

Second Party Opinion

**NOS' Sustainability-Linked Financing Framework**

Feb. 2, 2022

NOS S.G.P.S. S.A. is a Portugal-based telecommunications and entertainment company. In addition to offering fixed and mobile phone, television, internet, voice, and data solutions, NOS provides corporate clients with a range of products and services, including information communication technology, internet-of-things, and cloud services. In 2020, the company posted EBITDA exceeding €603 million, of which close to 95% was generated by its telecom business.

In our view, NOS' Sustainability-Linked Financing Framework, published Feb. 2, 2022, is aligned with:

- ✓ Sustainability-Linked Bond Principles, ICMA, 2020
- ✓ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2021

**Issuer's Sustainability Objectives**

NOS' sustainability strategy for 2021-2025 consists of four pillars: (i) reducing its environmental footprint while helping customers minimize theirs; (ii) facilitating a digital transformation that fosters access to technology; (iii) improving employees' well-being; and (iv) upholding high business ethics.

The company's Sustainability-Linked Financing Framework aligns its first strategic pillar and ambition to transition to a low-carbon business model with its funding strategy by setting targets to reduce greenhouse gas (GHG) emissions. The objectives integrated into the framework are also supported by NOS' long-term emission-reduction targets, which are validated by the Science-Based Targets Initiative (SBTi). To ensure it meets its carbon-reduction goal, NOS has also detailed associated measures it plans to execute, such as transitioning to 100% of renewable electricity and increasing the energy efficiency of its operations, among others.

**Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)**

KPI	SPT	Baseline	2020 Performance
Scope 1 and 2 GHG emissions in tons of carbon dioxide equivalent (tCO <sub>2</sub> e)	Reduce scope 1 and 2 emissions by 80% by 2025 from 2019 levels	50,383 tCO <sub>2</sub> e (2019)	34,499 tCO <sub>2</sub> e
Scope 3 GHG emissions in tCO <sub>2</sub> e	Reduce scope 3 emissions by 30% by 2030 from 2019 levels	463,094 tCO <sub>2</sub> e (2019)	428,344 tCO <sub>2</sub> e

**PRIMARY ANALYST**

**Luis Solís**  
Madrid  
+34 676 957 452  
luis.solis@spglobal.com

**SECONDARY ANALYSTS**


**Maxime Chul**  
Paris  
+33 610 450 098  
maxime.chul@spglobal.com

**ADDITIONAL CONTACT**


**Florence Devevey**  
**Analytical manager**  
**Sustainable Finance EMEA**  
Paris  
+33-1-40-75-25-01  
florence.devevey@spglobal.com

## Second Party Opinion Summary

### Selection of key performance indicators (KPIs)

<b>Alignment</b>		NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).				
<b>KPI 1</b>	Scope 1 and 2 GHG emissions in tCO <sub>2</sub> e		Not aligned	Aligned	Strong	<b>Advanced</b>
<b>KPI 2</b>	Scope 3 GHG emissions in tCO <sub>2</sub> e		Not aligned	Aligned	Strong	<b>Advanced</b>

### Calibration of sustainability performance targets (SPTs)

<b>Alignment</b>		NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).				
<b>SPT 1</b>	Reduce scope 1 and 2 emissions by 80% by 2025 from 2019 levels		Not aligned	Aligned	Strong	<b>Advanced</b>
<b>SPT 2</b>	Reduce scope 3 emissions by 30% by 2030 from 2019 levels		Not aligned	<b>Aligned</b>	Strong	Advanced

### Instrument characteristics

**Alignment**  NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

Instruments issued under the framework will be subject to potential financial or structural variations that will be defined in the instrument's terms and conditions. These variations can include a variable interest rate or a one-time premium payment by NOS on the maturity date, if one or more of the selected KPIs have not achieved the SPT on the target observation date, NOS cannot calculate the KPIs, or the company is unable to publish its annual report.

### Reporting

**Alignment**  NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

**Score** Not aligned Aligned Strong **Advanced**

NOS will publish annually information on its progress against the selected SPTs, and when relevant, any reassessments of KPIs and SPTs due to changes or adjustments to their baselines or scope resulting from mergers or acquisitions (M&A).

### Post-issuance review


**Alignment**  NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

NOS is committed to publishing its performance against each KPI annually in its management report. This report will be verified by an auditor that will express a certain assurance level. The auditor provided limited assurance on the revised 2021 figures.

