDA Margin	45.2%	45.4%	0.2pp	44.7%	45.2%	0.5pp
Audiovisuals & Cinema Revenues	33.6	11.1	(66.9%)	88.4	41.8	(52.7%)
Audiovisuals & Cinema EBITDA	15.7	5.1	(67.4%)	42.0	21.3	(49.3%)
EBITDA Margin	46.7%	46.0%	(0.7pp)	47.5%	50.9%	3.4pp
Consolidated Revenues	370.5	346.9	(6.4%)	1,092.0	1,013.6	(7.2%)
Consolidated EBITDA	172.7	160.6	(7.0%)	504.1	471.2	(6.5%)
EBITDA Margin	46.6%	46.3%	(0.3pp)	46.2%	46.5%	0.3pp
Net Income Before Associates & Non-Controlling Interests	46.4	43.5	(6.3%)	134.6	81.3	(24.0%)
EBITDA - Total CAPEX Excluding Leasings	80.4	62.8	(21.9%)	229.4	201.6	(7.7%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	44.4	382.1	n.a.	144.4	470.2	225.7%

Operating review

- The positive level of RGU performance, service take-up and strength of underlying customer revenue performance bear testament to the central role that our services play in the day to day lives of customers. Overall RGU net adds in 3Q20 amounted to 125 thousand, reflecting an increase of 64% when compared with 3Q19 and over double the number of new services acquired in 2Q20. Net adds were positive for all segments, with fixed Pay TV net adds of 9.6 thousand, total mobile net adds of 102 thousand and fixed broadband net adds of 11.7 thousand.

- Within mobile, both post-paid and pre-paid net adds were positive, at 61.7 thousand and 40.4 thousand respectively, driven by increased momentum from return to school campaigns leading to higher voice and mobile broadband card subscription and also by a recovery in the pre-paid segment due to the reopening of main shopping venues. Within our mobile customer base, more than 60% are within converged or integrated tariffs, a reflection of a clear preference for the high value proposition associated with taking all services in a single residential offer. As with subscriber numbers, revenues generated by stand-alone personal mobile services represent less than 10% of our total telecom revenues, again demonstrating the strategic relevance of being present in the market as a full-service integrated operator, providing next generation fixed and mobile communication and entertainment.

- We are continuously innovating with product and service launches designed to better serve our customers and enhance user experience, with a number of additional, more premium offers being launched last quarter. In July, we launched the Apple TV 4K box integrating all the features and content of our NOS UMA interface, combining the best TV offer in the market with a leading international brand in innovation and usability, for an additional 4.99€ per month. To meet the increased household needs for bandwidth and connectivity, in this new era of remote learning and working, we were the first operator in Portugal to launch Power WiFi by Plume, a simple and quick to self-install solution designed to ensure maximum broadband coverage within the home. Thanks to Adaptive WiFi™ technology by Plume, based on cloud and artificial intelligence, the WiFi signal can be extended to all rooms in the home, whatever the size or configuration, enabling multiple, simultaneous connections without interruption. The service also provides incremental network control and safety and can be monitored remotely over the mobile Plume App. Prices vary according to layout requirements, ranging from 3€ per month for two extenders, to 6€ per month for larger homes requiring up to 4 extenders.

- In line with our positioning at the forefront of the next wave of 5G technological deployment, we launched a new range of IoT tariffs in September, becoming the first to offer narrowband IoT for the consumer market, with tariffs designed to connect "intelligent" appliances, ready for future connection with the 5G network. All connections can be managed over the NOS App which now includes a dedicated area for customers to receive alerts and service notifications in addition to being able to pay bills and request customer support, amongst other key features. The offer launched in September is designed primarily for use in location and security-based services, and is available in pre-paid, post-paid ou integrated payment options. Prices differ according to the appliance being used, and start at €2.99 per month for residential alarms and location devices and increasing to €4.49 for smartwatches.

- With back to school campaigns in 3Q20 we also reinforced our personal equipment promotions for customers, focusing on special campaigns for laptops, tablets and smartphones. Equipment sales are a growing source of revenues albeit at comparatively lower margins and represent an important source of differentiation and customer loyalty.

- By comparison with the pre-lockdown period, daily sessions on our website have grown by more than 30% and on our self-care web platform by more than 50%. These data points show that a structural shift is underway in customer behaviour as they are starting to revert more and more to digital platforms, be it for self care or for transactional purposes. Our ability to accommodate this level of growth in online usage bears witness to the digital transformation programme initiated a couple of years ago to enable increased operational efficiency, leadership in customer satisfaction and long-term sustainable value creation.

