



Earnings
Announcement
1Q18

Lisbon, 10 May 2018

Solid business performance driving increased operating profitability and FCF growth, supportive of attractive shareholder remuneration.

- Operating Revenues grew by 0.7% yoy to 383 million euros with growth in telco revenues of 0.9%;
- EBITDA increased by 3% to 146.7 million euros with margin up by 0.9pp to 38.3%, reflecting focus on cost efficiency;
- Net Income before associates increased 45.4% to 39.8 million euros in 1Q18;
- Total CAPEX was 87.7 million euros, similar to 1Q17, combining higher spend on strategic network projects as guided and less investment on customer acquisition;
- Total FCF Before Dividends and Disposals in 1Q18 grew by 12.6% to 37.8 million euros reflecting improved operating profitability and financial discipline and supportive of attractive and sustainable shareholder remuneration;
- Solid RGU growth of 3.3% to 9.454 million;
- Mobile subscribers grew by 4.8% yoy to 4.7 million reaching more than 24.8% market share;
- Fixed access Pay TV subs up 1.5% in 1Q18 to 1.295 million, representing 32% penetration of NGN footprint;
- Network sharing agreement at early stages of implementation and set to accelerate in 2H18, driving momentum in fixed access customers.

Table 1.

1Q18 Highlights	1Q17	1Q18	1Q18 / 1Q17
Financial Highlights			
Operating Revenues	380.3	383.0	0.7%
Telco Revenues	362.3	365.7	0.9%
EBITDA	142.4	146.7	3.0%
EBITDA Margin	37.4%	38.3%	0.9pp
Net Income Before Associates & Non-Controlling Interests	27.4	39.8	45.4%
EBITDA - Total CAPEX	56.0	59.1	5.5%
Total Free Cash-Flow Before Disposals, Dividends, Financial Investments and Own Shares Acquisition	33.5	37.8	12.6%
Operational Highlights (EoP)			
Homes Passed	3,772.3	4,100.8	8.7%
Total RGUs	9,155.2	9,454.4	3.3%
Mobile	4,487.1	4,703.5	4.8%
Pay TV Fixed Access	1,276.2	1,295.0	1.5%
Fixed Voice	1,738.0	1,761.4	1.3%
Broadband	1,289.5	1,343.7	4.2%
Convergent RGUs	3,509.0	3,732.4	6.4%
Convergent Customers	697.8	739.6	6.0%
Convergent Customers as % of Fixed Access Customers	46.5%	48.7%	2.2pp

Operational Review

Solid operating performance

RGUs grew by 3.3% yoy to 9.454 million in 1Q18, reflecting a combination of 4.8% growth in mobile subscribers to 4.703 million, of 4.2% in fixed broadband subs, 1.3% in fixed voice and 1.5% in Fixed Pay TV subs. FttH rollout in 1Q18 was relatively small and is only set to start having a more visible impact towards the second half of the year.

Convergence is still the core driver of growth with almost half of our customers subscribing to fixed and mobile convergent bundles in 1Q18. Convergent customers increased 6% yoy to 739.6 thousand, almost 49% of the fixed subscriber base, an additional 2.2 percentage points over last year.

We continue to see strong take-up in mobile services with 30.6 thousand net adds, close to the levels of 1Q17. This increase combined strong growth of 52.6 thousand in contract services and a decline in pre-paid cards of 22.1 thousand reflecting the seasonally weaker start to the year for pre-paid services. The proportion of our customers taking contract services continues to post material growth reaching 56.3% in 1Q18, up from 54.7% last year. Our total share of mobile subscribers continues to expand reaching 24.8% according to the latest available market data.

Fixed access Pay TV subscribers grew by 2.8 thousand in 1Q18 to 1.295 million reflecting a solid performance given the lack of relevant network expansion in the quarter which has been a driver of net growth in past years. Churn in the fixed customer base has returned to more normalized levels after the market wide remedies imposed in June 2017 by the regulator around price increase communication procedures. Within the total pay TV base of 1.615 million subscribers, those served by satellite declined to 319.6 thousand due primarily to fixed NGN rollout becoming available in more new geographies and subsequent migration from satellite to superior fixed access platforms.

Residential ARPU was 44.3 euros in 1Q18, sequentially higher than in 4Q17. The marginal decline in comparison with 1Q17 is explained by the fact that we did not implement an across the board price increase in 2018, leading to a more challenging yoy comparison.

In B2B we remain focused on protecting our revenue base and expanding the perimeter of services we provide with particular emphasis on IT and data service management. The conclusion of our new data centre investment at the end of 2017 has significantly increased available capacity and bolstered our next generation cloud management platforms to facilitate provisioning and self-service solutions. We position ourselves as a partner for transformation for the companies we address, providing reliable and responsive telecom solutions and complementing them with value added services, which go beyond the realm of traditional telecommunications. To identify a few examples of technological and service innovation: we have gained significant traction in areas related with IT security operations management, remotely managing critical areas of IT security for core accounts and increasing the degree of involvement with our customers; we are pursuing a number of innovative IoT solutions, in particular the landmark smart electricity metering project; data analytics projects tailored for our customers' businesses and for specific sectors. In the smaller business segment we have simplified our range of products and services whilst pursuing a more segmented approach, leveraging the experience gained from addressing larger corporate accounts, focusing on market relevant innovation and development to help

our customers optimize their communication and IT functions and exploit amongst others, the clear opportunities for virtualization that will drive improved service levels and efficiency.

