



# Earnings

Announcement

## 4Q19

# 19

Lisbon, 21 February 2020

## CEO Message

The world is on the verge of the 4th industrial revolution, an era of scientific and technological disruption which will bring with it profound social transformation and maybe even a redefinition of what it means to be human. At NOS, we cannot begin to imagine what this new era will bring, although we do believe that it will bring a better standard of living for all, in a more balanced, inclusive and humane society. NOS wants to contribute to this bright future and is **committed to taking on a leading role in Portugal's development**.

Our vision for NOS is to be at the forefront of technology, with the best communication networks, fully digital, and transparent, simple and efficient integration of technologies such as 5G, artificial intelligence, Cloud or IoT, with a human touch. Always aiming to provide our customers with the best services and customer experience. We want to be a key player in this evolutionary process that will impact everyone and to be a catalyst for transformation in business, thereby maximizing the opportunities that this revolution will bring for Portugal and the Portuguese.

To be sustainable in the long term in a world that is changing so fast, companies have to embrace socially responsible business practices and contribute actively to creating a better society for future generations. We embrace our commitment to be a role model for inclusiveness and diversity and have made climate change and carbon emission reductions a top priority. We want to be a business that cares for improving and developing its people, and ultimately for their happiness.

We took important steps in 2019 toward the creation of a new NOS, in areas ranging from technology to process, from environment to diversity, and naturally impacting our relationship with our customers. We ensured that we continued on the path of growth and profitability that was first laid down 6 years ago. Each and every year since then, we have recorded improvement both in operating and financial indicators, a unique performance of which we are very proud. Given the ambitious transformation plan underway, the Board has recommended a payment of a 27.8 eurocents dividend per share, which represents 100% **of last year's Net Result**. This more conservative approach to shareholder remuneration will secure greater financial flexibility whilst still providing an attractive level of shareholder returns with a dividend yield of 6.2% per share.

In 2020, we will accelerate the pace of internal transformation taking important steps towards building the new NOS. It will also be a critical year on the external front, with a number of processes ongoing that could play a defining role in our future. Despite the unfounded and disproportionate regulatory hostility, we are facing, given the quality of our team, asset base, our track record of success and the results we have achieved so far, we are very confident about the future.

By leveraging all that is best in technology, we believe that NOS will not only be a leading player in its markets, but also a leading agent in the transformation process towards a better society.

Miguel Almeida

CEO

## 4Q19

- Solid RGU growth in 4Q19 with mobile showing particularly good growth and TV posting robust quarterly numbers;
- Slower quarter for Cinema exhibition due to fewer blockbusters, also reflecting on audiovisual distribution activity;
- Good yoy growth in consolidated revenues albeit lighter than previous quarter due to slower Cinema and Audiovisuals revenue growth;
- EBITDA growing above revenues reflecting cost efficiencies partially driven by transformation programme;
- Technological investments in FttH deployment on track and mobile network upgrade complete;
- FCF lower due to seasonal working capital movements albeit improving yoy;

Table 1.

4Q19 Highlights	4Q18	4Q19	4Q19 / 4Q18	2018	2019	2019 / 2018
<b>Financial Highlights</b>						
Operating Revenues	408.9	414.0	1.3%	1,576.2	1,599.2	1.5%
Telco Revenues	389.8	394.3	1.1%	1,505.9	1,522.3	1.1%
EBITDA	132.6	135.7	2.4%	624.3	641.1	2.7%
EBITDA Margin	32.4%	32.8%	0.3pp	39.6%	40.1%	0.5pp
Telco	118.3	121.7	2.8%	569.2	585.0	2.8%
EBITDA Margin	30.4%	30.9%	0.5pp	37.8%	38.4%	0.6pp
Net Income Before Associates & Non-Controlling Interests	14.7	8.7	(41.0%)	143.7	144.3	0.4%
EBITDA - Total CAPEX Excluding Leasings	38.3	36.0	(6.0%)	250.5	266.7	6.5%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	0.3	2.4	n.a.	180.4	146.8	(18.7%)

## Operational highlights

RGU growth picked up sequentially in 4Q19 with net adds of 69.6 thousand services, 47.2 of which in post-paid mobile. Pay TV net adds recorded robust growth of 7.3 thousand, with growth in fixed access of 8.7 thousand mitigated by a decline in DTH services of 1.4 thousand, the latter reducing the level of quarterly disconnections. Fixed broadband and fixed voice services, sold primarily together with core TV services, grew by 12.2 thousand and 5.9 thousand services, respectively.