- Our B2B segment is posting healthy operational performance although it is not immune to the impact of the pandemic on our customers' businesses. Sources of revenue pressure in B2B have also been the material decline in roaming revenues in addition to the extension of more flexible payment terms, either in the form of longer payment terms or temporary discounts. Adjusting for these impacts, underlying revenues are performing well, with particularly encouraging progress in IT&Data services.

- We have seen a trend consolidating within companies to become more efficient and adapt to the demands of remote working models and changes in customer habits. Our differentiated value proposition positions us as a key enabler to support companies in their own digital transformation process and we have been focusing our offers, in particular, on cloud-based solutions, managed services and innovation. Along these lines, our reinforced managed service portfolio is gaining momentum as a proportion of new services acquired, namely with offers providing communication, collaborative and call centre management, business LAN/WAN management, security system management, disaster recovery management, data centre and cloud management with housing, co-location, managed hosting and IaaS solutions. The momentum behind take-up of these workplace solutions is the increased demand for secure and reliable remote communications and managed services. To bolster our offers in these arenas we have secured key partnerships for cloud services with Google, Azure and AWS and launched our first edge-cloud offer with AWS (Outpost). In the smaller companies space we are already seeing very encouraging results from the launch of our first block of non-telco digital offers including Microsoft 365, thermal camera (remote temperature measurement), digital menu (targeting the hospitality segment) and digital contact centre, amongst others. Equipment sales and management are also a key element of our B2B proposition, as a provider in partnership with main suppliers. The importance of equipment management has exponentiated due to the pandemic driven change in the traditional workplace environment.

- During 3Q20 we picked up the pace of technological deployment as reflected in the higher sequential technological CAPEX in the quarter. Expansionary investment was directed primarily towards continued FttH deployment within the context of the network sharing agreement and aligned with the strategic importance of delivering best in class NGN capabilities to as many households as possible. Demands on the network from significantly increased 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. The relevance of well invested and financially sustainable networks is a strategic national priority, as a means of ensuring critical business and social continuity.

- In September we concluded 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) and 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 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 total potential value of the agreements to be reached over a 6-year period is 550 million euros, and an upfront payment of approximately 375 million euros for the sale of NOS Towering (2,000 sites) was already received at the end of 3Q20. With completion of this deal 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.

- Already in 4Q20, we signed a set of agreements with Vodafone regarding the sharing of mobile network support infrastructure (passive infrastructures such as towers and poles) and active mobile network elements (active radio equipment such as antennas, amplifiers and remaining equipment). The agreements have a nationwide scope with diverse geographical application according to higher or lower level of population density. In higher density geographies, typically larger urban areas, we will pursue synergies by sharing support infrastructure. In lower density areas, typically rural and interior geographies, in addition to shared use of support infrastructure, we will also share active mobile network. The agreements focus on assets currently held, or that may be held by each party in the future, and on existing 2G, 3G and 4G technology. Incorporation of 5G technology in these agreements will depend on each operators' decision of whether to deploy this technology. Spectrum sharing between the operators is not contemplated. Each operator will maintain exclusive strategic control of its networks, thus ensuring full competitive, strategic and commercial independence and the ability to differentiate in terms of customer service and provision and will be able to develop respective mobile networks independently. With these agreements we will be investing more efficiently by capturing value through synergies. We will also be able to deploy our mobile network faster and in a more environmentally responsible way, thus benefitting customers and remaining stakeholders. Sharing of mobile infrastructure represents an important contribution towards greater geographical cohesion and digital inclusion, both of which are essential to the sustainable development of the country.

Media and Entertainment

- Although our cinema theatres re-opened on 2 July after lockdown, under strict health and safety measures, the number of spectators has failed to recover significantly, due to successive and indefinite postponement of blockbuster movie launches by the major international studios. The most recent example of a disappointing cancellation was that of the latest James Bond movie, scheduled for November 2020 and now moved forward to April 2021. Of all the blockbuster movie launches originally scheduled for 2020, only Tenet was premiered in August, driving a temporary pick up in audience and meeting the GBO targets for that movie, showing that if studios start releasing the major titles the audience levels will show a strong recovery. Monthly market evolution throughout 3Q20 did show some improvement with September spectator numbers posting growth of 30% over August with the contribution from Tenet. Given the current outlook in terms of movie line-up, we are concentrating our efforts on keeping running costs to a minimum, with the most relevant initiaves being non-renewal of temporary staff contracts and the downward renegotiation of rental contracts.

Table 2.

