NOS

Earnings Announcement

1Q

15

1Q15 Highlights

Table 1.

1Q15 Highlights	1Q14	1Q15	1Q15 / 1Q14
Operational Highlights			
Total RGUs (Net Adds)	2.2	151.3	n.a.
Convergent RGUs (Net Adds)	343.4	341.3	(0.6%)
Mobile (Net Adds)	45.0	87.2	93.7%
Pay TV (Net Adds)	(24.7)	11.9	n.a.
IRIS Subscribers (Net Adds)	61.0	49.0	(19.5%)
Convergent RGUs	555.8	2,194.5	n.a.
Convergent Customers	115.4	456.8	n.a.
Convergent Customers as % of Fixed Access Customers	9.7%	32.2%	22.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	37.1	41.5	12.0%
Financial Highlights			
Operating Revenues	337.3	344.1	2.0%
Telco Revenues	323.5	327.7	1.3%
EBITDA	129.9	127.9	(1.5%)
EBITDA Margin	38.5%	37.2%	(1.3pp)
EBITDA including results of associates and joint ventures	134.8	135.3	0.4%
Net Income	25.3	23.2	(8.0%)
Free Cash Flow Before Dividends & Financial Acquisitions	14.3	(8.6)	n.a.

- Strong KPI performance driving market share and a return to revenue growth;
- Convergent customers grew by an additional 72.2 thousand in 1Q15 to 456.8 thousand;
- 32.2% of fixed access households now subscribe to convergent mobile and fixed bundles, compared with 9.7% the year before and 29.2% the previous quarter;
- RGU net adds of 151.3 thousand in 1Q15 led by continued take up of mobile services within convergent bundles and growth in fixed services;
- Confirmation of positive inflection in Pay TV base with net adds of 11.9 thousand subscribers in 1Q15;
- ARPU per residential subscriber grew by 12% yoy to 41.5 euros driven by the increasing proportion of convergent and higher value bundles in the customer mix;
- RGU growth of 8.1% yoy in 1Q15 in the business segment to 1.09 million services sold, led by a significant increase primarily in subscription of Pay TV and Broadband services of 30.5% and 21.7% respectively;
- Consolidated Revenue growth of 2.0% to 344.1 million euros in 1Q15, driven primarily by convergent uptake in the residential market, revenues from large corporate accounts and very strong yoy growth in revenues from the audiovisuals and cinema division;

- Continued improvement of yoy EBITDA trend increasing from negative 5.9% in 1Q14 and negative 4% in 4Q14 to negative 1.5% in 1Q15 leading to a qoq improvement in EBITDA margin of 5.1pp to 37.2% as a percentage of consolidated revenues;

- EBITDA including results of Associates and Joint Ventures already posted positive yoy growth of 0.4% to 135.3 million euros;

- Total CAPEX of 94.3 million euros in 1Q15, significantly higher yoy due to the exceptionally high level of commercial growth and the additional network rollout, as planned.

1 - 1Q15 Consolidated Results

1.1 – Another strong quarter for RGU growth with 151.3 thousand net adds to 7.76 million in total

Convergence remains the driver of growth in RGUs with more and more households subscribing to fixed and mobile bundled offers in both the cable and DTH footprint together with a positive inflection in Pay TV subscribers in both the fixed and DTH access base and strong growth in broadband and fixed voice net adds.

NOS had 2.2 million convergent RGUs by the end of 1Q15, representing an additional 341.3 thousand convergent RGUs in the quarter. The NOS brand launch in May last year played a major role in boosting NOS' market strategy and operational focus, along with the simultaneous launch of a number of segmented convergent offers ranging from a low end Pay TV and mobile double play offer, NOS Dois, up to a high-end five service offer, NOS Cinco, that offers high-end Pay TV (156 channels), Broadband (100 Mbps), Mobile 4G Broadband (5GB), Fixed Voice and Mobile Voice and Data (standard 500 MB per SIM card).

The success of these offers is behind the more than 456.8 thousand households that are already taking their fixed and mobile communications services in a single tariff plan.

1.2 – Growth driven by innovation. NOS' TV of the future - launch of IRIS' next generation and NOS IRIS APP

NOS launched a new version of IRIS in March 2015, its cloud based, multi-device TV interface launched back in 2011 and that is today the default interface for all offers. Increasing penetration of IRIS is a strategic priority as it is a key enabler of customer satisfaction and retention.

NOS has continuously surprised customers with innovative new services, driving new international standards for TV usage and experience. Launched four years ago, NOS pioneered the TV experience with innovative features such as restart TV, 7 day automatic recording, IRIS Online and NPVR all of which have become mainstream in Portugal. With the recent launch of the next generation of IRIS, NOS has once again set the pace of innovation by reaching a whole new level of content personalized to user preferences. The new IRIS provides viewers with a completely personalized experience, recommending the most relevant content based on usage and time slot whilst renewing the look and feel of the interface. Personalized content recommendations are now available across the entire platform, in an extremely intuitive and easy to access organization.

In addition to the new IRIS, NOS also launched the IRIS app which merges the TV content navigation and recommendation with the tablet in an innovative multidevice environment. Free for iOS and Android tablets, NOS IRIS enhances the personalized recommendation and navigation experience. As an example, the app can be synced with the TV to search for content related to the live programme being broadcast or else to navigate content according to user preference and then flick to watch on TV with a simple flick of the hand over the tablet screen.

IRIS is a core differentiating factor of our TV offer and has become the standard platform for all fixed access offers, posting very strong growth every quarter. By the end of 1Q15, NOS had 742.6 thousand IRIS subscribers representing an increase of 49% compared with 1Q14 and 84.6% of the fixed access 3,4&5P customer base.

1.3 – Confirmation of positive inflection in Pay TV base with net adds of 11.9 thousand and continued strong growth in broadband and fixed voice

Confirming the positive trend of previous quarters, NOS recorded positive Pay TV net adds of 11.9 thousand in 1Q15, reflecting a big pick-up in fixed access net adds to 7.4 thousand, compared with negative 14.4 thousand in 1Q14 and 0.4 thousand in 4Q14. The DTH base also posted positive net adds of 4.5 thousand led by the success of combining 4G with satellite Pay TV to offer bundles and convergent tariffs. The very positive performance of the Pay TV base results from the very targeted and focused retention strategy driving improving churn levels and the still strong levels of commercial activity supporting gross adds.