NOS' focus on "pick and mix" solutions for the consumer market is helping to drive take-up of integrated fixed and mobile services that are more flexible for the consumer in that they can subscribe to basic offers and manage additional services according to usage profiles without having to renegotiate original bundles. The shift in consumer offers is leading to more take up of integrated fixed and mobile offers rather than more rigid convergent bundles, with penetration of the convergent and integrated offers as a percentage of the fixed customer base reaching 59.8% at the end of 4Q19, more than 930 thousand customers. Communication is more around made to measure bundling, incentivising customers to upgrade SIM card data allowances in mobile and actively manage the number and profile of each card in the bundle. This shift in marketing approach is only possible through continued technological innovation in systems and networks together with transformational simplification and digitalization of processes and customer interfaces.

Content plays a key role in our entertainment value proposition. Our strategy is to position our TV user **interface "UMA" as the best** curator of linear and non-linear multi-source content, developing innovative and more segmented content formats, as a means of increasing customer traction within our NOS ecosystem. We also actively leverage our unique combination of telco, audio-visual and cinema assets to tap the full potential of new technologies developing partnerships wherever relevant. During 2H19, we launched a number of innovative and segmented content formats, from which it is worth highlighting the success of our exclusive movie channel "**NOS Studios**" with a distinctive line-up of the most recent box office hits from major studios and award-winning films in partnership with Disney, FOX, MGM, Universal and Warner, among others. The channel is available over linear and non-linear formats and included for free in all "**UMA**" **tariff plans**. We were also the first operator in Portugal to launch picture in picture (PIP) with our NOS TV platform allowing customers to watch TV content whilst using other applications. We are particularly proud of the fact that we developed this new feature entirely in-house, attesting to our ability to set the pace for new standards in consumer experience.

In terms of premium content, in 4Q19 we recorded tenuous signs of improvement with marginal sequential growth in the average number of sports channel subscribers, which in turn, and notwithstanding the less favourable pricing mix, led to marginal yoy growth in Premium revenues. This is an encouraging development considering efforts made to boost sports channel take-up through attractive bundling offers and retention schemes alongside the industry-wide battle against piracy.

Fixed residential ARPU posted relatively flat yoy performance reflecting a combination of inflation like growth in average customer revenues and contributions from premium subscriptions helping to offset the yoy decline in discretionary traffic revenues due to regulated caps on international calls within Europe which were introduced in May 2019.

In B2B the total number of accounts was stable yoy, with a marked increase in RGUs per account with 18 thousand RGU net adds in 2019 accompanied by almost 2% growth in revenues per account. In the Corporate segment, improved performance yoy resulted from the continued focus on upselling more value-added data and IT services, which already represent close to 20% of Corporate Revenues, thus helping to offset the generalized yoy decline in more traditional telco revenues. Public recognition of the work done in this area was achieved when NOS was awarded Hewlett Packard Enterprise's **"Service Provider of the Year" award which evaluates Private Cloud services and solutions that combine HPE's technology and innovation with NOS' technological assets and service management.** In the Mass Business segment, NOS is exploring initial IT and data opportunities and laying the groundwork for partnering with customers to drive their own digital transformation processes. The quarter was again positive for the Wholesale division as a result of continued momentum from lower margin voice and data traffic and of the continued structural growth in revenues from network sharing arrangements in place.

