



# Earnings

Announcement

**3Q18**

Lisbon, 8 November 2018

Profitability growth driving operating FCF and supportive of shareholder returns.

Technological and operating transformation on track, laying the foundations for long term value creation.

### 3Q18

Revenue growth in line with previous quarter, adjusting for regulation, namely MTR cuts<sup>1</sup>

- Adjusted Telco revenues grew by 1.8% with unadjusted growth of 0.9% to 376.2 million euros;
- Quarterly improvement in Audiovisuals and Cinema Revenue yoy growth rates, albeit still below 2017;
- Adjusted Consolidated Revenues increased by 1.7% in 3Q18 (0.7% unadjusted);

Acceleration in quarterly EBITDA

- Telco EBITDA increased 4.7% to 144.6 million euros, reflecting a yoy increase in margin of 1.4pp to 38.4%;
- Consolidated EBITDA grew 3.5% to 156.2 million euros, with consolidated EBITDA margin of 39.5%, 1.1pp higher yoy;
- Consolidated Net Income was 34.1% higher yoy at 44.1 million euros;

Network investment projects on track positioning NOS with the most advanced and consumer relevant technology

- Technical CAPEX increased to 50.6 million euros in 3Q18, incorporating the ongoing strategic investment in mobile and fixed network upgrades;
- Customer related CAPEX was higher at 42.7 million euros in 3Q18 led by additional commercial activity in new coverage areas;

Recurrent FCF growth supportive of attractive shareholder returns

- Total FCF before Dividends in 3Q18 grew to 88.2 million euros with non-recurrent cash flow impact of legal dispute positively impacting FCF in quarter;

Increased net RGU growth led by additional network coverage and lower churn levels

- Solid RGU growth of 2.2% to 9.570 million;
- Pick up in quarterly fixed pay TV net adds to 10.6 thousand led by increased footprint and lower levels of churn;

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<sup>1</sup> In 3Q18 Mobile Termination Rates (MTRs) were cut by 44% to 0.42 eurocents from the 0.75 eurocents rate that had been in place since 2H17

- Growth in convergent RGUs of 5.8% yoy to 3.843 million services taking fixed convergent penetration to 49.9% (+2.6 pp yoy) and with growth in unique convergent customers of 5.8% yoy to 759.9 thousand;
- Mobile subscriber net adds posted the usual seasonal peak at 42 thousand in 3Q18 taking total subscribers to 4.770 million, 2.7% higher yoy;

Table 1.

3Q18 Highlights	3Q17	3Q18	3Q18 / 3Q17	9M17	9M18	9M18 / 9M17
<b>Financial Highlights</b>						
Operating Revenues	392.1	395.0	0.7%	1,159.7	1,167.3	0.7%
Telco Revenues	373.0	376.2	0.9%	1,103.0	1,116.1	1.2%
EBITDA	150.9	156.2	3.5%	448.8	461.7	2.9%
EBITDA Margin	38.5%	39.5%	1.1pp	38.7%	39.6%	0.9pp
Telco	138.1	144.6	4.7%	411.2	429.0	4.3%
EBITDA Margin	37.0%	38.4%	1.4pp	37.3%	38.4%	1.2pp
Net Income Before Associates & Non-Controlling Interests	26.8	42.7	59.4%	90.5	126.9	40.2%
Operating Cash Flow	56.0	69.6	24.2%	162.7	180.5	10.9%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	33.9	88.2	160.1%	136.0	180.1	32.5%
<b>Operational Highlights (EoP)</b>						
Homes Passed	4,055.7	4,257.5	5.0%	4,055.7	4,257.5	5.0%
Total RGUs	9,365.8	9,569.9	2.2%	9,365.8	9,569.9	2.2%
Mobile	4,643.8	4,770.0	2.7%	4,643.8	4,770.0	2.7%
Pay TV Fixed Access	1,287.8	1,312.5	1.9%	1,287.8	1,312.5	1.9%
Fixed Voice	1,752.9	1,772.1	1.1%	1,752.9	1,772.1	1.1%
Broadband	1,320.6	1,375.2	4.1%	1,320.6	1,375.2	4.1%
Convergent RGUs	3,631.5	3,842.7	5.8%	3,631.5	3,842.7	5.8%
Convergent Customers	718.5	759.9	5.8%	718.5	759.9	5.8%
Convergent Customers as % of Fixed Access Customers	47.3%	49.9%	2.6pp	47.3%	49.9%	2.6pp

## Operational Review

Total RGUs grew by 2.2% yoy to 9.570 million with an acceleration in net adds in 3Q18 to 70.3 thousand compared with 42.0 and 45.9 thousand in 1Q18 and 2Q18 respectively.

Fixed pay TV net adds posted a marked recovery to 10.6 thousand in the quarter, the highest level of net adds since 1Q17, reflecting the anticipated commercial acceleration from new household coverage combined with a continued improvement in churn levels. In 3Q18, fixed network coverage increased by a further 98 thousand households bringing year to date expansion to 176 thousand, and with total coverage reaching 4.257 million households. **Of NOS' total coverage**, 888 thousand households are already in FttH and the remaining HFC households are 100% upgraded to Docsis 3.1, therefore providing Gigabit capabilities across the entire footprint. Fixed broadband and voice RGUs also recorded an improvement in 3Q18 led by the growth in pay TV subscriptions which are the basis for upselling other additional services in the residential market. Regarding the DTH customer base, with the additional NGN coverage from all operators in the market, the number of services continues to post a downward trajectory with customers migrating to greater bandwidth fixed access technologies, as is to be expected given the more sophisticated offers provided.

Mobile subscriptions had a good quarter with summer seasonality driving higher net adds of 41.9 thousand and taking the total customer base to 4.770 million. The majority of new customers are subscribing as post paid accounts, 57% of the total base, and many of which within convergent bundles.