Operating Indicators ('000)	3Q19	3Q20	3Q20 / 3Q19	9M19	9M20	9M20 / 9M19
Cinema [1]						
Revenue per Ticket (Euros)	5.2	5.5	n.a.	5.2	5.3	2.1%
Tickets Sold - NOS	2,764.0	477.1	(82.7%)	6,860.9	2,003.8	(70.8%)
Tickets Sold - Total Portuguese Market [2]	4,762.7	714.7	(85.0%)	11,501.7	3,265.2	(71.6%)
Screens (units)	218	208	(4.6%)	218	208	(4.6%)

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

Financial Performance

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

Table 3.

Profit and Loss Statement (Millions of Euros)	3Q19	3Q20	3Q20 / 3Q19	9M19	9M20	9M20 / 9M19
Operating Revenues	370.5	346.9	(6.4%)	1,092.0	1,013.6	(7.2%)
Telco	347.4	342.7	(1.4%)	1,034.8	995.5	(3.8%)
Consumer Revenues	248.3	248.3	(0.0%)	737.2	728.7	(1.2%)
Business Revenues	71.3	71.3	0.0%	213.0	210.3	(1.3%)
Wholesale and Others	27.8	23.1	(17.0%)	84.6	56.5	(33.2%)
Audiovisuals & Cinema (1)	33.6	11.1	(66.9%)	88.4	41.8	(52.7%)
Others and Eliminations	(10.5)	(6.9)	(34.4%)	(31.2)	(23.8)	(24.0%)
Operating Costs Excluding D&A	(197.8)	(186.4)	(5.8%)	(587.9)	(542.4)	(7.7%)
Direct Costs	(101.4)	(99.0)	(2.4%)	(307.7)	(274.9)	(10.7%)
Non-Direct Costs (2)	(96.4)	(87.4)	(9.4%)	(280.3)	(267.5)	(4.6%)
EBITDA (3)	172.7	160.6	(7.0%)	504.1	471.2	(6.5%)
EBITDA Margin	46.6%	46.3%	(0.3pp)	46.2%	46.5%	0.3pp
Telco	157.0	155.5	(1.0%)	462.1	449.9	(2.6%)
EBITDA Margin	45.2%	45.4%	0.2pp	44.7%	45.2%	0.5pp
Cinema Exhibition and Audiovisuals	15.7	5.1	(67.4%)	42.0	21.3	(49.3%)
EBITDA Margin	46.7%	46.0%	(0.7pp)	47.5%	50.9%	3.4pp
Depreciation and Amortization	(97.5)	(103.6)	6.2%	(298.0)	(305.2)	2.4%
(Other Expenses) / Income	(6.9)	(4.3)	(37.3%)	(14.0)	(53.9)	284.5%
Operating Profit (EBIT) (4)	68.3	52.7	(22.8%)	192.1	112.1	(41.6%)
Share of profits (losses) of associates and joint ventures	1.0	0.6	(37.0%)	2.3	(9.1)	n.a.
(Financial Expenses) / Income	(6.8)	(5.3)	(22.5%)	(19.2)	(16.6)	(13.6%)
Income Before Income Taxes	62.5	48.1	(23.1%)	175.2	86.4	(50.7%)
Income Taxes	(15.1)	(4.0)	(73.8%)	(38.3)	(14.3)	(62.8%)
Net Income Before Associates & Non-Controlling Interests	46.4	43.5	(6.3%)	134.6	81.3	(39.6%)
Income From Continued Operations	47.4	44.1	(6.9%)	136.9	72.1	(47.3%)
o.w. Attributable to Non-Controlling Interests	(0.0)	0.0	n.a.	0.2	0.6	147.5%
Discontinued Operations	0.6	0.0	(100.0%)	1.0	6.4	n.a.
Net Income	47.9	44.1	(7.9%)	138.1	79.1	(42.7%)

(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.

During 3Q20 we still felt some impacts from the restrictions imposed by the pandemic. In the telco business, the most relevant impact was the decline in roaming 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 very tenuous pick-up in spectator numbers since the re-opening of theatres on 2 July which in turn impacted audiovisual revenues given the latter’s high exposure to cinema distribution.

Revenues

We recorded a marked recovery in revenues with a sequential quarterly improvement in telco revenue performance going from –7.8% in 2Q20 to -1.4% in 3Q20. Consolidated revenue growth improved from -12.1% to -6.4% in the same period, reflecting the positive telco recovery performance in the quarter.