Fixed broadband and voice customers also posted material growth in 1Q15 of 34.4 thousand and 15.8 thousand respectively, led by the strong performance of the pay TV base and by the strong convergent value propositions, over both the fixed and satellite networks.

1.4 – Strong growth in mobile market share led by continued growth in convergent bundles

The mobile customer base grew by 13.4% yoy to 3.730 million subscribers by the end of 1Q15, with net adds of 87.2 thousand in the quarter.

The split between pre-paid and contract subscribers continues to shift more and more towards the latter, with post-paid contracts representing over 45% of mobile subscribers at the end of 1Q15 compared with 34.5% at the end of 1Q14. The increase is explained almost entirely by the growth in the number of mobile cards sold within convergent residential offers. Post-paid subscribers grew by 123.4 thousand in 1Q15 offsetting a decline in pre-paid subscribers of 36.2 thousand.

1.5 – Revenues starting to come onstream from large corporate accounts won in 2014. Pricing environment still dragging on revenues in SoHo and SME segment, despite good growth in RGUs

RGUs in the Business segment continue to perform well, up 8.1% yoy to 1.090 million, led by growth in Pay TV services of 30.5% to 92.6 thousand, of 21.7% in Fixed Broadband and Data services to 113.9 thousand, of 3% in fixed voice services and of 5.3% in mobile services to 680.4 thousand, led by intense commercial effort and increased distribution capabilities. Integrated fixed and mobile solutions already represent the majority of bundles sold to the SoHo and SME market. Despite the very significant RGU growth, the pricing environment in the small and mid-sized business market remains very competitive and yoy declines in revenues per account were not offset by volume growth in services provided however qoq trends are improving.

In the Corporate segment, the first of the large accounts won during 2014 are now generating revenues and already contributed to a yoy increase in revenues from this subsegment of the Business market. Installation of other large accounts is nearing completion and revenue contribution will further increase over the course of the next months.

1.6 – Another very strong quarter for residential ARPU

The success of residential convergent offers has been key to drive the strong performance in residential revenues with a yoy increase in ARPU per fixed access household of 12% to 41.5 euros. This growth is driven primarily by the increased number of average RGUs per household driving a higher average monthly bill. This helped offset the like for like pricing pressure that persists in the market due to the still aggressive competitor promotions in the stand alone triple play market. Mobile ARPU posted a 3.4% decrease yoy to 8.7 euros.

ARPU per RGU in the business segment continued to post a negative trend yoy due to the continued impact of backbook repricing in the SoHo and SME segment.

Table 2.

Operating Indicators ('000)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
Telco [1]				
Aggregate Indicators				
Homes Passed	3,255.5	3,325.7	3,393.0	4.2%
Total RGUs	7,215.2	7,610.5	7,761.8	7.6%
Mobile	3,288.4	3,643.2	3,730.4	13.4%
Pre-Paid	2,155.0	2,061.2	2,025.0	(6.0%)
Post-Paid	1,133.4	1,582.0	1,705.4	50.5%
ARPU / Mobile Subscriber (Euros)	9.0	9.1	8.7	(3.4%)
Pay TV	1,493.3	1,476.8	1,488.6	(0.3%)
Fixed Access [2]	1,189.4	1,166.6	1,174.0	(1.3%)
DTH	303.9	310.2	314.6	3.5%
Fixed Voice	1,491.3	1,477.6	1,493.4	0.1%
Broadband	927.0	993.0	1,027.3	10.8%
Others and Data	15.2	20.0	22.0	44.4%
3,4&5P Subscribers (Fixed Access)	808.8	851.6	878.1	8.6%
% 3,4&5P (Fixed Access)	68.0%	73.0%	74.8%	6.8pp
Convergent RGUs	555.8	1,853.3	2,194.5	n.a.
Convergent Customers	115.4	384.6	456.8	n.a.
Convergent Customers as % of Fixed Access Customers	9.7%	29.2%	32.2%	22.5pp
IRIS Subscribers	498.6	693.6	742.6	49.0%
IRIS as % of 3,4&5P Subscribers (Fixed Access)	61.6%	81.4%	84.6%	22.9pp
Net Adds				
Homes Passed	13.7	73.4	67.3	n.a.
Total RGUs	2.2	165.3	151.3	n.a.
Mobile	45.0	107.4	87.2	93.7%
Pre-Paid	(96.0)	(24.0)	(36.2)	(62.3%)
Post-Paid	141.0	131.5	123.4	(12.5%)
Pay TV	(24.7)	7.1	11.9	n.a.
Fixed Access [2]	(14.4)	0.4	7.4	n.a.
DTH	(10.3)	6.7	4.5	n.a.
Fixed Voice	(23.7)	13.1	15.8	n.a.
Broadband	4.9	35.6	34.4	n.a.
Others and Data	0.7	2.0	2.0	202.1%
3,4&5P Subscribers (Fixed Access)	1.8	22.0	26.4	n.a.
Convergent RGUs	343.4	365.5	341.3	(0.6%)
Convergent Customers	70.1	81.3	72.2	2.9%
IRIS Subscribers	61.0	60.4	49.0	(19.5%)

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

Table 3.