During 3Q18, the number of customers subscribing to convergent offers increased by 5.8% yoy to 759.9 thousand, 49.9% of the fixed subscriber base. Offers for the consumer market are available for all pockets and demand profiles with offers ranging from an entry level, content light, 100 Mbps triple play offer for **€29.9 (ex set top box)** going up to a convergent, 1Gbps, 177 channel quad play offer including 1 SIM card with 10 GB of **mobile data for €79.99**. The ability to provide 1Gbps nationwide became possible with the full Docsis 3.1 upgrade in the first months of the year, thus giving customers 1Gbps download speeds across the entire footprint, be it over FttH or HFC.

Residential ARPU was relatively stable on a quarterly basis at 44.2 euros and lower yoy by 0.8%. However adjusting for regulation, including the 44% decline in Mobile Termination Rates (MTRs) in 3Q18, ARPU would have marginally declined by 0.2% yoy to 44.1 euros.

In the large business segment we remain focused on protecting our revenue in existing accounts whilst driving upsell of additional data and IT service management solutions. The skills and experience we have acquired in our own operations, together with the significant increase in data centre capacity, are being levered to provide more sophisticated next generation cloud management platforms to facilitate provisioning and self-service solutions for the enterprise market. The small business segment remains challenging in terms of revenue progression however efforts are being made to optimize and simplify our business operations to guarantee increased efficiency and customer service levels.

## Technological and Operational Transformation to guarantee long term competitiveness

We are well ahead with our mobile investment to single RAN architecture with 75% of the upgrade to be completed by the end of the year and the remainder during early 2019. We are deploying the latest available mobile technology and the upgrade will position us with the best network capabilities in Portugal, significantly increasing capacity, flexibility and quality of service whilst also leaving us as ready as technologically possible for a smooth transition to 5G when required.

As mentioned above, we are deploying additional FttH to greenfield locations within the context of our dark fibre swap agreement with Vodafone. During 3Q18, fixed network coverage increased by 98 thousand households bringing total fixed coverage to 4.257 million households of which over 20% are already FttH, aligned with our long term plan to reach 70% FttH coverage by end 2022.

Visible progress is being made within our operational transformation programme with initiatives from the first wave (out of three in total) already moving to implementation stage such as STB recovery procedures and robot deployment throughout the organization. The coming months will see a number of wave #1 projects streams leaving the drawing board to move to live implementation and starting to impact operational efficiency and service levels during the course of 2019. Organizational fitness, customer satisfaction and operating efficiency are core goals of the programme which is set to run until the end of 2022, with an acceleration in ramp-up of the value captured once all 60 projects are live across the company from 2020 onwards.

## Cinema and Audiovisuals

Our cinema and audiovisuals division's performance in 3Q18 reflected the worldwide decline in cinema spectators, despite a clear improvement in comparison with the previous quarter's performance.

Table 2.

Operating Indicators ('000)	3Q17	2Q18	3Q18	3Q18 / 3Q17	3Q18 / 2Q18	9M17	9M18	9M18 / 9M17
Cinema <sup>(1)</sup>								
Revenue per Ticket (Euros)	4.7	5.0	4.9	4.0%	(1.9%)	4.7	4.9	3.6%
Tickets Sold - NOS	2,509.1	1,785.1	2,378.2	(5.2%)	33.2%	7,251.7	6,346.9	(12.5%)
Tickets Sold - Total Portuguese Market <sup>(2)</sup>	4,041.3	2,887.9	3,902.7	(3.4%)	35.1%	11,985.4	10,502.2	(12.4%)
Screens (units)	215	212	212	(1.4%)	0.0%	215	212	(1.4%)

<sup>(1)</sup> Portuguese Operations

<sup>(2)</sup> Source: ICA - Portuguese Institute For Cinema and Audiovisuals

In 3Q18, NOS' Cinema ticket sales posted a yoy decrease of 5.2% to 2.378 million, reflecting the negative performance of the market as a whole due to fewer blockbuster box office hits during the quarter in comparison with 3Q17. After an exceptionally strong 2017, performance for 9M18 has returned to levels similar to 2016. Average revenue per ticket improved by 4.0% yoy to 4.9 euros in 3Q18. The most successful films exhibited in 3Q18 were "The Incredibles 2", "Hotel Transylvania 3: Summer Vacation", "Mamma Mia! Here We Go Again", "Mission: Impossible - Fallout" and "The Nun".

**NOS' gross box-office** revenues decreased by 1.5% in 3Q18, compared with 0.5% yoy growth for the market as a whole, however the comparison should be adjusted to reflect the fact that the market has expanded by 7 screens yoy whereas NOS had 3 fewer screens in operation in 3Q18 in comparison with 3Q17, essentially due to ongoing refurbishment work in one of its multiplexes (at Oeiras Parque shopping centre). NOS continues to maintain its leading market position, with a market share of 62.4% in terms of gross revenues in 3Q18.

In the Audiovisuals arena, NOS distributed 8 of the top 10 cinema box-office hits in **3Q18**, "The Incredibles 2", "Mamma Mia! Here We Go Again", "Mission: Impossible - Fallout", "The Nun", "The Meg", "Skyscraper", "Ant-Man and the Wasp" and "Ocean's 8", therefore maintaining its leadership position in Cinema Distribution.

# Consolidated Income Statement

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

## Consolidated Financial Statement

Table 3.