Investing to secure long term competitiveness

Our core technological investment projects underway are progressing well. We have completed the upgrade of our HFC network to Docsis 3.1 enabling provision of 1Gbps download speeds across the entire footprint. In mobile, the investment we are doing is designed primarily to increase capacity, network flexibility and efficiency, and to deliver the best possible quality of service. We are rearranging our network to a single RAN architecture replacing existing radio equipment with the most modern technology to support a smooth 5G evolution as and when required. In fixed, we have taken first steps to rollout further greenfield locations and started the dark fibre network swap with Vodafone as agreed in September 2017 however the pace of household exchange is only set to pick up during the latter half of the year.

We are dedicating significant time and management resources to a company wide long term transformation programme which, over the next 3-5 years is set to deliver significant improvements in organizational agility, customer satisfaction and ultimately operating efficiency and profitability. Simplification, digitalization and automation are central enablers of many of the projects identified, the ultimate goal being end to end improvement in customer experience and organizational efficiency. After an extensive evaluation and planning process which identified a total of approximately 60 project streams, we started work on close to 20, some of which have already started to be implemented. An example of a project that has already gone live is the full digitalization of our retail outlets, 185 in total, with all in store processes becoming completely paperless, making them more secure, faster and effective. Resorting to new systems and mobile devices, the in-store digitalization project covers areas ranging from document validation, archive virtualization and digital signatures and communication and has already produced material improvements in customer satisfaction and service levels.

Cinema and Audiovisuals

Central to our brand positioning as the leading entertainment and communications provider in Portugal, our cinema and audiovisuals division continued to post a solid operating performance in 1Q18, albeit reflecting the worldwide decline in cinema spectators.

Table 2.

Operating Indicators ('000)	1Q17	4Q17	1Q18	1Q18 / 1Q17	1Q18 / 4Q17
Cinema ⁽¹⁾					
Revenue per Ticket (Euros)	4.8	4.9	4.9	1.5%	(0.3%)
Tickets Sold	2,296.4	2,198.9	2,183.5	(4.9%)	(0.7%)
Screens (units)	215	219	219	1.9%	0.0%

(1) Portuguese Operations

In 1Q18, NOS' Cinema ticket sales posted a yoy decrease of 4.9% to 2.184 million tickets, reflecting the negative performance of the market as a whole which declined by 5.6%^[1], due to fewer blockbuster box office hits during the quarter. Average revenue per ticket improved by 1.5% yoy to 4.9 euros in 1Q18. The most successful films exhibited in 1Q18 were "Fifty Shades Freed", "Black Panther", "The Post", "Jumanji: Welcome to the Jungle" and "Tomb Raider". NOS' gross box-office revenues decreased by 3.6% in 1Q18, which compares with a 3.8% yoy decline for the market as a whole. NOS continues to maintain its leading market position, with a market share of 60.6% in terms of gross revenues in 1Q18. In the Audiovisuals arena, NOS distributed 5 of the top 10 cinema box-office hits in 1Q18, including the top 3, "Fifty Shades Freed", "Black Panther", "The Post", "Tomb Raider" and "The Commuter", therefore maintaining its leadership position in Cinema Distribution with a 60.9% market share of gross revenues in 1Q18.

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

Consolidated Financial Statements

Consolidated Income Statement

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

As from 1Q18, NOS' accounts are reported applying IFRS15, primarily affecting the disclosure of revenues and costs related to contracts. Restated values for the corresponding periods in 2017 are presented in this report and are the basis for all comparisons made. A new reporting model has been adopted, impacting revenue and OPEX segmentation. For a transition period, in order to make first time comparisons easier, NOS' P&L is also presented in the old reporting format (excluding the IFRS 15 impact) in Table 16. in Appendix II.

Table 3.

Profit and Loss Statement (Millions of Euros)	1Q17	4Q17	1Q18	1Q18 / 1Q17	1Q18 / 4Q17
Operating Revenues	380.3	398.9	383.0	0.7%	(4.0%)
Telco	362.3	381.1	365.7	0.9%	(4.0%)
Consumer Revenues	239.0	241.9	240.1	0.5%	(0.7%)
Business and Wholesale Revenues	102.6	118.2	109.0	6.2%	(7.7%)
Others and Eliminations	20.7	21.0	16.6	(20.0%)	(21.3%)
Audiovisuals & Cinema ⁽¹⁾	29.8	29.7	27.2	(9.0%)	(8.5%)
Others and Eliminations	(11.8)	(11.8)	(9.8)	(16.6%)	(17.0%)
Operating Costs Excluding D&A	(237.9)	(272.4)	(236.3)	(0.7%)	(13.3%)
Direct Costs	(121.4)	(145.2)	(125.8)	3.6%	(13.3%)
Commercial & Customer Related Costs	(31.6)	(37.3)	(29.2)	(7.7%)	(21.8%)
Operating and Structure Costs	(84.9)	(89.9)	(81.3)	(4.3%)	(9.6%)
EBITDA ⁽²⁾	142.4	126.6	146.7	3.0%	15.9%
EBITDA Margin	37.4%	31.7%	38.3%	0.9pp	6.6pp
Telco	130.0	115.2	135.7	4.4%	17.8%
EBITDA Margin	35.9%	30.2%	37.1%	1.2pp	6.9pp
Cinema Exhibition and Audiovisuals	12.4	11.4	11.0	(11.0%)	(3.6%)
EBITDA Margin	41.5%	38.5%	40.6%	(0.9pp)	2.1pp
Depreciation and Amortization	(100.2)	(111.8)	(107.1)	6.9%	(4.2%)
(Other Expenses) / Income	(3.4)	(4.0)	12.1	n.a.	n.a.
Operating Profit (EBIT) ⁽³⁾	38.8	10.8	51.8	33.3%	n.a.
Share of results of associates and joint ventures	5.3	7.9	(6.3)	n.a.	n.a.
(Financial Expenses) / Income	(6.6)	(5.7)	(6.2)	(5.5%)	9.6%
Income Before Income Taxes	37.6	13.0	39.2	4.3%	200.4%
Income Taxes	(4.8)	3.7	(5.7)	17.7%	n.a.
Net Income Before Associates & Non-Controlling Interests	27.4	8.8	39.8	45.4%	n.a.
Income From Continued Operations	32.7	16.8	33.5	2.3%	99.8%
o.w. Attributable to Non-Controlling Interests	0.0	0.2	0.3	n.a.	49.8%
Net Income	32.8	17.0	33.8	3.0%	99.2%