Operating Indicators ('000)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
Telco (1)				
Indicators per Segment				
Consumer				
Total RGUs	6,207.2	6,546.0	6,671.8	7.5%
Unique Subscribers With Fixed Access (2)	1,153.6	1,106.6	1,108.7	(3.9%)
Pay TV	1,422.3	1,391.3	1,396.0	(1.8%)
Fixed Access	1,132.6	1,102.6	1,105.2	(2.4%)
DTH	289.7	288.7	290.9	0.4%
IRIS Subscribers	483.6	668.4	715.0	47.9%
Broadband	848.7	903.8	935.5	10.2%
Fixed Voice	1,294.1	1,276.6	1,290.4	(0.3%)
Mobile	2,642.1	2,974.3	3,050.0	15.4%
% 1P (Fixed Access)	14.2%	11.4%	10.2%	(4.0pp)
% 2P (Fixed Access)	18.2%	16.3%	15.8%	(2.4pp)
% 3,4&5P (Fixed Access)	67.6%	72.3%	74.1%	6.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	37.1	39.8	41.5	12.0%
Net Adds				
Total RGUs	(24.0)	145.4	125.9	n.a.
Unique Subscribers With Fixed Access	(24.7)	(0.7)	2.1	n.a.
Pay TV	(26.8)	3.7	4.7	n.a.
Fixed Access	(16.7)	0.2	2.6	n.a.
DTH	(10.2)	3.5	2.1	n.a.
IRIS Subscribers	58.6	57.3	46.6	(20.5%)
Broadband	3.2	33.2	31.7	n.a.
Fixed Voice	(25.6)	11.0	13.8	n.a.
Mobile	25.4	97.4	75.7	198.5%
Business				
Total RGUs	1,008.0	1,064.5	1,090.0	8.1%
Pay TV	71.0	85.4	92.6	30.5%
IRIS Subscribers	15.0	25.2	27.7	84.3%
Broadband	93.6	109.2	113.9	21.7%
Fixed Voice	197.1	201.0	203.1	3.0%
Mobile	646.4	668.9	680.4	5.3%
ARPU per RGU (Euros)	25.0	21.1	19.1	(23.6%)
Net Adds				
Total RGUs	26.1	19.9	25.4	(2.7%)
Pay TV	2.1	3.4	7.2	239.9%
IRIS Subscribers	2.3	3.2	2.4	4.4%
Broadband	2.4	4.4	4.7	95.3%
Fixed Voice	2.0	2.1	2.1	5.6%
Mobile	19.7	10.0	11.5	(41.6%)

(1) Portuguese Operations
(2) Fixed Access Subscribers include customers served by the HFC, FTTH and ULL networks and indirect access customers.
Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

1.8 – Cinemas and Audiovisuals

Table 4.

Operating Indicators ('000)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
Cinema (1)				
Revenue per Ticket (Euros)	4.7	4.7	4.6	(0.7%)
Tickets Sold	1,595.7	2,080.8	1,981.4	24.2%
Screens (units)	209	214	214	2.4%

(1) Portuguese Operations

In 1Q15, NOS' Cinema ticket sales posted an increase of 24.2% to 1.981 million tickets, which compares with an increase in like-for-like, total market ticket sales of 20.8%[1].

The most successful films shown in 1Q15 were "Fifty Shades of Grey", "American Sniper", "The Theory of Everything", "Taken 3" and "The Spongebob Movie: Sponge Out of Water".

On 2 April, the movie "Furious 7" was premiered and is proving to be a great success, already ranking as one of the Top 3 movies in Portuguese cinemas since 2004 in terms of Gross Box Office Revenues.

NOS opened the first IMAX® DMR - Digital 3D screen in Lisbon in June 2013. This premium cinema experience continues to prove very successful, having already achieved a total of around 292 thousand spectators so far, in its first 21 months of operation. A second IMAX® DMR - Digital 3D screen was opened in Oporto in April 2015, with very successful sessions of the movie "Furious 7", with 13 sessions sold out in the first five days of operation and the remaining sessions at over 90% capacity, clearly demonstrating the appeal of this premium cinema experience.

Average revenue per ticket sold posted a marginal yoy decline of 0.7% to 4.6 euros in 1Q15.

Sales of 3D movie tickets were lower yoy in 1Q15 as a proportion of NOS' ticket sales, representing close to 3%, whereas they had represented close to 8% in 1Q14. This proportion is lower than in the past due primarily to the lower number of movies in 3D and also to customers choosing more lower-cost 2D alternatives.

NOS' gross box-office revenues increased by 23.1% in 1Q15, and NOS continues to maintain its leading market position, with a market share of 60.3% in terms of gross revenues in 1Q15. As a result of the abovementioned higher ticket sales, total Cinema Exhibition revenues improved by 28.6% yoy in 1Q15 to 13.8 million euros.

Revenues in the Audiovisuals division improved by 17.7% yoy, to 16.7 million euros in 1Q15. Revenues were driven primarily by the improved performance in Cinema Distribution and premium TV content, which more than offset the structural decline of the Homevideo market. Of the top 10 cinema box-office hits in 1Q15, NOS distributed 7 (including the top 6 movies), "Fifty Shades of Grey", "American Sniper", "The Theory of Everything", "The Spongebob Movie: Sponge Out of Water", "Cinderella", "The Imitation Game" and "Paddington", therefore maintaining its leading position with a 68.5% market share in terms of gross revenues.

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

1.9 – ZAP

ZAP has become a reference operator in Angola and Mozambique, as its operations continue to be very successful. ZAP maintains its focus on continuing to expand its sales channels, increasing its presence in these territories. Therefore, it has opened one new store in Angola ("Benguela II" in Benguela) and one in Mozambique ("Quelimane" in Zambézia). ZAP now has 33 own stores in Angola and 10 in Mozambique. In Mozambique ZAP is also expanding its commercial coverage through a new sales channel (Van Selling), which can reach the most distant regions.

It is also important to note that in the first quarter ZAP launched, in Luanda, its new service "ZAP Fibra", a TV and internet bundle, based on an FTTH solution. This innovative service brings IRIS, the award winning TV platform deployed by NOS in Portugal, to Angola. With this new TV platform, ZAP's customers will have access to the most advanced TV features and products like video on demand, network PVR, restart TV, Timewarp, among others. The FTTH network also enables ZAP to offer its customers the best broadband products in the market.

ZAP also continues to differentiate from its competition in these countries by improving its content line-up, in order to meet the highest expectations from its customers. During this quarter, ZAP acquired the TV rights for some teams playing in Girabola, the Angolan Football League, and started to broadcast some matches in its own TV channels. ZAP also added SIC Radical to its packages, a channel that targets young people between the ages of 15 and 35 years. This channel is characterized by its irreverent and alternative programming and also by the coverage of the best Portuguese musical festivals.