Consumer and Business revenues showed a marked recovery versus the previous quarter, with a stable performance yoy and adjusting for the yoy decline in roaming out revenues, which are part of customer bills, Consumer revenues would have grown by 0.5% and Business revenues by 1.9%. These underlying trends reflect the resilience of our domestic telecom operation, with relatively little impact from the pandemic to date. Wholesale and other revenues were impacted primarily by weak roaming-in revenues and lower advertising revenues yoy. Roaming revenues decreased 52% in the quarter, representing a decline of 1.4% in Telco revenues.

Combined cinema and audiovisual revenues fell by 66.9%, with worldwide, pandemic related restrictions and recommendations resulting in the postponement of major movie premieres and people avoiding public indoor spaces. As such, we are seeing very slow pick-up in spectator numbers, leading to a decline in our cinema exhibition revenues (which also include bar and merchandising sales) of 80.2% yoy, to 4.0 million euros. According to data published by the Portuguese Cinema Institute, market box office revenues fell by 84.7%, compared with NOS' decline of 82.5%. As regards our audiovisuals business, revenue decline was less at 56.9% - revenues from its lower margin, cinema distribution activity, were down by 86.4%.

OPEX, EBITDA and Net Results

Total OPEX fell by 5.8% in 3Q20 to 186.4 million euros, led by a 2.4% decline in direct costs and a 9.4% decline in non-direct costs. As already explained, significant efforts are being made to compensate some of the revenue losses from the pandemic, whilst not compromising on-going commercial activity. Within Direct Costs, savings in programming and capacity costs and the lower volume of royalties paid, were offset by increased traffic and interconnection costs, due to higher levels of traffic on the network, higher COGS on the back of increased equipment sales, and a higher level of IT related projects within the B2B segment. Non-direct costs were down by 9.4% yoy to 87.4 million euros with some of the most relevant savings being recorded in commercial and customer related costs - namely advertising, commercial outsourcing and billing and commissions - and lower levels of supplies and external services. Specifically within the cinema division, more relevant savings were achieved through rental contract renegotiations and non-renewal of temporary staff contracts.

Consolidated EBITDA fell by 7% yoy in 3Q20 to 160.6 million euros, a fall of 12.1 million euros - practically half the yoy decline in operating revenues. Telco EBITDA performed much better in the period falling by just 1% to 155.5 million euros. As with revenues, the driver of lower consolidated EBITDA was the 67.4% decline in Audiovisuals and Cinema EBITDA to 5.1 million euros.

Net results in 3Q20 were down 6.3% to 43.5 million euros reflecting a combination of lower EBITDA, a 6.2% increase in D&A due to accelerated depreciation of assets, a 22.5% decrease in net financial costs and a significantly lower level of tax provision. The lower tax provision in the quarter was in part a natural result of the lower level of earnings and in part due to an increase in tax incentive recognition.

CAPEX

Table 4.

CAPEX (Millions of Euros) [1]	3Q19	3Q20	3Q20 / 3Q19	9M19	9M20	9M20 / 9M19
Total CAPEX Excluding Leasing Contracts	92.2	97.8	6.0%	274.7	269.6	(1.9%)
Telco	83.6	92.0	10.1%	254.8	253.3	(0.6%)
% of Telco Revenues	24.1%	26.9%	2.8pp	24.6%	25.4%	0.8pp
o.w. Technical CAPEX	47.5	51.6	8.6%	150.5	148.0	(1.6%)
% of Telco Revenues	13.7%	15.0%	1.4pp	14.5%	14.9%	0.3pp
Baseline Telco	30.6	32.4	5.7%	101.8	102.0	0.2%
Network Expansion / Substitution and Integration Projects and Others	16.9	19.2	13.7%	48.6	46.0	(5.3%)
o.w. Customer Related CAPEX	36.1	40.5	12.2%	104.4	105.3	0.9%
% of Telco Revenues	10.4%	11.8%	1.4pp	10.1%	10.6%	0.5pp
Audiovisuals and Cinema Exhibition	8.7	5.8	(33.5%)	19.8	16.3	(18.0%)
Leasing Contracts	11.2	11.3	0.8%	36.3	35.4	(2.4%)
Total Group CAPEX	103.4	109.1	5.5%	311.0	305.0	(1.9%)

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

Total CAPEX (excluding leasing contracts) increased by 6% in 3Q20 to 97.8 million euros, reflecting an 8.6% increase in technical CAPEX and a 12.2% increase in telco customer CAPEX. Within the technical component, we recorded an acceleration in expansionary CAPEX which related essentially to the quarterly pick-up in FttH deployment and in accordance with our long-term coverage plans. Additional customer CAPEX was related with increased commercial activity, installation of a larger proportion of higher-end customer equipment such as our Giga router, next generation UMA boxes and Apple TV boxes, which are provided in more premium bundles. Audiovisuals and Cinema CAPEX was lower due to the reduced cinema activity. As explained in previous quarters and as a result of IFRS16 implementation, we have isolated operational leasing contracts in the table above, to avoid quarterly accounting volatility from operating lease capitalization under the new accounting rules.