Profit and Loss Statement (Millions of Euros)	3Q17	2Q18	3Q18	3Q18 / 3Q17	3Q18 / 2Q18	9M17	9M18	9M18 / 9M17
Operating Revenues	392.1	389.3	395.0	0.7%	1.5%	1,159.7	1,167.3	0.7%
Telco	373.0	374.2	376.2	0.9%	0.5%	1,103.0	1,116.1	1.2%
Consumer Revenues	246.4	241.2	246.1	(0.1%)	2.0%	724.4	727.8	0.5%
Business and Wholesale Revenues	109.9	113.9	109.4	(0.4%)	(4.0%)	325.3	332.3	2.2%
Others and Eliminations	16.7	19.1	20.6	23.6%	8.1%	53.3	56.0	5.0%
Audiovisuals & Cinema <sup>(1)</sup>	30.0	25.5	29.0	(3.1%)	13.8%	90.8	81.7	(10.0%)
Others and Eliminations	(10.9)	(10.5)	(10.2)	(5.9%)	(2.1%)	(34.1)	(30.5)	(10.5%)
Operating Costs Excluding D&A	(241.1)	(230.5)	(238.8)	(1.0%)	3.6%	(710.9)	(705.6)	(0.7%)
Direct Costs	(131.5)	(135.8)	(132.6)	0.9%	(2.4%)	(388.0)	(397.8)	2.5%
Commercial & Customer Related Costs	(32.0)	(30.4)	(29.9)	(6.5%)	(1.6%)	(95.2)	(89.5)	(6.0%)
Operating and Structure Costs	(77.7)	(64.3)	(76.3)	(1.8%)	18.6%	(227.7)	(218.2)	(4.2%)
EBITDA <sup>(2)</sup>	150.9	158.8	156.2	3.5%	(1.6%)	448.8	461.7	2.9%
EBITDA Margin	38.5%	40.8%	39.5%	1.1pp	(1.2pp)	38.7%	39.6%	0.9pp
Telco	138.1	148.7	144.6	4.7%	(2.8%)	411.2	429.0	4.3%
EBITDA Margin	37.0%	39.7%	38.4%	1.4pp	(1.3pp)	37.3%	38.4%	1.2pp
Cinema Exhibition and Audiovisuals	12.8	10.0	11.6	(9.4%)	15.6%	37.6	32.7	(13.0%)
EBITDA Margin	42.8%	39.4%	40.0%	(2.8pp)	0.6pp	41.4%	40.0%	(1.4pp)
Depreciation and Amortization	(104.4)	(94.8)	(95.2)	(8.8%)	0.4%	(308.1)	(297.1)	(3.6%)
(Other Expenses) / Income	(3.8)	(4.5)	(3.5)	(8.8%)	(22.0%)	(11.7)	4.1	n.a.
Operating Profit (EBIT) <sup>(3)</sup>	42.7	59.4	57.5	34.8%	(3.3%)	129.0	168.7	30.8%
Share of results of associates and joint ventures	6.0	0.6	1.3	(78.8%)	n.a.	15.0	(4.5)	n.a.
(Financial Expenses) / Income	(6.5)	(7.9)	(5.2)	(19.4%)	(34.4%)	(18.3)	(19.4)	6.1%
Income Before Income Taxes	42.2	52.1	53.6	26.9%	2.9%	125.7	144.9	15.3%
Income Taxes	(9.4)	(7.2)	(9.6)	1.9%	33.6%	(20.2)	(22.5)	11.0%
Net Income Before Associates & Non-Controlling Interests	26.8	44.3	42.7	59.4%	(3.6%)	90.5	126.9	40.2%
Income From Continued Operations	32.8	44.9	44.0	34.1%	(2.1%)	105.5	122.4	16.1%
o.w. Attributable to Non-Controlling Interests	0.1	0.2	0.1	47.3%	(38.3%)	(0.3)	0.6	n.a.
Net Income	32.9	45.1	44.1	34.1%	(2.2%)	105.1	123.0	17.0%

<sup>(1)</sup> Includes cinema operations in Mozambique.

<sup>(2)</sup> EBITDA = Operating Profit + Depreciation and Amortization + Integration Costs + Net Losses/Gains on Disposal of Assets + Other Non-Recurrent Losses/Gains

<sup>(3)</sup> EBIT = Income Before Financials and Income Taxes.

## Revenues

In 3Q18 Mobile Termination Rates (MTRs) were cut by 44% to 0.42 eurocents from the 0.75 eurocents rate that had been in place since 2H17. Revenue trends are therefore not directly comparable. Adjusting for the regulatory effect, core telco revenues grew by 1.8%, a similar pace of growth to the previous quarter. Unadjusted growth in telco revenues was 0.9%, reaching 376.2 million euros in 3Q18.

Consolidated revenues increased by 0.7% to 395 million euros (adjusted growth of 1.7%) up from 0.5% growth in the previous quarter, reflecting a combination of the aforementioned increase in telco revenues and less negative trends in audiovisuals and cinema revenues which fell by 3.1%, compared with negative 17.7% in 2Q. The aforementioned impact of the MTR cuts in 3Q18 affects like for like comparison in revenues per segment. Adjusted revenues in the Consumer and the Business and Wholesale segments grew by 0.7% and 1% respectively supported by previously discussed solid operating trends and a less aggressive market environment.

The yoy decline in Audiovisuals and Cinema Revenues of 3.1% to 29 million euros is a marked improvement from negative 17.7% in 2Q18 and is in line with general market trends. The number of blockbuster movies exhibited and distributed and the volume of tickets sold was significantly better quarter on quarter, albeit still marginally weaker than the same quarter last year. Yoy comparisons in this division are still impacted by the renegotiation of the value of content contracts to Angola at the end of 2017 due to the challenging macroeconomic environment as explained in previous earnings reports. The value of the contract revision was partially offset by a similar reduction in the cost of the content distributed.

## OPEX

Total OPEX fell 1% in 3Q18 to 238.8 million euros, reflecting an increased pace of yoy decline from 0.6% in 2Q18. Excluding direct costs, OPEX fell by 3.2% yoy to 106.2 million euros demonstrating primarily continued cost discipline and general operating efficiency. Direct costs also benefitted from the aforementioned MTR cut to 0.42 eurocents. As NOS is a net payer of termination rates to other operators, given relative market shares in mobile, reductions in MTRs drive a marginally greater reduction in costs than revenues. Adjusted for MTRs, Direct costs grew by 3.3% due to increased operating activity driving greater traffic related costs. In 3Q18 service costs associated with large corporate accounts were reclassified to Direct Costs from Operating and Structure Costs as they are directly related to the operating activity of this business segment. Both cost aggregates were restated from 1Q17 onwards enabling like-for-like comparability between periods.