2 - Consolidated Financial Statements

2.1 – Consolidated Income Statement

Table 5.

Profit and Loss Statement (Millions of Euros)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
Operating Revenues	337.3	353.8	344.1	2.0%
Telco	323.5	335.8	327.7	1.3%
Consumer Revenues	207.2	205.2	209.3	1.0%
Business and Wholesale Revenues	97.3	99.6	92.1	(5.4%)
Equipment Sales	8.2	12.4	8.3	2.1%
Others and Eliminations	10.8	18.6	18.0	66.7%
Audiovisuals	14.2	16.1	16.7	17.7%
Cinema (1)	10.7	14.0	13.8	28.6%
Others and Eliminations	(11.0)	(12.0)	(14.0)	27.1%
Operating Costs Excluding D&A	(207.5)	(240.3)	(216.2)	4.2%
W&S	(21.0)	(24.1)	(21.6)	2.6%
Direct Costs	(96.7)	(110.7)	(101.2)	4.7%
Commercial Costs (2)	(22.7)	(29.9)	(21.2)	(6.7%)
Other Operating Costs	(67.0)	(75.6)	(72.1)	7.7%
EBITDA	129.9	113.5	127.9	(1.5%)
EBITDA Margin	38.5%	32.1%	37.2%	(1.3pp)
Telco	120.4	103.4	116.9	(2.9%)
EBITDA Margin	37.2%	30.8%	35.7%	(1.5pp)
Cinema Exhibition and Audiovisuals	9.5	10.1	11.0	16.4%
EBITDA Margin	42.4%	36.5%	40.4%	(2.0pp)
Share of results of associates and joint ventures	4.9	2.3	7.3	49.8%
EBITDA including results of associates and joint ventures	134.8	115.8	135.3	0.4%
Depreciation and Amortization	(83.9)	(87.7)	(87.7)	4.6%
(Other Expenses) / Income	(2.8)	(3.9)	(6.1)	115.0%
Operating Profit (EBIT) (3)	48.1	24.3	41.5	(13.7%)
(Financial Expenses) / Income	(15.2)	(11.0)	(11.8)	(22.3%)
Income Before Income Taxes	32.9	13.3	29.7	(9.8%)
Income Taxes	(7.3)	(1.1)	(6.5)	(11.9%)
Income From Continued Operations	25.6	12.2	23.2	(9.2%)
o.w. Attributable to Non-Controlling Interests	(0.3)	0.0	0.0	n.a.
Net Income	25.3	12.3	23.2	(8.0%)

(1) Includes operations in Mozambique.
(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold.
(3) EBIT = Income Before Financials and Income Taxes.
Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

2.2 - Operating Revenues

Consolidated Operating Revenues in 1Q15 posted a material sequential improvement in yoy trend with growth of 2% compared with negative 4.1% in 1Q14 and with negative 0.7% in 4Q14. Telco revenues grew by 1.3% yoy to 327.7 million euros, also representing a sequential improvement in trend from negative 3.9% and negative 0.5% in 1Q14 and 4Q14 respectively.

The significant improvement in trend in the telecom business is being driven by the increasing base of services sold on the back of strong take-up of convergent offers, as explained in the above operating review.

Within telecom revenues, Consumer revenues recorded a 1.0% increase yoy to 209.3 million euros reflecting the combination of very positive yoy growth in residential revenues which more than offset the negative yoy trend in personal revenues impacted by the migration of stand-alone individual mobile users into convergent residential bundles.

In the Business segment, the large Corporate segment posted revenue growth yoy however total business revenues were down yoy due to the still negative impact of repricing in the SoHo and SME market and also in Wholesale revenues due to a significant decline in low margin mass calling services that resulted mostly from regulatory changes in 2014. Excluding revenues from mass calling services, Business and Wholesale revenues would have increased by 3.9%.

Equipment sales posted an increase yoy of 2.1% to 8.3 million euros however were 32.9% lower than in 4Q14 which was marked by a number of proactive handset campaigns associated with convergent bundles and post-paid mobile offers.

The Audiovisuals and Cinema operations recorded very strong performance in 1Q15 with revenues increasing by 17.7% and 28.6% yoy respectively driven by the success of a few box-office hits in the quarter, as discussed above in the Audiovisuals and Cinema section.

ZAP continues to post significant growth in revenues with NOS' 30% stake in revenues increasing 26.1% yoy to 17.5 million euros.

2.3 – EBITDA

Consolidated EBITDA fell by 1.5% in 1Q15 to 127.9 million euros generating a margin of 37.2%, a significant improvement in yoy trend from negative 4.0% in 4Q14 and negative 5.9% in 1Q14.

Telco EBITDA fell by 2.9% in 1Q15 to 116.9 million euros and was the main driver of the improving yoy trend in consolidated performance, comparing with (-8.1% in 1Q14, -5.0% in 2Q14, -4.3% in 3Q14 and -3.7% in 4Q14). EBITDA from the Audiovisuals and Cinema operations posted a yoy increase of 16.4% to 11 million euros representing a 40.4% margin as a percentage of Revenues. The EBITDA of NOS' 30% stake in ZAP grew by 29% yoy to 7.3 million euros in 1Q15 representing a 41.5% margin of Revenues.

2.4 – Consolidated Operating Costs Excluding D&A

Consolidated Operating Costs grew by 4.2% yoy to 216.2 million euros driven by the higher activity related costs due to the strong commercial operations. Key integration related projects are on schedule and well underway to achieving stated merger synergy targets.

Wages and Salaries posted a 2.6% increase yoy to 21.6 million euros in 1Q15 due primarily to a yoy increase in headcount as a result of the acquisition of NOS Sistemas (previously Mainroad).

Direct Costs recorded a 4.7% increase to 101.2 million euros. Almost 50% of this cost aggregate is explained by traffic costs which increased yoy by 3.9% reflecting increasing traffic volumes led by the take-up of all-net mobile tariffs included in convergent tariff plans, which are driving higher termination costs from increased volume of calls made to other operator networks. The other main driver of the increase in Direct Costs was Programming and Royalty costs which posted an increase of 11% yoy due to the very strong quarter in the cinema and audiovisuals division driving higher royalties paid to the major studios.