⁽¹⁾ Includes cinema operations in Mozambique.

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

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

Revenues

Consolidated Revenues grew by 0.7% yoy to 383 million euros reflecting a deceleration yoy due to the already anticipated slowdown in RGU growth and the tougher yoy comparison due to the fact that we did not implement a price increase at the start of 2018, contrary to the previous year.

The effects mentioned above were reflected in particular in the residential and small business segment. Consumer revenues grew by 0.5% yoy to 240.1 million euros in 1Q18, with flat yoy residential revenues being offset by stronger growth in stand alone mobile revenues, reflecting primarily the higher average subscriber base, particularly in the youth segment with our WTF tariff plans, and a more supportive price environment for personal mobile services.

Business and Wholesale revenues grew 6.2%, to 109 million euros led by another quarter of strong yoy growth in the wholesale and large corporate businesses. As mentioned above, small and mid sized business revenues were also negatively impacted by the challenging price comparison with the previous year and additional pressure from backbook re-pricing in the aftermath of the regulatory impact last summer.

Audiovisuals and Cinema revenues declined by 9% yoy to 27.2 million euros, a decline explained primarily by the weaker operating environment as discussed above impacting both cinema revenues and audiovisuals distribution. In addition, audiovisuals revenues reflect the renegotiation of the value of content contracts to Angola at the end of 2017 driven by the still challenging macroeconomic environment. The value of the contract revision was partially offset by a similar reduction in the cost of the content distributed.

OPEX

To better understand the main cost aggregates and assess the long term opportunity for OPEX efficiencies, we have adjusted the way we report our main cost items. The first aggregate, "Direct Costs", incorporates all those directly related to subscription and traffic growth, the main components being interconnection, programming, royalties, and cost of goods sold. "Commercial and Customer related costs" include costs incurred to serve customers and directly support our commercial activity, namely advertising, store rentals, commercial outsourcing, costs related with call centres and customer care, billing and some installation related service costs. Finally "Operating and Structure costs" include all others not included in the previous aggregates. The work underway within the context of our long term transformational project is 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.

Table 4.

EBITDA and Operating Costs (YoY Change)	1Q17	2Q17	3Q17	4Q17	2017	1Q18
EBITDA	2.9%	5.5%	4.5%	4.1%	4.3%	3.0%
Operating Costs Excluding D&A	2.5%	3.3%	2.3%	1.6%	2.4%	(0.7%)
Direct Costs	2.1%	12.8%	1.4%	6.8%	5.7%	3.6%
Commercial & Customer Related Costs	(2.7%)	10.4%	(7.4%)	0.9%	(0.1%)	(7.7%)
Operating and Structure Costs	5.3%	(13.7%)	8.3%	(5.5%)	(1.7%)	(4.3%)

Consolidated EBITDA increased by 3% to 146.7 million euros in 1Q18, representing a 0.9 percentage point uptick in margin to 38.3%. Core Telco EBITDA grew by 4.4% to 135.7 million euros, driving a more significant 1.2 percentage point increase in EBITDA margin in 1Q18 to 37.1%. The audiovisuals and cinema EBITDA fell to 11 million euros led by the weaker topline performance as explained above, which was not entirely compensated by an equivalent adjustment in operating costs.

Total operating costs fell by 0.7% in 1Q18 to 236.3 million euros, reflecting a combination of increased direct costs which was more than offset by a reduction in other cost lines demonstrating increased efficiency and operating leverage.

Direct cost growth of 3.6% to 125.8 million euros was primarily driven by increased levels of traffic related costs and marginally higher programming costs yoy. Commercial and Customer related costs fell by 7.7% yoy to 29.2 million euros reflecting primarily the slower commercial activity in comparison with last year. Operating and Structure Costs also posted a yoy decline of 4.3% led by a combination of general savings and efficiencies.

Depreciation and Amortization increased by 6.9% yoy to 107.1 million euros. The major mobile investment project initiated in 2017 to modernize the network has led to significant impairments of existing equipment.

As a result of the increase in EBITDA and a non-recurrent positive contribution from a legal settlement in favour of NOS regarding a pending regulatory dispute over operator termination rate charges, EBIT increased by 33.3% to 51.8 million euros, 13.5% as a proportion of revenues.