Cash Flow

Table 5.

Cash Flow (Millions of Euros)	3Q19	3Q20	3Q20 / 3Q19	9M19	9M20	9M20 / 9M19
EBITDA	172.7	160.6	(7.0%)	504.1	471.2	(6.5%)
Total CAPEX Excluding Leasings	(92.2)	(97.8)	6.0%	(274.7)	(269.6)	(1.9%)
EBITDA - Total CAPEX Excluding Leasings	80.4	62.8	(21.9%)	229.4	201.6	(12.1%)
% of Revenues	21.7%	18.1%	(3.6pp)	21.0%	19.9%	(1.1pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(5.6)	(15.1)	168.8%	(8.7)	(14.7)	68.2%
Leasings (Capital & Interest) (1)	(16.9)	(16.8)	(0.3%)	(48.5)	(49.3)	1.7%
Operating Cash Flow	57.9	30.8	(46.7%)	172.2	137.6	(20.1%)
Interest Paid	(3.0)	(2.9)	(2.7%)	(11.8)	(10.8)	(8.4%)
Income Taxes Paid	(7.6)	(16.7)	119.6%	(8.8)	(20.7)	136.1%
Disposals	0.5	374.2	n.a.	1.4	374.3	n.a.
Other Cash Movements (2)	(3.4)	(3.3)	(4.3%)	(8.6)	(10.2)	18.5%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	44.4	382.1	n.a.	144.4	470.2	225.7%
Financial Investments	0.0	0.3	n.a.	0.0	2.1	n.a.
Acquisition of Own Shares	0.0	(0.5)	n.a.	(3.5)	(3.3)	(5.9%)
Dividends	0.0	(142.5)	n.a.	(179.6)	(142.5)	(20.7%)
Free Cash Flow	44.4	239.4	n.a.	(38.8)	326.5	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(3.4)	(1.5)	(55.8%)	(7.6)	(4.3)	(43.3%)
Change in Net Financial Debt	(41.0)	(237.9)	n.a.	46.4	(322.1)	n.a.

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

Cash flow in 3Q20 was impacted by the cash-in of 398.6 million euros from the tower sale deal to Cellnex (assets sale of 374 million euros, NOS Towering cash in the amount of 45 million euros and working capital and others in the amount of minus 20.4 million euros) less the cash within NOS Towering at the time of its sale (45 million euros). As a result, total FCF before dividends in the quarter amounted to 382.1 milion euros. Operational FCF was 30.8 million euros reflecting lower EBITDA and sequential quarterly increase in working capital and non-cash adjustments, partly due to the one-off effect of 20.4 million euros related to the NOS Towering disposal, as mentioned above. Cash lease payments were stable yoy however it is important to highlight that this line will increase as from 4Q20 due to the conclusion of the tower sale and long term lease agreement with Cellnex. Additional items impacting total FCF, were an increase in cash taxes to 16.7 million euros – related with phasing of payment to tax authorities.

In conclusion, for the first 9 months of 2020, total FCF before dividends amounted to 470.2 million euros – a reflection of the resilience of underlying FCF (96.2 million euros Ytd, ex-tower assets sale) and the significant amount of available funds to meet ongoing investment commitments and still maintain a sustainable level of shareholder remuneration, without compromising the strength of our balance sheet.

Consolidated Balance Sheet

Table 6.

Balance Sheet (Millions of Euros)	9M19	2019	9M20	9M20 / 9M19
Non-current Assets	2,521.6	2,534.3	2,488.9	(1.3%)
Current Assets	569.3	553.8	621.5	9.2%
Total Assets	3,090.8	3,088.2	3,110.4	0.6%
Total Shareholders' Equity	1,011.7	1,012.3	944.3	(6.7)%
Non-current Liabilities	1,265.9	1,333.3	1,456.9	15.1%
Current Liabilities	813.3	742.5	709.1	(12.8)%
Total Liabilities	2,079.1	2,075.9	2,166.1	4.2%
Total Liabilities and Shareholders' Equity	3,090.8	3,088.2	3,110.4	0.6%

Capital Structure and Funding

At the end of 9M20, Total Net Debt, including Leasings and Long-Term Contracts (according to IFRS16) amounted to 1,347.9 million euros. Net Financial Debt stood at 771.5 million euros with a cash and short-term investment position on the balance sheet of 180.3 million euros. The increase in Total Net Debt, as well as the decline of Net Financial Debt in 3Q20, are linked to the completion of the NOS Towering deal with Cellnex.