As regards mobile termination rates (MTRs), the Portuguese regulator announced a preliminary decision in April to introduce an initial 35% decline in MTRs to €0,83c per minute and then two additional cuts whose final value will depend on an inflation based index (2016 = €0.79c * Inflation based Index / 2017 = €0.73c * Inflation based Index). The timing to implement the new rates is dependent on conclusion of a national consultation period and then a 30 day consultation period at the EU level. As such, it is still unclear to what degree this decision will affect NOS' termination revenues and costs in 2015. However, as net payers of mobile interconnection charges to the two other mobile operators in Portugal, once effective, the net impact of the proposed change to MTRs, will be positive at the EBITDA level although it will translate into a negative impact on operator revenues.

Commercial Costs were down 6.7% yoy to 21.2 million euros mostly due to the non-recurrent impact of a stock impairment charge in 1Q14. Excluding this non-recurrent charge, commercial costs would have grown by 1.7% yoy as a result of the higher level of COGS, due to higher handset sales, as well as marketing and advertising costs.

Other Operating Costs posted an increase of 7.7% yoy to 72.1 million euros and a decline of 4.6% in comparison with the previous quarter. Two of the main drivers of this cost aggregate, support services and supplies and external services, were responsible for the yoy increase due to the need to support the more intense commercial activity and continued growth, with cost items like customer care and maintenance and repairs being affected by a larger customer base, and other items like energy costs being affected by the deployment of the cable/FTTH network.

2.5 – Net Income

Net Income was 23.2 million euros in 1Q15, compared with 25.3 million euros in 1Q14 and with 12.3 million euros in 4Q14 representing a material qoq improvement.

NOS' Share of Associates and Joint Ventures grew by 49.8% yoy to 7.3 million euros in 1Q15 driven by yoy growth in financial contribution from the international JV, ZAP, which amounted to 6.5 million euros in 1Q15 (compared with 3.940 million euros in 1Q14).

Depreciation and Amortization increased by 4.6% yoy to 87.7 million euros as a result of the higher level of investment in both network assets and customer related costs however remaining in line with the previous quarter.

Other Expenses* of 6.1 million euros in 1Q15 relate to non-recurrent costs, with merger related costs representing 2.6 million euros of this amount. These merger costs fully reflected a payment to all NOS employees (except the Executive Board Members), of an extraordinary non-recurrent bonus as recognition for the outstanding performance of every one in making the merger a success.

* In accordance with IAS 1, the caption "Other expenses" reflects material and unusual expenses that should be disclosed separately from usual line items, to avoid distortion of the financial information from regular operations, namely restructuring costs resulting from the merger (including curtailment costs) as well as one-off non-cash items that result from alignment of estimates between the two companies.

Net Financial Expenses fell by 22.3% to 11.8 million euros in 1Q15 compared with 15.2 million euros in 1Q14 as a result of the lower average cost of the new debt contracted in the previous quarters. As explained ahead in the section of capital structure, very significant savings are being achieved in funding costs due to new facilities being contracted that are replacing lines contracted in previous years within the context of a less favourable macroeconomic environment. Net interest charges and other financial costs in 1Q15 were 7.5 million euros compared with 9.7 million euros in 1Q14. Additional savings in net interest charges will continue to materialize in the coming quarters due to the 150 million euros floating rate bonds issued in 1Q15 at 172bps spread over Euribor and due to the two new commercial paper programmes finalized already in February 2015 to replace existing lines and thereby extending maturities whilst reducing the average cost and amount of debt contracted.

Income Tax provision amounted to 6.5 million euros in 1Q15 representing 21.8% as a percentage of Income before Income Taxes and in line with the percentage recorded in 1Q14.

3 - CAPEX and Cash Flow

3.1 – CAPEX

Table 6.

CAPEX (Millions of Euros)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
Telco	45.1	75.5	59.3	31.4%
Infrastructure	12.6	34.0	21.9	74.4%
Customer Related CAPEX	29.1	36.6	35.6	22.2%
Other	3.4	4.9	1.7	(49.9%)
Audiovisuals and Cinema Exhibition	7.6	7.7	9.0	17.6%
Recurrent CAPEX	52.7	83.2	68.2	29.3%
Non-Recurrent CAPEX	3.9	59.4	26.1	n.a.
Total CAPEX	56.7	142.5	94.3	66.5%

Total CAPEX increased yoy by 66.5% to 94.3 million euros although declined by 33.8% in comparison with the previous quarter. Recurrent CAPEX grew by 29.3% yoy in 1Q15 to 68.2 million euros led mostly by earlier timing of network and maintenance CAPEX and a pick-up in customer related investment, namely installation and terminal equipment. The new network rollout also had a material impact on additional non-recurrent CAPEX in the quarter.

Audiovisuals and Cinema CAPEX of 9.0 million euros is related mostly with the capitalization of certain movie rights in the Audiovisuals division and was 17.6% higher yoy primarily due to the greater number of movie rights bought in the period, as reflected in the significant uptake in revenues in 1Q15.

As a percentage of Telecom revenues, recurrent Telecom CAPEX amounted to 18.1% in 1Q15 and total recurrent CAPEX represented 19.8% of Total Revenues.

3.2 – Cash Flow

Table 7.