As discussed in the operating review, work is underway within the context of our long term transformational project targeting opportunities to become a more agile and efficient operation, aiming to simplify and digitalize processes wherever possible, as a means of increasing customer satisfaction and ultimately reduce costs. The main addressable aggregates are commercial and other operating and structure costs, in addition to some potential opportunities for savings in customer related investments. The programme is still at an early stage of development and such financial impacts are relatively small – the value captured from transformation initiatives will build up primarily from 2020 onwards, as the majority of projects move to implementation phase.



Table 4.

EBITDA and Operating Costs (YoY Change)	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
EBITDA	2.9%	5.5%	4.5%	4.1%	4.3%	3.0%	2.1%	3.5%
Operating Costs Excluding D&A	2.5%	3.3%	2.3%	1.6%	2.4%	(0.7%)	(0.6%)	(1.0%)
Direct Costs	2.4%	13.4%	2.2%	7.8%	6.4%	5.6%	1.4%	0.9%
Commercial & Customer Related Costs	(2.7%)	10.4%	(7.4%)	0.9%	(0.1%)	(7.7%)	(3.9%)	(6.5%)
Operating and Structure Costs	4.8%	(14.8%)	6.9%	(7.0%)	(2.9%)	(7.2%)	(3.0%)	(1.8%)

Core Telco EBITDA increased 4.7% yoy to 144.6 million euros, driving a 1.4 pp increase in margin to 38.4% in 3Q18 and driving an increase in consolidated EBITDA to 156.2 million euros. As in previous quarters, the anticipated slowdown in telco revenue growth is successfully being compensated by improved operating efficiency, a trend that is set to continue with the acceleration of the transformation programme. The yoy decline in Audiovisuals and Cinema EBITDA reduced to negative 9.4% in 3Q18 from negative 18.7% in 2Q18, as a result of the sequential improvement in sector trends. Cinema and Audiovisuals EBITDA in 3Q18 amounted to 11.6 million euros representing a 40% margin as a percentage of revenues.

Depreciation and Amortization was down by 8.8% yoy at 95.2 million euros and close to the levels of 2Q18, explained primarily by the lower yoy impact from impairment of existing mobile network equipment within the context of the major mobile upgrade project being deployed.

Consolidated Net income grew 34.1% to 44.1 million euros led by the growth in EBIT. Total Net financial expenses declined to 5.2 million euros compared with 6.5 million euros in 3Q17 and 7.9 million euros in 2Q18, benefitting from lower average cost of debt and lower charges from financing related commissions. Share of Results of Associates and Joint Ventures in 3Q18 continued to post a positive sequential trend quarter on quarter albeit the contribution was lower yoy amounting to 1.3 million euros given the weaker currency environment in Angola when compared with 2017.

## CAPEX

Table 5.

CAPEX (Millions of Euros) <sup>(1)</sup>	3Q17	2Q18	3Q18	3Q18 / 3Q17	3Q18 / 2Q18	9M17	9M18	9M18 / 9M17
Telco	84.7	85.4	93.3	10.2%	9.3%	239.1	259.5	8.5%
% of Telco Revenues	22.7%	22.8%	24.8%	2.1pp	2.0pp	21.7%	23.3%	1.6pp
o.w. Technical CAPEX	47.1	51.7	50.6	7.3%	(2.1%)	125.5	150.8	20.2%
% of Telco Revenues	12.6%	13.8%	13.4%	0.8pp	(0.4pp)	11.4%	13.5%	2.1pp
Baseline Telco	27.8	35.6	26.6	(4.1%)	(25.2%)	90.5	92.6	2.3%
Network Expansion / Substitution and Integration Projects and Others	19.4	16.0	23.9	23.6%	49.1%	35.0	58.2	66.5%
o.w. Customer Related CAPEX	37.6	33.7	42.7	13.8%	26.8%	113.6	108.7	(4.3%)
% of Telco Revenues	10.1%	9.0%	11.4%	1.3pp	2.4pp	10.3%	9.7%	(0.6pp)
Audiovisuals and Cinema Exhibition	6.6	6.3	7.7	17.4%	22.2%	24.1	20.9	(13.3%)
Total Group CAPEX	91.3	91.7	101.0	10.7%	10.2%	263.2	280.4	6.5%

<sup>(1)</sup> CAPEX = Increase in Tangible and Intangible Fixed Assets

As guided, the major transformation investments in the network discussed above are reflected in the increase in technical CAPEX, up by 7.3% yoy to 50.6 million euros, representing 13.4% of telco revenues in the quarter. Of total technical CAPEX in 3Q18 of 50.6 million euros, almost half was allocated to network expansion and substitution **investment, the lion's share being in the mobile** network upgrade in the quarter.

Customer related CAPEX within the telco business increased to 42.7 million euros in 3Q18 (11.4% of revenues) boosted by additional commercial activity primarily in new coverage areas, as is to be expected with the ramp up in expansion during the latter half of the year. This increased commercial activity is visible in the pick up in fixed access subscriber growth discussed in the operating review.

Total CAPEX was 101 million euros in 3Q18, 25.6% as a proportion of revenues, impacted primarily by the telco investments discussed above and the improvement in the Audiovisuals and Cinemas operation leading to higher investment in movie rights.

## Cash Flow

Table 6.