At the end of 9M20, NOS also had 415 million euros in unissued commercial paper programmes.

Net Financial Debt / EBITDA After Lease Payments (last 4 quarters) now stands at 1.4x. 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 1.2% for 3Q20 which compares with 1.4% in 3Q19. For 9M20, the all-in average cost of debt was 1.2%, which compares with 1.5% for 9M19.

The average maturity of debt at the end of 9M20 was 2.6 years. Taking into account loans issued at a fixed rate and interest rate hedging operations in place, as at 30 September 2020, the proportion of NOS' issued debt paying interest at a fixed rate was approximately 70%.

Table 7.

Net Financial Debt (Millions of Euros)	9M19	2019	9M20	9M20 / 9M19
Short Term	171.6	84.6	97.2	(43.4%)
Medium and Long Term	948.8	1,021.8	854.6	(9.9%)
Total Debt	1,120.4	1,106.4	951.8	(15.1%)
Cash and Short Term Investments	31.2	12.8	180.3	478.3%
Net Financial Debt (1)	1,089.3	1,093.6	771.5	(29.2%)
Net Financial Debt / EBITDA after lease payments (last 4 quarters) (2)	1.9x	1.9x	1.4x	n.a.
Leasings and Long Term Contracts	239.8	253.7	576.4	140.3%
Net Debt	1,329.1	1,347.3	1,347.9	1.4%
Net Debt / EBITDA	2.1x	2.1x	2.2x	n.a.
Net Financial Gearing (3)	57.0%	57.3%	59.0%	2.0pp

(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	3Q20
Telco (1)							
Homes Passed	4,449.5	4,494.7	4,571.1	4,612.6	4,639.5	4,689.9	4,796.0
Total RGUs	9,508.5	9,537.5	9,613.6	9,687.3	9,707.9	9,760.7	9,885.8
o.w. Consumer RGUs	8,037.7	8,062.6	8,131.5	8,196.2	8,216.2	8,247.9	8,356.3
o.w. Business RGUs	1,470.8	1,474.9	1,482.1	1,491.1	1,491.7	1,512.8	1,529.5
Mobile	4,749.5	4,769.1	4,808.8	4,851.1	4,847.1	4,869.9	4,972.0
Pre-Paid	1,995.0	1,994.0	2,013.1	2,008.2	1,983.2	1,957.7	1,998.1
Post-Paid	2,754.5	2,775.1	2,795.6	2,842.9	2,863.9	2,912.2	2,974.0
Pay TV Fixed Access (2)	1,326.3	1,329.7	1,347.3	1,356.0	1,360.4	1,364.5	1,374.2
Pay TV DTH	290.5	287.4	284.1	282.7	283.7	283.4	282.2
Fixed Voice	1,728.0	1,729.3	1,738.5	1,748.5	1,756.7	1,766.7	1,769.3
Broadband	1,382.5	1,389.5	1,402.0	1,414.3	1,424.5	1,439.8	1,451.5
Others and Data	31.7	32.5	32.9	34.8	35.5	36.4	36.5
3,4&5P Subscribers (Fixed Access)	1,170.0	1,176.7	1,198.2	1,209.4	1,216.9	1,224.7	1,236.9
% 3,4&5P (Fixed Access)	88.2%	88.5%	88.9%	89.2%	89.5%	89.8%	90.0%
Convergent + Integrated RGUs	4,521.0	4,574.7	4,622.1	4,704.5	4,754.6	4,823.9	4,890.7
Convergent + Integrated Customers	896.1	907.1	914.8	930.7	942.3	957.5	967.6
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	58.5%	59.2%	59.1%	59.8%	60.2%	61.0%	61.3%
% Convergent + Integrated Customers	55.4%	56.1%	56.1%	56.8%	57.3%	58.1%	58.4%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.9	44.9	44.6	44.7	44.2	42.3	43.4
Net Adds							
Homes Passed	55.0	45.2	76.4	41.4	27.0	50.4	106.1
Total RGUs	(23.8)	29.0	76.1	73.7	20.5	52.9	125.0
o.w. Consumer RGUs	(33.8)	24.9	68.9	64.7	20.0	31.7	108.4
o.w. Business RGUs	10.0	4.1	7.2	9.0	0.6	21.2	16.6
Mobile	(18.2)	19.6	39.7	42.3	(4.0)	22.8	102.1
Pre-Paid	(34.3)	(1.0)	19.1	(4.9)	(25.0)	(25.5)	40.4
Post-Paid	16.1	20.6	20.5	47.2	21.0	48.4	61.7
Pay TV Fixed Access	1.8	3.4	17.6	8.7	4.4	4.2	9.6
Pay TV DTH	(8.4)	(3.0)	(3.3)	(1.4)	0.9	(0.2)	(1.2)
Fixed Voice	(2.6)	1.3	9.2	9.9	8.2	10.0	2.6
Broadband	3.4	7.0	12.6	12.2	10.2	15.3	11.7
Others and Data	0.1	0.8	0.4	1.9	0.7	0.8	0.2
3,4&5P Subscribers (Fixed Access)	6.8	6.8	21.4	11.2	7.6	7.8	12.2
Convergent + Integrated RGUs	38.3	53.6	47.4	82.4	50.1	69.3	66.8
Convergent + Integrated Customers	6.3	11.0	7.7	15.9	11.6	15.2	10.1