Cash Flow (Millions of Euros)	1Q14	4Q14	**1Q15**	1Q15 / 1Q14
EBITDA	129.9	113.5	127.9	(1.5%)
Recurrent CAPEX	(52.7)	(83.2)	(68.2)	29.3%
EBITDA - Recurrent CAPEX	77.1	30.3	59.7	(22.6%)
Non-Cash Items Included in EBITDA - Recurrent CAPEX[1] and Change in Working Capital	(35.7)	22.0	(26.9)	(24.7%)
Operating Cash Flow After Investment	41.4	52.3	32.8	(20.8%)
Long Term Contracts	(3.9)	(6.8)	(4.1)	4.4%
Net Interest Paid and Other Financial Charges	(13.8)	(10.6)	(5.3)	(61.3%)
Income Taxes Paid	(1.1)	(1.1)	(1.3)	10.8%
Other Cash Movements	0.1	0.3	0.2	166.3%
Recurrent Free Cash-Flow	22.6	34.1	22.3	(1.3%)
Taxes Paid	0.0	(1.2)	(0.6)	n.a.
Non-Recurrent CAPEX	(0.4)	(19.1)	(24.1)	n.a.
Cash Restructuring Payments	(8.0)	(10.0)	(6.1)	(23.0%)
Other	0.0	1.1	0.0	n.a.
Free Cash Flow Before Dividends & Financial Acquisitions	14.3	4.9	(8.6)	n.a.
Foreign Currency Debt Exchange Effect	0.0	0.0	(0.0)	n.a.
Total Free Cash Flow	14.3	4.9	(8.6)	n.a.
Debt Variation Through Accruals & Deferrals & Others	2.0	(31.6)	(7.2)	n.a.
Change in Net Financial Debt	(16.2)	26.7	15.8	n.a.

(1) This caption includes non-cash provisions included in EBITDA.

Operating Cash Flow after Investment posted a yoy decline of 20.8% in 1Q15 to 32.8 million euros due primarily to the increase in recurrent CAPEX of 29.3% to 68.2 million euros which was partially mitigated by the lower negative impact of non-cash items included in EBITDA-Recurrent CAPEX and Working Capital.

Recurrent FCF declined by 1.3% in 1Q15 to 22.3 million euros, recovering the yoy decline in Operating Cash Flow after Investment almost entirely through a yoy reduction in Net Interest and Other Financial Charges of 61.3% to 5.3 million euros.

Non-recurrent cash impacts on CAPEX and OPEX in 1Q15 amounted to 24.1 million euros and 6.1 million euros, respectively, and were mainly related with cash payments within the context of the cable/FTTH network deployment and additional commercial activity as explained in the section on CAPEX and to integration related CAPEX and OPEX from the restructuring/merger process.

Free Cash Flow before Dividends and Financial Acquisitions was negative by 8.6 million euros in the quarter. Adjusted for interest accruals and deferrals on debt variations, net financial debt increased by 15.8 million euros in 1Q15. Most of this impact relates to the accounting of the financial leasing contracts related to the large corporate accounts.

4 - Consolidated Balance Sheet

Table 8.

Balance Sheet (Millions of Euros)	2014	**1Q15**
Current Assets	468.0	483.5
Cash and Equivalents	21.1	10.8
Accounts Receivable, Net	359.2	358.4
Inventories, Net	33.0	42.9
Taxes Receivable	5.0	6.1
Prepaid Expenses and Other Current Assets	49.7	65.3
Non-current Assets	2,488.0	2,496.8
Investments in Group Companies	31.5	39.1
Intangible Assets, Net	1,164.2	1,168.5
Fixed Assets, Net	1,141.8	1,143.4
Deferred Taxes	141.1	136.7
Other Non-current Assets	9.3	9.1
Total Assets	2,955.9	2,980.2
Current Liabilities	1,102.0	933.9
Short Term Debt	503.5	339.1
Accounts Payable	391.7	374.5
Accrued Expenses	163.2	170.2
Deferred Income	29.1	30.0
Taxes Payable	14.6	20.0
Current Provisions and Other Liabilities	0.0	0.0
Non-current Liabilities	793.8	963.3
Medium and Long Term Debt	616.5	782.9
Non-current Provisions and Other Liabilities	177.3	180.4
Total Liabilities	1,895.8	1,897.1
Equity Before Non-Controlling Interests	1,050.3	1,073.3
Share Capital	5.2	5.2
Issue Premium	854.2	854.2
Own Shares	(11.8)	(2.9)
Reserves, Retained Earnings and Other	128.0	193.6
Net Income	74.7	23.2
Non-Controlling Interests	9.8	9.8
Total Shareholders' Equity	1,060.1	1,083.1
Total Liabilities and Shareholders' Equity	2,955.9	2,980.2

4.1 – Capital Structure

At the end of 1Q15, Net Financial Debt stood at 999.2 million euros.

Total financial debt at the end of 1Q15 amounted to 1,012.0 million euros, which was offset with a cash and short-term investment position on the balance sheet of 12.8 million euros. At the end of 1Q15, NOS also had 280 million euros of non-issued commercial paper programs. The all-in average cost of NOS' Net Financial Debt posted a material decline to 3.70% at the end of 1Q15, comparing with 4.19% in 4Q14 and with 4.83% in FY14.

Additional savings in net interest charges will continue to materialize in coming quarters due to the two new commercial paper programmes and private placement bond issued in the 1Q15.

In line with its global funding strategy to extend maturities, diversify debt sources and reduce cost of debt, in February 2015, NOS announced that it had renegotiated two commercial paper programmes with Caixa Geral de Depósitos/Caixa BI and Novo Banco/BESI. The new lines represent together a reduction in contracted debt from 250 million euros to 175 million euros, an extension of maturities to 2018 and significantly more favourable financial terms. Furthermore, in March, NOS has also announced a private placement bond issue totaling 150 million euros, with a bullet maturity of 7 years, priced at 172 bps spread (plus Euribor 6 Months), which contributes very favourably to the funding strategy of NOS.

Net Financial Gearing was 48.0% at the end of 1Q15 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 2.0x. The average maturity of NOS' Net Financial Debt at the end of 1Q15 was 3.3 years, compared with 2.63 at the end of 4Q14.

Taking into account the loans issued at a fixed rate and the interest rate hedging operations in place the proportion of NOS' issued debt that is protected against variations in interest rates is approximately 60%.

Table 9.