# Framework Assessment

## Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as satisfactory, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 NOS’ Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

**KPI 1**    Scope 1 and 2 GHG emissions in tCO<sub>2</sub>e    Not aligned    Aligned    Strong    **Advanced**

We believe the first KPI selected by NOS is advanced, considering the scope, objective, and calculation are clearly articulated, and given that the KPI responds to a highly relevant matter for the sector as reflected in the company’s sustainability strategy.

The KPI’s objective, baseline, and scope are well defined in the framework. Scope 1 and 2 emissions are to be measured for all operations following the GHG Protocol, thus allowing for external benchmarking. The company has published Scope 1 and 2 emissions in its management report for several years. These figures have been assessed by its external auditor on a “limited” assurance basis.

The first pillar of NOS’ sustainability strategy focuses on minimizing the company’s environmental impact while helping customers reduce theirs. We believe this KPI will allow the company to gauge the efficiency of its efforts in energy efficiency and fleet electrification.

The KPI also addresses sustainability topics most relevant to the company and its stakeholders as identified by NOS’ materiality assessment. Likewise, this KPI is relevant in the sector given its importance to face the challenge of full decarbonization.

We see a direct link between the KPI and NOS’ objective to tackle climate change. Nevertheless, scope 1 and 2 emissions made up less than 10% of NOS’ total GHG emissions in 2019 and 2020, relative to total emissions, including scope 3 ones. Therefore, we believe this KPI will help decarbonize NOS’ activities, but to a lesser extent than scope 3 emissions targets. Furthermore, given the magnitude of scope 1 and 2 emissions produced by the telecoms industry in absolute terms, when compared with those of other industries, we believe the company’s efforts to reduce them is relevant.

**KPI 2**    Scope 3 GHG emissions in tCO<sub>2</sub>e    Not aligned    Aligned    Strong    **Advanced**

We believe the second KPI selected by NOS is advanced, considering the scope, objective, and calculation are clearly articulated, and given that the KPI responds to a highly relevant matter for the sector that is integrated into the company’s sustainability strategy.

Scope 3 emissions are to be measured for all the company’s operations following the GHG Protocol. Similarly, this KPI received a limited assurance external verification for the first time in December 2021.

We believe this KPI will allow the company to measure its progress toward its strategic goal of reducing its environmental footprint. We note that scope 3 emissions accounted for more than 90% of NOS’ total GHG emissions in the past two years, making it a very relevant indicator for the company. These emissions mainly relate to the GHG Protocol categories of capital goods, consumer use phase, and purchased goods and services.

In addition, we view scope 3 emissions as particularly relevant to assessing the environmental impact of the telecom and entertainment sector given the potential increase in energy demands related to a more connected world, particularly the deployment of 5G and associated services.

## Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as satisfactory, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

**SPT 1** Reduce scope 1 and 2 emissions by 80% by 2025 from 2019 levels Not aligned Aligned Strong Advanced

We believe the ambition, clarity, and characteristics of the SPT selected for the framework's first KPI are advanced. Furthermore, the framework briefly describes NOS' strategy for achieving the target and provides information on the issuer's past performance and benchmarks performance relative to peers'.

NOS' baseline and historical performance have been externally verified and are part of the company's annual public management report. The framework outlines the timeline for target achievement and the expected observation date in 2025 and specifies that the number of potential KPI events depends on the number of KPIs included in the terms and conditions of the respective sustainability-linked financing instruments.

The SPT is benchmarked against the issuer's past performance since 2017, which shows that the SPT's suggested annualized rate is stronger than the observed annualized drop in emissions over 2017-2020.

The SPT is in line with NOS' Science Based Targets initiative (SBTi) validated 2030 target, assigning alignment with the 1.5°C scenario, which we view as best practice in the industry. Furthermore, the issuer carried out an external benchmarking exercise that showcases that the expected annual reduction rate is in line with that of the most advanced peers in the sector. As a result, we view the SPT as ambitious.

NOS mentions factors that will support its achievement of SPT, including switching to 100% certified electricity from renewable sources, and fleet electrification, for example. Also, the issuer comments on external factors beyond their control that may put its achievement of the target at risk, such as pricing volatility. NOS' strategy to reduce emissions from electricity includes certificates, which we view as weaker in climate mitigation. Still, the company discloses in its sustainability reporting the percentage of emission reduction neutralized using certificates, which allows for more robust benchmarks.