Cash Flow (Millions of Euros)	3Q17	2Q18	3Q18	3Q18 / 3Q17	3Q18 / 2Q18	9M17	9M18	9M18 / 9M17
EBITDA	150.9	158.8	156.2	3.5%	(1.6%)	448.8	461.7	2.9%
Total CAPEX	(91.3)	(91.7)	(101.0)	10.7%	10.2%	(263.2)	(280.4)	6.5%
EBITDA - Total CAPEX	59.7	67.1	55.2	(7.5%)	(17.7%)	185.6	181.3	(2.3%)
% of Revenues	15.2%	17.2%	14.0%	(1.2pp)	(3.3pp)	16.0%	15.5%	(0.5pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(3.7)	(1.5)	14.4	n.a.	n.a.	(23.0)	(0.8)	(96.3%)
Operating Cash Flow	56.0	65.6	69.6	24.2%	6.0%	162.7	180.5	10.9%
Long Term Contracts	(4.6)	(4.0)	(4.0)	(13.3%)	(1.0%)	(11.3)	(10.7)	(4.8%)
Interest Paid	(6.3)	(3.8)	(3.1)	(50.3%)	(18.6%)	(17.9)	(12.3)	(31.3%)
Income Taxes Paid	(9.4)	(0.9)	1.4	n.a.	n.a.	(9.7)	3.9	n.a.
Disposals	0.6	(0.0)	0.7	12.1%	n.a.	25.9	0.8	(96.8%)
Other Cash Movements <sup>(1)</sup>	(2.5)	(2.9)	23.6	n.a.	n.a.	(13.7)	18.0	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	33.9	54.0	88.2	160.1%	63.2%	136.0	180.1	32.5%
Acquisition of Own Shares	0.0	0.0	0.0	n.a.	n.a.	0.0	(3.1)	n.a.
Dividends	0.0	(153.9)	0.0	n.a.	(100.0%)	(102.6)	(153.9)	50.0%
Free Cash Flow	33.9	(99.9)	88.2	160.1%	n.a.	33.3	23.1	(30.7%)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	0.5	(0.1)	(2.3)	n.a.	n.a.	(0.9)	(2.2)	152.9%
Change in Net Financial Debt	(34.4)	100.0	(85.9)	149.4%	n.a.	(32.5)	(20.9)	(35.5%)

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

FCF before dividends recorded a significant increase yoy to 88.2 million euros in 3Q18 compared with 33.9 million euros in 3Q17, explained in part by a non-recurrent inflow, related with receipt of a legal settlement, in favour of NOS, regarding a pending regulatory dispute over operator termination rate charges which had already been accounted for in the income statement in 1Q18. Although EBITDA grew by 3.5% yoy in 3Q18, it did not compensate the significant increase in CAPEX leading to a decline in EBITDA-CAPEX to 55.2 million euros. Working capital and non cash item adjustments in EBITDA-CAPEX were positive due primarily to the positive contribution of trade balances payments with ZAP during the quarter and outstanding operator balances related with the aforementioned pending legal dispute. As such, Operating Cash Flow increased by 24.2% to 69.6 million euros. Of the remaining cash items, interest paid was significantly lower compared with 3Q17 and also 18.6% lower than the previous quarter explained mostly by the continued decline in average cost of debt. The non-recurrent **positive cash inflow recorded in "Other Cash Movements"** is explained by interest received from the outstanding legal settlement.

## Consolidated Balance Sheet

Table 7.

Balance Sheet (Millions of Euros)	9M17	2017	9M18	9M18/ 9M17
Non-current Assets	2,448.6	2,449.3	2,404.9	(1.8%)
Current Assets	542.5	561.2	538.3	(0.8)%
Total Assets	2,991.1	3,010.5	2,943.2	(1.6)%
Total Shareholders' Equity	1,087.0	1,111.5	1,068.3	(1.7)%
Non-current Liabilities	1,156.3	1,146.1	1,112.6	(3.8)%
Current Liabilities	747.9	753.0	762.4	1.9%
Total Liabilities	1,904.2	1,899.1	1,875.0	(1.5)%
Total Liabilities and Shareholders' Equity	2,991.1	3,010.5	2,943.2	(1.6)%

## Capital Structure and Funding

At the end of 9M18, Net Financial Debt stood at 1,064.5 million euros. Total financial debt was 1,067.0 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.5 million euros. At the end of 9M18, NOS also had 255 million euros of unissued commercial paper programmes. The all-in average cost of NOS' Net Financial Debt stood at 1.7% for 3Q18, which compares with 1.9% in both 3Q17 and 2Q18. In 9M18, the all-in average cost of NOS' Net Financial Debt amounted to 1.9%.

Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.8x, still representing a solid and conservative capital structure in the range of 2x Net Financial Debt / EBITDA, which we are committed to maintain. The average maturity of NOS' Net Financial Debt at the end of 9M18 was 3.2 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 September 2018, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 79%.

Table 8.

Net Financial Debt (Millions of Euros) <sup>(1)</sup>	9M17	2017	9M18	9M18/ 9M17
Short Term	193.3	197.3	178.4	(7.7%)
Bank and Other Loans	177.5	183.6	164.2	(7.5%)
Financial Leases	15.8	13.7	14.2	(10.2%)
Medium and Long Term	888.5	891.2	888.6	0.0%
Bank and Other Loans	869.9	870.3	875.7	0.7%
Financial Leases	18.7	20.8	12.9	(30.9%)
Total Debt	1,081.8	1,088.5	1,067.0	(1.4%)
Cash and Short Term Investments	2.0	3.0	2.5	24.9%
Net Financial Debt	1,079.8	1,085.5	1,064.5	(1.4%)
Net Financial Gearing <sup>(2)</sup>	49.8%	49.4%	49.9%	0.1pp
Net Financial Debt / EBITDA	1.9x	1.9x	1.8x	n.a.

<sup>(1)</sup> Net Financial Debt = Borrowings - Long Term Contracts + Cash and Short Term Investments  
<sup>(2)</sup> Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity)

# Appendix I

Table 9.