Net Financial Debt (Millions of Euros)	2014	**1Q15**	1Q15 / 2014
Short Term	483.9	319.4	(34.0%)
Bank and Other Loans	468.6	303.1	(35.3%)
Financial Leases	15.2	16.3	6.8%
Medium and Long Term	522.7	692.7	32.5%
Bank and Other Loans	493.8	665.0	34.7%
Financial Leases	28.9	27.6	(4.5%)
Total Debt	1,006.6	1,012.0	0.5%
Cash, Short Term Investments and Intercompany Loans	23.1	12.8	(44.6%)
Net Financial Debt	983.5	999.2	1.6%
Net Financial Gearing (1)	48.1%	48.0%	(0.1pp)
Net Financial Debt / EBITDA	1.9x	2.0x	n.a.

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

5 - Appendix

5.1 – Appendix I

Table 10.

Operating Indicators ('000)	1Q14	2Q14	3Q14	4Q14	**1Q15**
Telco [1]					
Aggregate Indicators					
Homes Passed	3,255.5	3,243.2	3,252.4	3,325.7	3,393.0
Total RGUs	7,215.2	7,295.6	7,445.2	7,610.5	7,761.8
Mobile	3,288.4	3,397.1	3,535.8	3,643.2	3,730.4
Pre-Paid	2,155.0	2,109.2	2,085.2	2,061.2	2,025.0
Post-Paid	1,133.4	1,287.9	1,450.5	1,582.0	1,705.4
ARPU / Mobile Subscriber (Euros)	9.0	9.2	9.7	9.1	8.7
Pay TV	1,493.3	1,474.3	1,469.6	1,476.8	1,488.6
Fixed Access [2]	1,189.4	1,172.3	1,166.1	1,166.6	1,174.0
DTH	303.9	302.1	303.5	310.2	314.6
Fixed Voice	1,491.3	1,472.5	1,464.6	1,477.6	1,493.4
Broadband	927.0	934.5	957.3	993.0	1,027.3
Others and Data	15.2	17.2	17.9	20.0	22.0
3,4&5P Subscribers (Fixed Access)	808.8	810.6	829.6	851.6	878.1
% 3,4&5P (Fixed Access)	68.0%	69.1%	71.1%	73.0%	74.8%
Convergent RGUs	555.8	1,007.7	1,487.7	1,853.3	2,194.5
Convergent Customers	115.4	201.7	303.3	384.6	456.8
Convergent Customers as % of Fixed Access Customers	9.7%	16.5%	23.8%	29.2%	32.2%
IRIS Subscribers	498.6	561.3	633.2	693.6	742.6
IRIS as % of 3,4&5P Subscribers (Fixed Access)	61.6%	69.2%	76.3%	81.4%	84.6%
Net Adds					
Homes Passed	13.7	(12.3)	9.1	73.4	67.3
Total RGUs	2.2	80.3	149.6	165.3	151.3
Mobile	45.0	108.7	138.7	107.4	87.2
Pre-Paid	(96.0)	(45.8)	(24.0)	(24.0)	(36.2)
Post-Paid	141.0	154.5	162.6	131.5	123.4
Pay TV	(24.7)	(19.0)	(4.7)	7.1	11.9
Fixed Access	(14.4)	(17.1)	(6.1)	0.4	7.4
DTH	(10.3)	(1.9)	1.4	6.7	4.5
Fixed Voice	(23.7)	(18.8)	(7.9)	13.1	15.8
Broadband	4.9	7.5	22.8	35.6	34.4
Others and Data	0.7	1.9	0.8	2.0	2.0
3,4&5P Subscribers (Fixed Access)	1.8	1.8	19.0	22.0	26.4
Convergent RGUs	343.4	451.9	480.0	365.5	341.3
Convergent Customers	70.1	86.3	101.6	81.3	72.2
IRIS Subscribers	61.0	62.7	71.9	60.4	49.0

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

Table 11.

Operating Indicators ('000)	1Q14	2Q14	3Q14	4Q14	**1Q15**
Telco (1)					
Indicators per Segment					
Consumer					
Total RGUs	6,207.2	6,266.0	6,400.6	6,546.0	6,671.8
Unique Subscribers With Fixed Access (2)	1,153.6	1,120.8	1,107.3	1,106.6	1,108.7
Pay TV	1,422.3	1,398.4	1,387.6	1,391.3	1,396.0
Fixed Access	1,132.6	1,112.1	1,102.3	1,102.6	1,105.2
DTH	289.7	286.3	285.2	288.7	290.9
# IRIS Subscribers	483.6	543.0	611.1	668.4	715.0
Broadband	848.7	852.2	870.5	903.8	935.5
Fixed Voice	1,294.1	1,274.5	1,265.6	1,276.6	1,290.4
Mobile	2,642.1	2,741.0	2,876.8	2,974.3	3,050.0
% 1P (Fixed Access)	14.2%	13.4%	12.5%	11.4%	10.2%
% 2P (Fixed Access)	18.2%	17.9%	17.1%	16.3%	15.8%
% 3,4&5P (Fixed Access)	67.6%	68.7%	70.4%	72.3%	74.1%
ARPU / Unique Subscriber With Fixed Access (Euros)	37.1	37.7	38.4	39.8	41.5
Net Adds					
Total RGUs	(24.0)	58.8	134.5	145.4	125.9
Unique Subscribers With Fixed Access	(24.7)	(32.8)	(13.5)	(0.7)	2.1
Pay TV	(26.8)	(23.9)	(10.8)	3.7	4.7
Fixed Access	(16.7)	(20.5)	(9.8)	0.2	2.6
DTH	(10.2)	(3.4)	(1.0)	3.5	2.1
IRIS Subscribers	58.6	59.4	68.2	57.3	46.6
Broadband	3.2	3.5	18.3	33.2	31.7
Fixed Voice	(25.6)	(19.7)	(8.8)	11.0	13.8
Mobile	25.4	98.9	135.9	97.4	75.7
Business					
Total RGUs	1,008.0	1,029.5	1,044.7	1,064.5	1,090.0
Pay TV	71.0	75.9	82.0	85.4	92.6
IRIS Subscribers	15.0	18.3	22.1	25.2	27.7
Broadband	93.6	99.5	104.8	109.2	113.9
Fixed Voice	197.1	198.0	198.9	201.0	203.1
Mobile	646.4	656.1	658.9	668.9	680.4
ARPU per RGU (Euros)	25.0	22.9	21.2	21.1	19.1
Net Adds					
Total RGUs	26.1	21.6	15.1	19.9	25.4
Pay TV	2.1	4.9	6.1	3.4	7.2
IRIS Subscribers	2.3	3.3	3.8	3.2	2.4
Broadband	2.4	5.9	5.3	4.4	4.7
Fixed Voice	2.0	0.9	0.9	2.1	2.1
Mobile	19.7	9.8	2.8	10.0	11.5
Cinema (1)					
Revenue per Ticket (Euros)	4.7	4.7	4.7	4.7	4.6
Tickets Sold	1,595.7	1,676.6	1,924.4	2,080.8	1,981.4
Screens (units)	209	209	214	214	214

(1) Portuguese Operations
(2) Fixed Access Subscribers include customers served by the HFC, FTTH and ULL networks and indirect access customers.
Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

5.2 – Appendix II

Table 12.