Net Income before associates and non-controlling interests grew by 45.4% to 39.8 million euros, benefitting from the aforementioned increase in EBIT. Net financial expenses were marginally lower yoy at 6.2 million euros reflecting lower interest charges led by the continued improvement in average cost of debt as discussed ahead in the section on capital structure and a one-off correction in lease charges in 1Q17 impacting the yoy comparison. Share of results of associates contributed negatively to results in 1Q18 explained almost entirely by the impact of a 30% currency devaluation in Angola, in January 2018. The increase in tax provision in 1Q18 was led by the higher level of Earnings before Tax and Associates and a higher effective tax rate due to a timing differential when recognizing deferred taxes.

CAPEX

Table 5.

CAPEX (Millions of Euros) ⁽¹⁾	1Q17	4Q17	1Q18	1Q18 / 1Q17	1Q18 / 4Q17
Telco	77.0	104.6	80.8	5.0%	(22.8%)
o.w. Technical CAPEX	36.0	68.6	48.6	35.1%	(29.2%)
% of Telco Revenues	9.9%	18.0%	13.3%	3.4pp	(4.7pp)
Baseline Telco	26.8	32.5	30.4	13.1%	(6.5%)
Network Expansion / Substitution and Integration Projects and Others	9.1	36.1	18.2	99.9%	(49.5%)
o.w. Customer Related CAPEX	41.0	36.0	32.2	(21.5%)	(10.6%)
% of Telco Revenues	11.3%	9.5%	8.8%	(2.5pp)	(0.6pp)
Audiovisuals and Cinema Exhibition	9.4	9.4	6.8	(27.4%)	(27.4%)
Total Group CAPEX	86.4	114.0	87.7	1.4%	(23.1%)
% of Total Group Revenues	22.7%	28.6%	22.9%	0.2pp	(5.7pp)

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

Total CAPEX amounted to 87.7 million euros in 1Q18, representing 22.9% of sales, in line with 1Q17.

Telco CAPEX increased 5% to 80.8 million euros (22% of telco sales) reflecting a combination of significant growth in technical CAPEX partially offset by a large decline in customer related CAPEX. As guided, the various investment projects underway to develop both our mobile and fixed networks is leading to a peak in technical CAPEX levels. Within technical CAPEX, the lion's share of the increase is reflected in the increase in network expansion, substitution and integration projects which almost doubled to 18.2 million euros (Docsis 3.1 upgrade, single RAN upgrade and initial investment in FttH expansion). Helping to mitigate the increase in technical CAPEX, Customer related CAPEX declined by 21.5% to 32.2 million euros, down to 8.8% of telco sales, as was to be expected with slower commercial activity driving less investment in customer acquisition. On the Cinema and Audiovisuals front, the decline in CAPEX is explained primarily by the weaker operating environment in 1Q18 and the aforementioned renegotiation of content contracts, resulting in less investment in movie rights.

Cash Flow

FCF before dividends and disposals (adjusting for the sale of the Optimus network to Vodafone in 1Q17) increased by 12.6% to 37.8 million euros, reflecting consistent improvement in operating profitability and financial discipline, supportive of attractive and sustainable shareholder remuneration. As a percentage of revenues, EBITDA-CAPEX grew 0.7pp yoy to 15.4%, 59.1 million euros. Other cash items recorded interesting savings yoy, namely with cash restructuring payments almost halved at 2.7 million euros and a 20.2% decline in interest payments. The positive cash tax recorded in 1Q18 was due to a one-off recovery of withholding tax payments.

Table 6.

Cash Flow (Millions of Euros)	1Q17	4Q17	1Q18	1Q18 / 1Q17	1Q18 / 4Q17
EBITDA	142.4	126.6	146.7	3.0%	15.9%
Total CAPEX	(86.4)	(114.0)	(87.7)	1.4%	(23.1%)
EBITDA - Total CAPEX	56.0	12.5	59.1	5.5%	n.a.
% of Revenues	14.7%	3.1%	15.4%	0.7pp	12.3pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.2)	(0.3)	(13.8)	92.0%	n.a.
Operating Cash Flow	48.8	12.3	45.3	(7.2%)	269.7%
Long Term Contracts	(2.9)	(3.6)	(2.8)	(5.6%)	(23.3%)
Cash Restructuring Payments	(5.3)	(2.0)	(2.7)	(48.7%)	34.6%
Interest Paid	(6.7)	(3.1)	(5.3)	(20.2%)	74.9%
Income Taxes Paid	(0.3)	(7.6)	3.3	n.a.	n.a.
Disposals	24.6	1.0	0.2	(99.3%)	(83.3%)
Other Cash Movements	(0.0)	0.5	(0.0)	n.a.	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	58.2	(2.6)	38.0	(34.7%)	n.a.
Acquisition of Own Shares	0.0	0.0	(3.1)	n.a.	n.a.
Dividends	0.0	0.0	0.0	n.a.	n.a.
Free Cash Flow	58.2	(2.6)	34.9	(40.1%)	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	0.8	(3.1)	0.2	(69.7%)	n.a.
Change in Net Financial Debt	(59.0)	5.7	(35.1)	(40.5%)	n.a.

Consolidated Balance Sheet

Table 7.