Operating Indicators ('000)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
<b>Telco <sup>(1)</sup></b>							
<b>Aggregate Indicators</b>							
Homes Passed <sup>(2)</sup>	3,772.3	3,787.2	4,055.7	4,081.3	4,095.8	4,159.0	4,257.5
Total RGUs	9,155.2	9,254.3	9,365.8	9,411.7	9,453.7	9,499.6	9,569.9
Mobile	4,487.1	4,549.1	4,643.8	4,672.9	4,703.6	4,728.1	4,770.0
Pre-Paid	2,034.2	2,027.3	2,070.5	2,079.7	2,057.7	2,050.7	2,051.1
Post-Paid	2,452.8	2,521.8	2,573.3	2,593.2	2,645.9	2,677.3	2,718.9
Pay TV Fixed Access <sup>(3)</sup>	1,276.2	1,282.4	1,287.8	1,292.2	1,295.0	1,301.8	1,312.5
Pay TV DTH	332.3	331.0	327.9	324.4	319.6	314.8	309.2
Fixed Voice	1,738.0	1,751.1	1,752.9	1,758.2	1,760.1	1,764.9	1,772.1
Broadband	1,290.2	1,308.0	1,320.6	1,333.1	1,344.2	1,358.7	1,375.2
Others and Data	31.5	32.7	32.8	30.9	31.1	31.2	31.0
3,4&5P Subscribers (Fixed Access)	1,083.3	1,096.3	1,108.5	1,112.1	1,120.4	1,132.0	1,147.3
% 3,4&5P (Fixed Access)	84.9%	85.5%	86.1%	86.1%	86.5%	87.0%	87.4%
Convergent RGUs	3,509.0	3,585.9	3,631.5	3,650.6	3,730.8	3,787.2	3,842.7
Convergent Customers	697.8	710.8	718.5	721.4	740.0	749.3	759.9
Fixed Convergent Customers as % of Fixed Access Customers	46.5%	47.1%	47.3%	47.4%	48.8%	49.3%	49.9%
% Convergent Customers	43.4%	44.1%	44.5%	44.6%	45.8%	46.3%	46.9%
<b>Net Adds</b>							
Homes Passed	8.3	14.9	268.5	25.6	14.5	63.2	98.5
Total RGUs	78.4	99.1	111.5	45.9	42.0	45.9	70.3
Mobile	31.4	62.0	94.7	29.1	30.6	24.5	41.9
Pre-Paid	(37.0)	(7.0)	43.2	9.2	(22.0)	(6.9)	0.4
Post-Paid	68.4	69.0	51.5	19.9	52.7	31.4	41.6
Pay TV Fixed Access	10.6	6.2	5.5	4.3	2.9	6.8	10.6
Pay TV DTH	(2.7)	(1.3)	(3.1)	(3.5)	(4.7)	(4.8)	(5.6)
Fixed Voice	13.3	13.1	1.8	5.3	1.8	4.8	7.2
Broadband	25.6	17.8	12.6	12.5	11.1	14.5	16.4
Others and Data	0.4	1.2	0.0	(1.9)	0.3	0.1	(0.2)
3,4&5P Subscribers (Fixed Access)	21.4	13.1	12.1	3.6	8.3	11.6	15.3
Convergent RGUs	121.8	76.9	45.6	19.1	80.3	56.4	55.5
Convergent Customers	17.6	13.0	7.7	2.9	18.6	9.3	10.6

(1) Portuguese Operations.

(2) Includes DST from 3Q17.

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

Table 10.

Operating Indicators ('000)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Telco <sup>(1)</sup>							
Indicators per Segment							
Consumer							
Total RGUs	7,724.7	7,801.2	7,906.1	7,953.1	7,969.4	8,006.4	8,071.6
Pay TV Fixed Access	1,180.1	1,185.0	1,189.5	1,193.6	1,195.2	1,200.4	1,209.8
Pay TV DTH	303.5	302.1	300.2	297.7	293.3	288.3	283.2
Broadband	1,167.2	1,182.9	1,194.6	1,206.3	1,216.4	1,228.3	1,243.3
Fixed Voice	1,402.1	1,408.6	1,410.5	1,413.8	1,414.7	1,419.3	1,425.3
Mobile	3,671.8	3,722.6	3,811.3	3,841.6	3,849.8	3,870.2	3,910.0
ARPU / Unique Subscriber With Fixed Access (Euros)	44.3	44.5	44.6	44.0	44.2	44.3	44.2
<i>Net Adds</i>							
Total RGUs	65.8	76.5	104.9	47.0	16.3	37.0	65.2
Pay TV Fixed Access	8.1	4.9	4.5	4.2	1.6	5.1	9.5
Pay TV DTH	(2.8)	(1.4)	(2.0)	(2.5)	(4.4)	(5.0)	(5.1)
Broadband	23.6	15.7	11.7	11.7	10.1	11.9	15.0
Fixed Voice	8.8	6.6	1.9	3.3	0.9	4.5	6.0
Mobile	28.1	50.8	88.7	30.3	8.2	20.4	39.8
Business							
Total RGUs	1,430.5	1,453.1	1,459.7	1,458.6	1,484.3	1,493.2	1,498.3
Pay TV	124.8	126.2	126.1	125.2	126.2	127.9	128.6
Broadband	154.6	157.9	158.7	157.6	159.0	161.7	162.8
Fixed Voice	335.9	342.5	342.4	344.5	345.4	345.7	346.8
Mobile	815.2	826.5	832.5	831.3	853.8	857.9	860.0
ARPU per RGU (Euros)	15.8	15.7	15.4	15.1	14.7	14.7	14.9
<i>Net Adds</i>							
Total RGUs	12.6	22.6	6.6	(1.1)	25.6	8.9	5.1
Pay TV	2.5	1.4	(0.1)	(0.9)	0.9	1.8	0.7
Broadband	2.3	3.3	0.9	(1.1)	1.3	2.7	1.2
Fixed Voice	4.5	6.6	(0.1)	2.1	0.9	0.3	1.1
Mobile	3.3	11.3	6.0	(1.2)	22.5	4.1	2.1
Cinema <sup>(1)</sup>							
Revenue per Ticket (Euros)	4.8	4.7	4.7	4.9	4.9	5.0	4.9
Tickets Sold	2,296.4	2,446.3	2,509.1	2,198.9	2,183.5	1,785.1	2,378.2
Screens (units)	215	215	215	219	219	212	212

(1) Portuguese Operations

## Appendix II

Table 11.