(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	3Q20
Operating Revenues	355.9	365.6	370.5	366.4	1,458.4	345.4	321.3	346.9
Telco	340.4	347.0	347.4	346.6	1,381.4	332.9	319.9	342.7
Consumer Revenues	244.2	244.7	248.3	253.1	990.3	244.0	236.3	248.3
Business Revenues	72.1	69.6	71.3	75.4	288.4	72.0	67.0	71.3
Wholesale and Others	24.1	32.7	27.8	18.2	102.8	16.9	16.5	23.1
Audiovisuals & Cinema (1)	25.8	29.1	33.6	30.3	118.8	21.8	8.9	11.1
Others and Eliminations	(10.3)	(10.5)	(10.5)	(10.6)	(41.8)	(9.3)	(7.6)	(6.9)
Operating Costs Excluding D&A	(195.7)	(194.4)	(197.8)	(230.5)	(818.4)	(192.7)	(163.4)	(186.4)
Direct Costs	(100.7)	(105.5)	(101.4)	(112.0)	(419.7)	(97.7)	(78.2)	(99.0)
Non-Direct Costs (2)	(95.0)	(88.9)	(96.4)	(118.5)	(398.8)	(95.0)	(85.1)	(87.4)
EBITDA (3)	160.2	171.2	172.7	135.9	640.0	152.7	157.9	160.6
EBITDA Margin	45.0%	46.8%	46.6%	37.1%	43.9%	44.2%	49.1%	46.3%
Telco	146.9	158.2	157.0	121.9	583.9	141.8	152.6	155.5
EBITDA Margin	43.1%	45.6%	45.2%	35.2%	42.3%	42.6%	47.7%	45.4%
Cinema Exhibition and Audiovisuals	13.3	13.0	15.7	14.0	56.0	10.9	5.3	5.1
EBITDA Margin	51.6%	44.8%	46.7%	46.3%	47.2%	50.1%	58.8%	46.0%
Depreciation and Amortization	(97.3)	(103.1)	(97.5)	(123.3)	(421.3)	(100.5)	(101.2)	(103.6)
(Other Expenses) / Income	(3.3)	(3.8)	(6.9)	(3.9)	(17.9)	(45.7)	(3.8)	(4.3)
Operating Profit (EBIT) (4)	59.5	64.3	68.3	8.7	200.7	6.5	52.9	52.7
Share of profits (losses) of associates and joint ventures	0.2	1.1	1.0	(3.3)	(1.0)	(8.8)	(0.9)	0.6
(Financial Expenses) / Income	(6.4)	(5.9)	(6.8)	(5.6)	(24.7)	(5.7)	(5.6)	(5.3)
Income Before Income Taxes	53.3	59.4	62.5	(0.3)	175.0	(8.0)	46.4	48.1
Income Taxes	(11.4)	(11.9)	(15.1)	5.8	(32.6)	(2.9)	(7.5)	(4.0)
Net Income Before Associates & Non-Controlling Interests	41.7	46.5	46.4	8.8	143.4	(2.0)	39.9	43.5
Income From Continued Operations	41.9	47.6	47.4	5.5	142.4	(10.9)	38.9	44.1
o.w. Attributable to Non-Controlling Interests	0.1	0.2	(0.0)	0.0	0.3	0.4	0.2	0.0
Discontinued Operations	0.4	(0.0)	0.6	(0.1)	0.8	0.1	6.3	0.0
Net Income	42.5	47.7	47.9	5.4	143.5	(10.4)	45.3	44.1