Balance Sheet (Millions of Euros)	1Q17	2017	1Q18	1Q18/ 1Q17
Non-current Assets	2,470.8	2,449.3	2,401.7	(2.8%)
Current Assets	500.0	561.2	587.8	17.6%
Total Assets	2,970.8	3,010.5	2,989.5	0.6%
Total Shareholders' Equity	1,115.0	1,111.5	1,135.0	1.8%
Non-current Liabilities	1,183.3	1,146.1	1,176.9	(0.5)%
Current Liabilities	672.5	753.0	677.6	0.8%
Total Liabilities	1,855.9	1,899.1	1,854.5	(0.1)%
Total Liabilities and Shareholders' Equity	2,970.8	3,010.5	2,989.5	0.6%

Capital Structure and Funding

At the end of 1Q18, Net Financial Debt stood at 1,050.4 million euros.

Total financial debt was 1,052.7 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.3 million euros. At the end of 1Q18, NOS also had 245 million euros of

unissued commercial paper programmes. The all-in average cost of NOS' Net Financial Debt stood at 2.0% for 1Q18, which compares with 2.1% in 1Q17 and 1.9% in 4Q17.

Net Financial Gearing was 48.1% at the end of 1Q18 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.8x. The average maturity of NOS' Net Financial Debt at the end of 1Q18 was 2.7 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 31 March 2018, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 80%.

In March 2018, we received our first long term corporate credit rating and were assigned investment grade rating by Standard & Poor's Global Ratings (BBB-) and FitchRatings (BBB) with a Stable Outlook from both agencies.

Table 8.

Net Financial Debt (Millions of Euros) ⁽¹⁾	1Q17	2017	1Q18	1Q18 / 1Q17
Short Term	156.3	197.3	113.3	(27.5%)
Bank and Other Loans	139.0	183.6	99.3	(28.6%)
Financial Leases	17.3	13.7	14.0	(18.7%)
Medium and Long Term	898.9	891.2	939.4	4.5%
Bank and Other Loans	872.2	870.3	920.8	5.6%
Financial Leases	26.6	20.8	18.6	(30.1%)
Total Debt	1,055.1	1,088.5	1,052.7	(0.2%)
Cash and Short Term Investments	1.8	3.0	2.3	29.4%
Net Financial Debt	1,053.3	1,085.5	1,050.4	(0.3%)
Net Financial Gearing ⁽²⁾	48.6%	49.4%	48.1%	(0.5pp)
Net Financial Debt / EBITDA	1.9x	1.9x	1.8x	n.a.

⁽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).

Subsequent events

Leveraging our investment grade credit rating assignment, in April 2018 we launched an inaugural public bond issue for 300 million euros, further executing on our funding strategy to diversify sources of funds, extend average debt maturity and continue to reduce the average cost of debt. The purpose of this bond issue is to refinance existing debt and for other general corporate purposes.

The bond is listed on the regulated Luxembourg Stock Exchange and has a 5 year maturity at an annual fixed coupon rate of 1.125%, corresponding to a 5-year mid swap rate, plus a 0.75% spread, with settlement on 2 May 2018. Demand for this new issue was high reaching close to 1,200 million euros with participation from a significant number of high quality investors, reflecting our strong credit profile.

Also in April 2018, we announced the early redemption, at par value, of the 175 million euros floating rate notes due September 2020, which took place on 4 May 2018 with payment of principal of 175 million euros and interest payment of 449,409.72 euros.

Appendix I

Table 9.

Operating Indicators ('000)	1Q17	2Q17	3Q17	4Q17	1Q18
Telco ⁽¹⁾					
Aggregate Indicators					
Homes Passed ⁽²⁾	3,772.3	3,787.2	4,065.9	4,084.2	4,100.8
Total RGUs	9,155.2	9,254.3	9,365.7	9,411.7	9,454.4
Mobile	4,487.1	4,549.1	4,643.7	4,672.9	4,703.5
Pre-Paid	2,034.2	2,027.3	2,070.5	2,079.7	2,057.6
Post-Paid	2,452.8	2,521.8	2,573.2	2,593.2	2,645.9
Pay TV Fixed Access ⁽³⁾	1,276.2	1,282.4	1,287.8	1,292.2	1,295.0
Pay TV DTH	332.3	331.0	327.9	324.4	319.6
Fixed Voice	1,738.0	1,751.1	1,752.9	1,758.2	1,761.4
Broadband	1,289.5	1,308.0	1,320.6	1,333.1	1,343.7
Others and Data	32.2	32.7	32.8	30.9	31.1
3,4&5P Subscribers (Fixed Access)	1,083.3	1,096.3	1,108.4	1,112.1	1,120.4
% 3,4&5P (Fixed Access)	84.9%	85.5%	86.1%	86.1%	86.5%
Convergent RGUs	3,509.0	3,585.9	3,631.5	3,650.6	3,732.4
Convergent Customers	697.8	710.8	718.5	721.4	739.6
Fixed Convergent Customers as % of Fixed Access Customers	46.5%	47.1%	47.3%	47.4%	48.7%
% Convergent Customers	43.4%	44.1%	44.5%	44.6%	45.8%
Net Adds					
Homes Passed	8.3	14.9	278.7	18.2	16.6
Total RGUs	78.4	99.1	111.4	46.0	42.7
Mobile	31.4	62.0	94.6	29.2	30.6
Pre-Paid	(37.0)	(7.0)	43.2	9.2	(22.1)
Post-Paid	68.4	69.0	51.4	20.0	52.6
Pay TV Fixed Access	10.6	6.2	5.5	4.4	2.8
Pay TV DTH	(2.7)	(1.3)	(3.1)	(3.5)	(4.7)
Fixed Voice	13.3	13.1	1.8	5.3	3.2
Broadband	24.9	18.5	12.6	12.5	10.6
Others and Data	1.0	0.6	0.0	(1.9)	0.3
3,4&5P Subscribers (Fixed Access)	21.4	13.1	12.1	3.6	8.3
Convergent RGUs	121.8	76.9	45.6	19.1	81.8
Convergent Customers	17.6	13.0	7.7	2.9	18.1