Profit and Loss Statement (Millions of Euros)	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
Operating Revenues	380.3	387.3	392.1	398.9	1,558.6	383.0	389.3	395.0
Telco	362.3	367.7	373.0	381.1	1,484.1	365.7	374.2	376.2
Consumer Revenues	238.0	240.0	246.4	241.9	966.3	240.4	241.2	246.1
Business and Wholesale Revenues	102.7	112.7	109.9	118.1	443.3	108.9	113.9	109.4
Others and Eliminations	21.6	15.0	16.7	21.1	74.4	16.3	19.1	20.6
Audiovisuals & Cinema <sup>(1)</sup>	29.8	31.0	30.0	29.7	120.5	27.2	25.5	29.0
Others and Eliminations	(11.8)	(11.4)	(10.9)	(11.8)	(45.9)	(9.8)	(10.5)	(10.2)
Operating Costs Excluding D&A	(237.9)	(231.8)	(241.1)	(272.4)	(983.2)	(236.3)	(230.5)	(238.8)
Direct Costs	(122.6)	(133.9)	(131.5)	(147.7)	(535.7)	(129.4)	(135.8)	(132.6)
Commercial & Customer Related Costs	(31.6)	(31.6)	(32.0)	(37.3)	(132.5)	(29.2)	(30.4)	(29.9)
Operating and Structure Costs	(83.7)	(66.3)	(77.7)	(87.3)	(315.0)	(77.7)	(64.3)	(76.3)
EBITDA <sup>(2)</sup>	142.4	155.5	150.9	126.6	575.4	146.7	158.8	156.2
EBITDA Margin	37.4%	40.1%	38.5%	31.7%	36.9%	38.3%	40.8%	39.5%
Telco	130.0	143.1	138.1	115.2	526.4	135.7	148.7	144.6
EBITDA Margin	35.9%	38.9%	37.0%	30.2%	35.5%	37.1%	39.7%	38.4%
Cinema Exhibition and Audiovisuals	12.4	12.4	12.8	11.4	49.0	11.0	10.0	11.6
EBITDA Margin	41.5%	39.9%	42.8%	38.5%	40.7%	40.6%	39.4%	40.0%
Depreciation and Amortization	(100.2)	(103.5)	(104.4)	(111.8)	(419.9)	(107.1)	(94.8)	(95.2)
(Other Expenses) / Income	(3.4)	(4.5)	(3.8)	(4.0)	(15.7)	12.1	(4.5)	(3.5)
Operating Profit (EBIT) <sup>(3)</sup>	38.8	47.5	42.7	10.8	139.8	51.8	59.4	57.5
Share of results of associates and joint ventures	5.3	3.6	6.0	7.9	22.9	(6.3)	0.6	1.3
(Financial Expenses) / Income	(6.6)	(5.2)	(6.5)	(5.7)	(24.0)	(6.2)	(7.9)	(5.2)
Income Before Income Taxes	37.6	45.9	42.2	13.0	138.7	39.2	52.1	53.6
Income Taxes	(4.8)	(6.0)	(9.4)	3.7	(16.5)	(5.7)	(7.2)	(9.6)
Net Income Before Associates & Non-Controlling Interests	27.4	36.3	26.8	8.8	99.3	39.8	44.3	42.7
Income From Continued Operations	32.7	39.9	32.8	16.8	122.2	33.5	44.9	44.0
o.w. Attributable to Non-Controlling Interests	0.0	(0.4)	0.1	0.2	(0.1)	0.3	0.2	0.1
Net Income	32.8	39.5	32.9	17.0	122.1	33.8	45.1	44.1

(1) Includes cinema operations in Mozambique.

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

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

Table 12.

CAPEX (Millions of Euros) <sup>(1)</sup>	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
Telco	77.0	77.4	84.7	104.6	343.7	80.8	85.4	93.3
% of Telco Revenues	21.3%	21.0%	22.7%	27.5%	23.2%	22.1%	22.8%	24.8%
o.w. Technical CAPEX	36.0	42.4	47.1	68.6	194.1	48.6	51.7	50.6
% of Telco Revenues	9.9%	11.5%	12.6%	18.0%	13.1%	13.3%	13.8%	13.4%
Baseline Telco	26.8	35.9	27.8	32.5	123.0	30.4	35.6	26.6
Network Expansion / Substitution and Integration Projects and Others	9.1	6.5	19.4	36.1	71.1	18.2	16.0	23.9
o.w. Customer Related CAPEX	41.0	35.0	37.6	36.0	149.6	32.2	33.7	42.7
% of Telco Revenues	11.3%	9.5%	10.1%	9.5%	10.1%	8.8%	9.0%	11.4%
Audiovisuals and Cinema Exhibition	9.4	8.1	6.6	9.4	33.5	6.8	6.3	7.7
Total Group CAPEX	86.4	85.5	91.3	114.0	377.2	87.7	91.7	101.0

(1) CAPEX = Increase in Tangible and Intangible Fixed Assets

Table 13.