### Baseline

2019	2025
50,383 tCO <sub>2</sub> e	10,077 tCO <sub>2</sub> e
	Equivalent to 80% reduction

**SPT 2** Reduce scope 3 emissions by 30% by 2030 compared to 2019 levels Not aligned Aligned Strong Advanced

We believe the ambition, clarity, and characteristics of the SPT selected for the framework's second KPI are aligned with the Principles. Furthermore, the framework briefly describes the strategy to reach the target and provides some information on the issuer's past performance and benchmarks performance to peers.

## Second Party Opinion

The framework outlines the timeline for target achievement and the expected observation date in 2030 and specifies that the number of potential KPI events depends on the number of KPIs included in the terms and conditions of the respective sustainability-linked financing instruments.

The SPT is benchmarked against the issuer's past performance since 2019. Although scope 3 emissions showed a meaningful reduction in 2020, the effect of pandemic-related restrictions on business travel and employee commuting combined with a short track-record of reporting, make it difficult to reach conclusions on its decarbonization pace. The company completed its GHG emissions inventory for the first time in 2021 for 2019 and 2020, which constrains our score given that the Principles recommend the issuer's performance is benchmarked to a minimum of three years of historical KPI data for target-setting purposes.

Nonetheless, the issuer has performed a peer benchmarking to set this target, and we view the target to be slightly more ambitious than the company's selected peer list in terms of annual reduction rate. Also, the issuer has received the SBTi validation of its 2030 target.

NOS's framework states the factors that will support the achievement of the SPT, including recycling and reusing customer equipment, collaborating with its suppliers to reduce emissions related to procurement, and implementing an internal carbon price to support more sustainable decision-making in terms of capital allocation.

### Baseline

2019	2030
463,094 tCO <sub>2</sub> e	324,166 tCO <sub>2</sub> e
	Equivalent to 30% reduction

## Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

- ✓ NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

Instruments issued under the framework will be subject to different potential structural/financial variations, which will be defined in the terms and conditions of the respective instruments. These variations can include to a variable interest rate or a one-time premium payment by NOS on the maturity date, if one or more of the selected KPIs have not achieved the SPT (referred to as KPI event) on the target observation date.

The issuer specifies that a KPI-event will also occur if NOS cannot calculate the KPIs or publish a report including the KPIs.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

- ✓ NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).

### Disclosure score

Not aligned

Aligned

Strong

**Advanced**

We consider NOS' overall reporting practices advanced.

## Second Party Opinion


In its framework, the issuer commits to publish annually its performance against the selected KPIs and SPTs in its management report, and to disclose information to allow investors to analyze its performance against these KPIs. The issuer will also make information on the selected KPIs available annually in a dedicated separate document that references the management report on its investors' relations website.

NOS will also publish, when relevant, any reassessments of KPIs and SPTs due to changes in the calculation method or adjustments to their baselines or scope resulting from M&A. NOS also commits to disclose a qualitative or quantitative explanation of which factors--for example, M&A activities or a change in calculation method--may contribute to the reassessment if it changes at least 5% of the KPI's CO2e inventory.

Also, NOS commits to include the illustration of the positive sustainability impacts of the performance improvement of these KPIs.

## Post-issuance review

The Principle requires post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

 NOS' Sustainability-Linked Financing Framework is aligned with this component of the Sustainability-Linked Bond Principles (2020) and Sustainability-Linked Loan Principles (2021).







NOS commits to including its performance against each KPI in its annual management report. This report will be verified by its auditor who, in its 2021 report, validated NOS' figures (for the first time for scope 3), although on a limited assurance basis. However, the issuer aims to adhere to market standard regarding the level of assurance required on its nonfinancial metrics.

During reporting years with a target observation date, NOS will additionally publish an externally verified report on the specific KPIs that are used in one or several sustainability-linked financing instruments.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

NOS' Sustainability-Linked Financing Framework intends to contribute to the following SDGs:

KPI	SDGs		
GHG emissions (scope 1 and 2) in tCO <sub>2</sub> e			
	<b>7. Affordable and clean energy*</b>	<b>12. Responsible consumption and production*</b>	<b>13. Climate action*</b>
GHG emissions (scope 3) in tCO <sub>2</sub> e			
	<b>7. Affordable and clean energy*</b>	<b>12. Responsible consumption and production*</b>	<b>13. Climate action*</b>

\*The KPI is likely to contribute to the SDGs.

## Second Party Opinion

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Sustainable Financing Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at [www.spglobal.com](http://www.spglobal.com). Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.