(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
Telco ⁽¹⁾					
Indicators per Segment					
Consumer					
Total RGUs	7,724.7	7,801.2	7,906.0	7,953.1	7,968.7
Pay TV Fixed Access	1,180.1	1,185.0	1,189.5	1,193.6	1,195.2
Pay TV DTH	303.5	302.1	300.2	297.7	293.3
Broadband	1,167.1	1,182.9	1,194.6	1,206.3	1,215.9
Fixed Voice	1,402.0	1,408.6	1,410.5	1,413.8	1,414.6
Mobile	3,671.8	3,722.6	3,811.3	3,841.6	3,849.7
ARPU / Unique Subscriber With Fixed Access (Euros)	44.5	44.5	44.7	44.0	44.3
Net Adds					
Total RGUs	65.8	76.5	104.9	47.0	15.6
Pay TV Fixed Access	8.1	4.9	4.5	4.2	1.6
Pay TV DTH	(2.8)	(1.4)	(2.0)	(2.5)	(4.4)
Broadband	23.6	15.7	11.7	11.7	9.6
Fixed Voice	8.8	6.6	1.9	3.3	0.9
Mobile	28.1	50.7	88.7	30.4	8.1
Business					
Total RGUs	1,430.5	1,453.1	1,459.7	1,458.6	1,485.7
Pay TV	124.8	126.2	126.1	125.2	126.2
Broadband	154.6	157.9	158.7	157.6	159.0
Fixed Voice	335.9	342.5	342.4	344.5	346.8
Mobile	815.2	826.5	832.5	831.3	853.7
ARPU per RGU (Euros)	15.8	15.7	15.4	15.1	14.7
Net Adds					
Total RGUs	12.6	22.6	6.6	(1.1)	27.1
Pay TV	2.5	1.4	(0.1)	(0.9)	0.9
Broadband	2.3	3.3	0.9	(1.1)	1.3
Fixed Voice	4.5	6.6	(0.1)	2.1	2.3
Mobile	3.3	11.3	6.0	(1.2)	22.5
Cinema ⁽¹⁾					
Revenue per Ticket (Euros)	4.8	4.7	4.7	4.9	4.9
Tickets Sold	2,296.4	2,446.3	2,509.1	2,198.9	2,183.5
Screens (units)	215	215	215	219	219

(1) Portuguese Operations

Appendix II

Table 11.

Profit and Loss Statement (Millions of Euros)	1Q17	2Q17	3Q17	4Q17	2017	1Q18
Operating Revenues	380.3	387.3	392.1	398.9	1,558.6	383.0
Telco	362.3	367.7	373.0	381.1	1,484.1	365.7
Consumer Revenues	239.0	240.4	246.8	241.9	968.1	240.1
Business and Wholesale Revenues	102.6	112.7	110.0	118.2	443.4	109.0
Others and Eliminations	20.7	14.6	16.2	21.0	72.5	16.6
Audiovisuals & Cinema ⁽¹⁾	29.8	31.0	30.0	29.7	120.5	27.2
Others and Eliminations	(11.8)	(11.4)	(10.9)	(11.8)	(45.9)	(9.8)
Operating Costs Excluding D&A	(237.9)	(231.8)	(241.1)	(272.4)	(983.2)	(236.3)
Direct Costs	(121.4)	(132.5)	(129.5)	(145.2)	(528.5)	(125.8)
Commercial & Customer Related Costs	(31.6)	(31.6)	(32.0)	(37.3)	(132.5)	(29.2)
Operating and Structure Costs	(84.9)	(67.7)	(79.7)	(89.9)	(322.2)	(81.3)
EBITDA ⁽²⁾	142.4	155.5	150.9	126.6	575.4	146.7
EBITDA Margin	37.4%	40.1%	38.5%	31.7%	36.9%	38.3%
Telco	130.0	143.1	138.1	115.2	526.4	135.7
EBITDA Margin	35.9%	38.9%	37.0%	30.2%	35.5%	37.1%
Cinema Exhibition and Audiovisuals	12.4	12.4	12.8	11.4	49.0	11.0
EBITDA Margin	41.5%	39.9%	42.8%	38.5%	40.7%	40.6%
Depreciation and Amortization	(100.2)	(103.5)	(104.4)	(111.8)	(419.9)	(107.1)
(Other Expenses) / Income	(3.4)	(4.5)	(3.8)	(4.0)	(15.7)	12.1
Operating Profit (EBIT) ⁽³⁾	38.8	47.5	42.7	10.8	139.8	51.8
Share of results of associates and joint ventures	5.3	3.6	6.0	7.9	22.9	(6.3)
(Financial Expenses) / Income	(6.6)	(5.2)	(6.5)	(5.7)	(24.0)	(6.2)
Income Before Income Taxes	37.6	45.9	42.2	13.0	138.7	39.2
Income Taxes	(4.8)	(6.0)	(9.4)	3.7	(16.5)	(5.7)
Net Income Before Associates & Non-Controlling Interests	27.4	36.3	26.8	8.8	99.3	39.8
Income From Continued Operations	32.7	39.9	32.8	16.8	122.2	33.5
o.w. Attributable to Non-Controlling Interests	0.0	(0.4)	0.1	0.2	(0.1)	0.3
Net Income	32.8	39.5	32.9	17.0	122.1	33.8

(1) Includes cinema operations in Mozambique.