Profit and Loss Statement (Millions of Euros)	1Q14	2Q14	3Q14	4Q14	2014	**1Q15**
Operating Revenues	337.3	345.0	347.8	353.8	1,383.9	344.1
Telco	323.5	330.2	332.3	335.8	1,321.8	327.7
Consumer Revenues	207.2	203.7	204.0	205.2	820.0	209.3
Business and Wholesale Revenues	97.3	97.8	99.1	99.6	393.8	92.1
Equipment Sales	8.2	9.0	12.3	12.4	41.9	8.3
Others and Eliminations	10.8	19.7	17.0	18.6	66.0	18.0
Audiovisuals	14.2	14.2	14.0	16.1	58.5	16.7
Cinema (1)	10.7	11.4	12.8	14.0	49.0	13.8
Others and Eliminations	(11.0)	(10.9)	(11.3)	(12.0)	(45.3)	(14.0)
Operating Costs Excluding D&A	(207.5)	(211.3)	(214.4)	(240.3)	(873.5)	(216.2)
W&S	(21.0)	(18.7)	(21.4)	(24.1)	(85.3)	(21.6)
Direct Costs	(96.7)	(100.5)	(99.7)	(110.7)	(407.6)	(101.2)
Commercial Costs (2)	(22.7)	(21.8)	(31.7)	(29.9)	(106.1)	(21.2)
Other Operating Costs	(67.0)	(70.4)	(61.6)	(75.6)	(274.5)	(72.1)
EBITDA	129.9	133.6	133.4	113.5	510.5	127.9
EBITDA Margin	38.5%	38.7%	38.4%	32.1%	36.9%	37.2%
Telco	120.4	124.9	123.8	103.4	472.5	116.9
EBITDA Margin	37.2%	37.8%	37.3%	30.8%	35.7%	35.7%
Cinema Exhibition and Audiovisuals	9.5	8.8	9.6	10.1	37.9	11.0
EBITDA Margin	42.4%	37.4%	39.5%	36.5%	38.8%	40.4%
Share of results of associates and joint ventures	4.9	2.7	4.0	2.3	13.9	7.3
EBITDA including results of associates and joint ventures	134.8	136.3	137.5	115.8	524.4	135.3
Depreciation and Amortization	(83.9)	(86.2)	(81.5)	(87.7)	(339.3)	(87.7)
(Other Expenses) / Income	(2.8)	(12.6)	(18.3)	(3.9)	(37.6)	(6.1)
Operating Profit (EBIT) (3)	48.1	37.5	37.6	24.3	147.5	41.5
(Financial Expenses) / Income	(15.2)	(14.2)	(14.9)	(11.0)	(55.2)	(11.8)
Income Before Income Taxes	32.9	23.3	22.8	13.3	92.3	29.7
Income Taxes	(7.3)	(4.8)	(4.0)	(1.1)	(17.2)	(6.5)
Income From Continued Operations	25.6	18.5	18.8	12.2	75.1	23.2
o.w. Attributable to Non-Controlling Interests	(0.3)	(0.1)	0.0	0.0	(0.4)	0.0
Net Income	25.3	18.4	18.8	12.3	74.7	23.2
Recurrent CAPEX	(52.7)	(71.8)	(68.0)	(83.2)	(275.8)	(68.2)
Total CAPEX	(56.7)	(88.6)	(86.6)	(142.5)	(374.4)	(94.3)
EBITDA - Recurrent CAPEX	77.1	61.8	65.4	30.3	234.7	59.7
Non-Cash Items Included in EBITDA - Recurrent CAPEX(4) and Change in Working Capital	(35.7)	(10.1)	(7.6)	22.0	(31.4)	(26.9)
Operating Cash Flow After Investment	41.4	51.7	57.9	52.3	203.3	32.8
Long Term Contracts	(3.9)	(4.2)	(3.5)	(6.8)	(18.4)	(4.1)
Net Interest Paid and Other Financial Charges	(13.8)	(15.4)	(6.7)	(10.6)	(46.6)	(5.3)
Income Taxes Paid	(1.1)	(0.3)	10.8	(1.1)	8.2	(1.3)
Other Cash Movements	0.1	0.5	0.3	0.3	1.2	0.2
Recurrent Free Cash Flow	22.6	32.3	58.8	34.1	147.7	22.3
Net Financial Debt	923.4	969.2	956.8	983.5	983.5	999.2

(1) Includes operations in Mozambique.
(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold.
(3) EBIT = Income Before Financials and Income Taxes.
(4) This caption includes non-cash provisions included in EBITDA.
Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

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Enquiries

Chief Financial Officer: José Pedro Pereira da Costa
Phone: (+351) 21 799 88 19

Analysts/Investors: Maria João Carrapato
Phone: (+351) 21 782 47 25 / E-mail: ir@nos.pt

Press: Isabel Borgas / Irene Luis
Phone: (+351) 21 782 48 07 / E-mail: comunicacao.corporativa@nos.pt

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Portugal Dial-in: +351 800 812 040
Standard International Dial-In: +44 (0) 1452 555 566
UK Dial-in: +44 (0) 800 694 02 57
US Dial-in: +1 866 966 96 39

Encore Replay Access #: **38241104**
International Encore Dial In: +44 1452 550 000

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