(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	3Q20
Total CAPEX Excluding Leasing Contracts	87.3	95.2	92.2	99.7	374.4	88.2	83.5	97.8
Telco	81.7	89.5	83.6	89.7	344.5	81.8	79.4	92.0
% of Telco Revenues	24.0%	25.8%	24.1%	25.9%	24.9%	24.6%	24.8%	26.9%
o.w. Technical CAPEX	44.9	58.1	47.5	52.6	203.1	48.5	48.0	51.6
% of Telco Revenues	13.2%	16.7%	13.7%	15.2%	14.7%	14.6%	15.0%	15.0%
Baseline Telco	32.8	38.5	30.6	34.2	136.0	29.8	39.8	32.4
Projects and Others	12.1	19.6	16.9	18.4	67.1	18.7	8.2	19.2
o.w. Customer Related CAPEX	36.8	31.4	36.1	37.0	141.4	33.4	31.4	40.5
% of Telco Revenues	10.8%	9.1%	10.4%	10.7%	10.2%	10.0%	9.8%	11.8%
Audiovisuals and Cinema Exhibition	5.5	5.6	8.7	10.0	29.9	6.4	4.1	5.8
Leasing Contracts	3.7	21.4	11.2	33.6	69.8	11.3	12.9	11.3
Total Group CAPEX	91.0	116.5	103.4	133.3	444.2	99.5	96.4	109.1

(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	3Q20
EBITDA	160.2	171.2	172.7	135.9	640.0	152.7	157.9	160.6
Total CAPEX Excluding Leasings	(87.3)	(95.1)	(92.2)	(99.7)	(374.4)	(88.2)	(83.5)	(97.8)
EBITDA - Total CAPEX Excluding Leasings	72.9	76.1	80.4	36.2	265.6	64.5	74.3	62.8
% of Revenues	20.5%	20.8%	21.7%	9.9%	18.2%	18.7%	23.1%	18.1%
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	(15.1)
Leasings (Capital & Interest) (1)	(16.0)	(15.6)	(16.9)	(16.5)	(65.0)	(15.6)	(16.9)	(16.8)
Operating Cash Flow	49.1	65.2	57.9	20.4	192.6	44.4	62.4	30.8
Interest Paid	(3.0)	(5.9)	(3.0)	(4.2)	(16.0)	(2.6)	(5.3)	(2.9)
Income Taxes Paid	(0.4)	(0.7)	(7.6)	(10.2)	(19.0)	(3.6)	(0.3)	(16.7)
Disposals	0.4	0.4	0.5	0.0	1.4	0.0	0.1	374.2
Other Cash Movements (2)	(3.3)	(1.9)	(3.4)	(3.6)	(12.2)	(3.6)	(3.3)	(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	382.1
Financial Investments	0.0	0.0	0.0	(0.2)	(0.2)	0.0	1.8	0.3
Acquisition of Own Shares	0.0	(3.5)	0.0	(3.2)	(6.7)	0.0	(2.9)	(0.5)
Dividends	0.0	(179.6)	0.0	0.0	(179.6)	0.0	0.0	(142.5)
Free Cash Flow	42.9	(126.0)	44.4	(1.0)	(39.8)	34.6	52.5	239.4
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(3.4)	(0.8)	(3.4)	(3.4)	(11.0)	(3.1)	0.2	(1.5)
Change in Net Financial Debt	(39.5)	126.9	(41.0)	4.3	50.7	(31.5)	(52.7)	(237.9)

(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	3Q20
Short Term	180.3	248.0	171.6	84.6	23.1	134.8	97.2
Medium and Long Term	826.1	893.6	948.8	1,021.8	1,104.4	891.6	854.6
Total Debt	1,006.4	1,141.6	1,120.4	1,106.4	1,127.5	1,026.4	951.8
Cash and Short Term Investments	3.0	11.3	31.2	12.8	65.4	17.1	180.3
Net Financial Debt (1)	1,003.4	1,130.3	1,089.3	1,093.6	1,062.1	1,009.4	771.5
Net Financial Debt / EBITDA after lease payments (last 4 quarters) (2)	1.8x	2.0x	1.9x	1.9x	1.9x	1.8x	1.4x
Leasings and Long Term Contracts	240.6	245.8	239.8	253.7	249.0	210.8	576.4
Net Debt	1,244.0	1,376.1	1,329.1	1,347.3	1,311.1	1,220.2	1,347.9
Net Debt / EBITDA	2.0x	2.2x	2.1x	2.1x	2.1x	2.0x	2.2x
Net Financial Gearing (3)	53.3%	59.0%	57.0%	57.3%	56.8%	57.7%	59.0%

(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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