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

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

Table 12.

CAPEX (Millions of Euros) ⁽¹⁾	1Q17	2Q17	3Q17	4Q17	2017	1Q18
Telco	77.0	77.4	84.7	104.6	343.7	80.8
o.w. Technical CAPEX	36.0	42.4	47.1	68.6	194.1	48.6
% of Telco Revenues	9.9%	11.5%	12.6%	18.0%	13.1%	13.3%
Baseline Telco	26.8	35.9	27.8	32.5	123.0	30.4
Network Expansion / Substitution and Integration Projects and Others	9.1	6.5	19.4	36.1	71.1	18.2
o.w. Customer Related CAPEX	41.0	35.0	37.6	36.0	149.6	32.2
% of Telco Revenues	11.3%	9.5%	10.1%	9.5%	10.1%	8.8%
Audiovisuals and Cinema Exhibition	9.4	8.1	6.6	9.4	33.5	6.8
Total Group CAPEX	86.4	85.5	91.3	114.0	377.2	87.7
% of Total Group Revenues	22.7%	22.1%	23.3%	28.6%	24.2%	22.9%

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

Table 13.

Cash Flow (Millions of Euros)	1Q17	2Q17	3Q17	4Q17	2017	1Q18
EBITDA	142.4	155.5	150.9	126.6	575.4	146.7
Total CAPEX	(86.4)	(85.5)	(91.3)	(114.0)	(377.2)	(87.7)
EBITDA - Total CAPEX	56.0	70.0	59.7	12.5	198.2	59.1
% of Revenues	14.7%	18.1%	15.2%	3.1%	12.7%	15.4%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(7.2)	(12.1)	(3.7)	(0.3)	(23.3)	(13.8)
Operating Cash Flow	48.8	57.9	56.0	12.3	174.9	45.3
Long Term Contracts	(2.9)	(3.8)	(4.6)	(3.6)	(14.9)	(2.8)
Cash Restructuring Payments	(5.3)	(5.9)	(2.5)	(2.0)	(15.8)	(2.7)
Interest Paid	(6.7)	(4.9)	(6.3)	(3.1)	(21.0)	(5.3)
Income Taxes Paid	(0.3)	(0.0)	(9.4)	(7.6)	(17.3)	3.3
Disposals	24.6	0.7	0.6	1.0	27.0	0.2
Other Cash Movements	(0.0)	0.0	(0.0)	0.5	0.5	(0.0)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	58.2	43.9	33.9	(2.6)	133.4	38.0
Acquisition of Own Shares	0.0	0.0	0.0	0.0	0.0	(3.1)
Dividends	0.0	(102.6)	0.0	0.0	(102.6)	0.0
Free Cash Flow	58.2	(58.7)	33.9	(2.6)	30.8	34.9
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	0.8	(2.2)	0.5	(3.1)	(4.0)	0.2
Change in Net Financial Debt	(59.0)	60.9	(34.4)	5.7	(26.8)	(35.1)

Table 14.