Cash Flow (Millions of Euros)	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
EBITDA	142.4	155.5	150.9	126.6	575.4	146.7	158.8	156.2
Total CAPEX	(86.4)	(85.5)	(91.3)	(114.0)	(377.2)	(87.7)	(91.7)	(101.0)
EBITDA - Total CAPEX	56.0	70.0	59.7	12.5	198.2	59.1	67.1	55.2
% of Revenues	14.7%	18.1%	15.2%	3.1%	12.7%	15.4%	17.2%	14.0%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.2)	(12.1)	(3.7)	(0.3)	(23.3)	(13.8)	(1.5)	14.4
Operating Cash Flow	48.8	57.9	56.0	12.3	174.9	45.3	65.6	69.6
Long Term Contracts	(2.9)	(3.8)	(4.6)	(3.6)	(14.9)	(2.8)	(4.0)	(4.0)
Interest Paid	(6.7)	(4.9)	(6.3)	(3.1)	(21.0)	(5.3)	(3.8)	(3.1)
Income Taxes Paid	(0.3)	(0.0)	(9.4)	(7.6)	(17.3)	3.3	(0.9)	1.4
Disposals	24.6	0.7	0.6	1.0	27.0	0.2	(0.0)	0.7
Other Cash Movements <sup>(1)</sup>	(5.3)	(5.9)	(2.5)	(1.5)	(15.3)	(2.7)	(2.9)	23.6
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	58.2	43.9	33.9	(2.6)	133.4	38.0	54.0	88.2
Acquisition of Own Shares	0.0	0.0	0.0	0.0	0.0	(3.1)	0.0	0.0
Dividends	0.0	(102.6)	0.0	0.0	(102.6)	0.0	(153.9)	0.0
Free Cash Flow	58.2	(58.7)	33.9	(2.6)	30.8	34.9	(99.9)	88.2
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	0.8	(2.2)	0.5	(3.1)	(4.0)	0.2	(0.1)	(2.3)
Change in Net Financial Debt	(59.0)	60.9	(34.4)	5.7	(26.8)	(35.1)	100.0	(85.9)

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



Table 14.

Net Financial Debt (Millions of Euros) <sup>(1)</sup>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Short Term	156.3	153.6	193.3	197.3	113.3	212.3	178.4
Bank and Other Loans	139.0	138.7	177.5	183.6	99.3	199.2	164.2
Financial Leases	17.3	15.0	15.8	13.7	14.0	13.2	14.2
Medium and Long Term	898.9	962.6	888.5	891.2	939.4	941.2	888.6
Bank and Other Loans	872.2	939.4	869.9	870.3	920.8	925.4	875.7
Financial Leases	26.6	23.2	18.7	20.8	18.6	15.8	12.9
Total Debt	1,055.1	1,116.3	1,081.8	1,088.5	1,052.7	1,153.5	1,067.0
Cash and Short Term Investments	1.8	2.0	2.0	3.0	2.3	3.1	2.5
Net Financial Debt	1,053.3	1,114.2	1,079.8	1,085.5	1,050.4	1,150.4	1,064.5
Net Financial Gearing <sup>(2)</sup>	48.6%	51.4%	49.8%	49.4%	48.1%	52.8%	49.9%
Net Financial Debt / EBITDA	1.9x	2.0x	1.9x	1.9x	1.8x	2.0x	1.8x

(1) Net Financial Debt = Borrowings - Long Term Contracts + Cash and Short Term Investments

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

Table 15.

Financial Indicators YoY Change	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
Operating Revenues	2.7%	4.2%	3.1%	2.4%	3.1%	0.7%	0.5%	0.7%
Telco	2.7%	3.0%	3.7%	2.9%	3.1%	0.9%	1.8%	0.9%
Consumer Revenues	2.7%	5.1%	5.3%	1.3%	3.6%	1.0%	0.5%	(0.1%)
Business and Wholesale Revenues	0.9%	5.1%	3.9%	9.9%	5.0%	6.1%	1.1%	(0.4%)
Others and Eliminations	12.0%	(29.5%)	(16.5%)	(12.2%)	(12.1%)	(24.4%)	26.9%	23.6%
Audiovisuals & Cinema	2.6%	19.8%	(6.3%)	(3.1%)	2.5%	(9.0%)	(17.7%)	(3.1%)
Others and Eliminations	4.0%	4.6%	(4.7%)	4.0%	1.9%	(16.6%)	(8.6%)	(5.9%)
Operating Costs Excluding D&A	2.5%	3.3%	2.3%	1.6%	2.4%	(0.7%)	(0.6%)	(1.0%)
Direct Costs	2.4%	13.4%	2.2%	7.8%	6.4%	5.6%	1.4%	0.9%
Cost of Goods Sold	(2.7%)	10.4%	(7.4%)	0.9%	(0.1%)	(7.7%)	(3.9%)	(6.5%)
Other Costs	4.8%	(14.8%)	6.9%	(7.0%)	(2.9%)	(7.2%)	(3.0%)	(1.8%)
EBITDA	2.9%	5.5%	4.5%	4.1%	4.3%	3.0%	2.1%	3.5%
EBITDA Margin	0.1pp	0.5pp	0.5pp	0.5pp	0.4pp	0.9pp	0.6pp	1.1pp
Telco	2.9%	5.0%	5.7%	6.1%	4.9%	4.4%	3.9%	4.7%
EBITDA Margin	0.1pp	0.7pp	0.7pp	0.9pp	0.6pp	1.2pp	0.8pp	1.4pp
Cinema Exhibition and Audiovisuals	2.8%	11.8%	(7.1%)	(13.1%)	(2.1%)	(11.0%)	(18.7%)	(9.4%)
EBITDA Margin	0.0pp	(2.9pp)	(0.4pp)	(4.4pp)	(1.9pp)	(0.9pp)	(0.5pp)	(2.8pp)
Operating Profit (EBIT)	(8.8%)	1.9%	1.4%	(20.7%)	(3.5%)	33.3%	25.2%	34.8%
CAPEX	(9.0%)	(14.9%)	(5.1%)	17.5%	(3.0%)	1.4%	7.3%	10.7%
EBITDA - CAPEX	29.1%	49.3%	23.6%	(48.9%)	21.5%	5.5%	(4.2%)	(7.5%)
Operating Cash Flow	112.9%	101.2%	17.3%	(45.6%)	43.4%	(7.2%)	13.4%	24.2%
Free Cash Flow Before Dividends	n.a.	210.9%	39.5%	n.a.	146.6%	(34.7%)	23.0%	160.1%
Free Cash Flow	n.a.	(27.8%)	39.5%	n.a.	n.a.	(40.1%)	70.2%	160.1%

## Disclaimer

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Conference call and audio webcast scheduled for 12.00 (GMT) on 09 November 2018

Audio webcast available [here](#)

Conference ID: 3134620

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A replay of the conference call is available as of 18.00 (GMT) on November 09 and may be accessed using the same dial-in details.

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