Net Financial Debt (Millions of Euros) ⁽¹⁾	1Q17	2Q17	3Q17	4Q17	1Q18
Short Term	156.3	153.6	193.3	197.3	113.3
Bank and Other Loans	139.0	138.7	177.5	183.6	99.3
Financial Leases	17.3	15.0	15.8	13.7	14.0
Medium and Long Term	898.9	962.6	888.5	891.2	939.4
Bank and Other Loans	872.2	939.4	869.9	870.3	920.8
Financial Leases	26.6	23.2	18.7	20.8	18.6
Total Debt	1,055.1	1,116.3	1,081.8	1,088.5	1,052.7
Cash and Short Term Investments	1.8	2.0	2.0	3.0	2.3
Net Financial Debt	1,053.3	1,114.2	1,079.8	1,085.5	1,050.4
Net Financial Gearing ⁽²⁾	48.6%	51.4%	49.8%	49.4%	48.1%
Net Financial Debt / EBITDA	1.9x	2.0x	1.9x	1.9x	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
Operating Revenues	2.7%	4.2%	3.1%	2.4%	3.1%	0.7%
Telco	2.7%	3.0%	3.7%	2.9%	3.1%	0.9%
Consumer Revenues	3.0%	5.3%	5.6%	1.5%	3.8%	0.5%
Business and Wholesale Revenues	1.2%	5.3%	4.3%	10.1%	5.3%	6.2%
Others and Eliminations	7.7%	(32.0%)	(21.2%)	(14.6%)	(15.5%)	(20.0%)
Audiovisuals & Cinema	2.6%	19.8%	(6.3%)	(3.1%)	2.5%	(9.0%)
Others and Eliminations	4.0%	4.6%	(4.7%)	4.0%	1.9%	(16.6%)
Operating Costs Excluding D&A	2.5%	3.3%	2.3%	1.6%	2.4%	(0.7%)
Direct Costs	2.1%	12.8%	1.4%	6.8%	5.7%	3.6%
Cost of Goods Sold	(2.7%)	10.4%	(7.4%)	0.9%	(0.1%)	(7.7%)
Other Costs	5.3%	(13.7%)	8.3%	(5.5%)	(1.7%)	(4.3%)
EBITDA	2.9%	5.5%	4.5%	4.1%	4.3%	3.0%
EBITDA Margin	0.1pp	0.5pp	0.5pp	0.5pp	0.4pp	0.9pp
Telco	2.9%	5.0%	5.7%	6.1%	4.9%	4.4%
EBITDA Margin	0.1pp	0.7pp	0.7pp	0.9pp	0.6pp	1.2pp
Cinema Exhibition and Audiovisuals	2.8%	11.8%	(7.1%)	(13.1%)	(2.1%)	(11.0%)
EBITDA Margin	0.0pp	(2.9pp)	(0.4pp)	(4.4pp)	(1.9pp)	(0.9pp)
Operating Profit (EBIT)	(8.8%)	1.9%	1.4%	(20.7%)	(3.5%)	33.3%
CAPEX	(9.0%)	(14.9%)	(5.1%)	17.5%	(3.0%)	1.4%
EBITDA - CAPEX	29.1%	49.3%	23.6%	(48.9%)	21.5%	5.5%
Operating Cash Flow	112.9%	101.2%	17.3%	(45.6%)	43.4%	(7.2%)
Free Cash Flow Before Dividends	n.a.	210.9%	39.5%	n.a.	146.6%	(34.7%)
Free Cash Flow	n.a.	(27.8%)	39.5%	n.a.	n.a.	(40.1%)

Table 16.

Profit and Loss Statement - Old Reporting Format (Pre-IFRS 15) (Millions of Euros)	1Q17	2Q17	3Q17	4Q17	2017	1Q18
Operating Revenues	381.0	388.4	393.1	399.3	1,561.8	382.9
Telco	362.9	368.8	374.0	381.4	1,487.2	365.6
Consumer Revenues	231.8	232.8	236.1	231.7	932.4	232.8
Business and Wholesale Revenues	101.6	111.8	108.4	115.4	437.2	104.8
Equipment Sales	10.8	10.5	15.3	14.4	51.0	11.3
Others and Eliminations	18.7	13.8	14.2	20.0	66.6	16.8
Audiovisuals	17.8	19.1	17.3	17.5	71.8	15.3
Cinema ⁽¹⁾	15.3	16.2	16.4	15.3	63.3	15.1
Others and Eliminations	(15.1)	(15.8)	(14.6)	(15.0)	(60.5)	(13.0)
Operating Costs Excluding D&A	(237.4)	(231.6)	(241.9)	(270.2)	(981.1)	(234.9)
W&S	(22.2)	(20.7)	(23.2)	(23.1)	(89.2)	(20.0)
Direct Costs	(113.8)	(126.3)	(118.9)	(133.7)	(492.7)	(119.0)
Commercial Costs ⁽²⁾	(20.0)	(20.7)	(25.8)	(30.2)	(96.6)	(18.1)
Other Operating Costs	(81.4)	(64.0)	(74.0)	(83.2)	(302.6)	(77.8)
EBITDA	143.6	156.7	151.2	129.1	580.6	148.1
EBITDA Margin	37.7%	40.4%	38.5%	32.3%	37.2%	38.7%
Telco	131.2	144.4	138.4	117.7	531.6	137.1
EBITDA Margin	36.2%	39.1%	37.0%	30.8%	35.7%	37.5%
Cinema Exhibition and Audiovisuals	12.4	12.4	12.8	11.4	49.0	11.0
EBITDA Margin	41.5%	39.9%	42.8%	38.5%	40.7%	40.6%
Depreciation and Amortization	(103.3)	(103.4)	(103.7)	(111.8)	(422.2)	(110.0)
(Other Expenses) / Income	(3.4)	(4.5)	(3.8)	(4.0)	(15.7)	12.1
Operating Profit (EBIT) ⁽³⁾	37.0	48.8	43.7	13.3	142.8	50.1
Share of results of associates and joint ventures	5.3	3.6	6.0	7.9	22.9	(6.3)
(Financial Expenses) / Income	(6.6)	(5.2)	(6.5)	(5.7)	(24.0)	(6.2)
Income Before Income Taxes	35.7	47.2	43.2	15.6	141.7	37.6
Income Taxes	(4.3)	(6.4)	(9.7)	2.9	(17.5)	(5.2)
Net Income Before Associates & Non-Controlling Interests	26.1	37.2	27.5	10.5	101.3	38.7
Income From Continued Operations	31.4	40.8	33.5	18.5	124.2	32.4
o.w. Attributable to Non-Controlling Interests	0.0	(0.4)	0.1	0.2	(0.1)	0.3
Net Income	31.4	40.4	33.6	18.6	124.1	32.7

(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.

Table 16. has been provided to facilitate comparisons with the previous accounting standards and reporting format, for a transition period of one quarter only. It will no longer be included as from 2Q18.

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Conference call and audio webcast scheduled for **12.00 (GMT+1)** on **11 May 2018**

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