Technological superiority, innovation and reliability are structural pillars for long-term competitiveness in a sector characterized by a continuous drive for technological renewal and investment. To provide our Consumer and Business customers nationwide with entertainment and communication services with the service quality and reliability they expect, we continue to make significant investments in the capacity, coverage and resilience of our mobile and fixed infrastructures.

Our FttH deployment programme is going according to plan and total fixed NGN coverage increased by 37 thousand households in 4Q19, reaching 4.65 million households, 32% of which with FttH. NGN coverage is delivered over our legacy Docsis 3.1 and FttH networks, new FttH build and wholesaled FttH network within the context of the sharing agreement with Vodafone and finally through wholesale access from dst, a regional FttH provider. Modernization of our mobile infrastructure with the upgrade to a 5G ready single RAN architecture is now complete and network performance and customer satisfaction levels are already reflecting this important investment. With this investment completed, we are prepared for the evolution to mobile 1Gbps with the upcoming licensing of 5G spectrum expected during 1H20.

## Cinema and Audiovisuals

Table 2.

Operating Indicators ('000)	4Q18	4Q19	4Q19 / 4Q18	2018	2019	2019 / 2018
Cinema <sup>(1)</sup>						
Revenue per Ticket (Euros)	4.7	5.3	11.3%	4.9	5.2	7.5%
Tickets Sold - NOS	2,542.2	2,408.5	(5.3%)	8,889.1	9,269.4	4.3%
Tickets Sold - Total Portuguese Market <sup>(2)</sup>	4,238.2	4,021.1	(5.1%)	14,776.6	15,516.7	5.0%
Screens (units)	218	219	0.5%	218	219	0.5%

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

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

NOS Cinemas was awarded the 2020 "Consumer's Choice" Award in the category of Cinema Theatres, the sixth consecutive year we have been distinguished in this category. This is a remarkable achievement which demonstrates the clear and continued preference of Portuguese consumers for NOS' cinemas.

In 4Q19, NOS has once more pioneered the adoption of new technology in its cinema screens, by introducing the first ScreenX theatre in Portugal. The film is projected on screens not only on the front of the room, but also on the side walls, creating a 270-degree immersive experience. NOS Cinemas has also launched another special format, called NOS XVision – a larger, premium screen, with laser projection and higher quality of sound. Also, a new concept of a premium area has also been introduced, with more spacious seats and accessed through the NOS Lounge, with a higher level of service than the normal entrance to the cinemas.

**NOS' Cinema** business posted a 5.3% yoy decline in terms of ticket sales to 2.409 million in 4Q19, reflecting the performance of the market as a whole<sup>[1]</sup>, due to the comparison with a very strong 4Q18, which was the best fourth quarter ever for cinema exhibition. The top films exhibited in 4Q19 were "Joker", "Frozen II", "Star Wars: The Rise of Skywalker", "Jumanji: The Next Level" and "Maleficent: Mistress of Evil".

Average revenue per ticket improved by 1% qoq and by 11.3% yoy, to 5.3 euros in 4Q19, a continuation of the good yoy performance seen in previous quarters, benefitting also from the launch of the abovementioned special formats. **NOS' gross** box-office revenues decreased by 2.1% in 4Q19, as NOS continues to lead the market with a 61.2% share of gross revenues.

In the Audiovisuals arena, NOS distributed 7 of the top 10 cinema box-office hits in 4Q19, "Joker", "Frozen II", "Star Wars: The Rise of Skywalker", "Maleficent: Mistress of Evil", "Gemini Man", "The Addams Family", and "A Shaun the Sheep Movie: Farmageddon", maintaining its clear leadership status in this market.

<sup>[1]</sup> Source: ICA – Portuguese Institute For Cinema and Audiovisuals

# Consolidated Income Statement

The following Consolidated Financial Statements have been subject to full audit for the Full Year 2019.

As from 1Q19, NOS' accounts are reported applying IFRS 16, primarily affecting the accounting of operating lease contracts. Restated values for the corresponding periods in 2018 are presented in this report and are the basis for all comparisons made.

## Consolidated Financial Statements

Table 3.

Profit and Loss Statement (Millions of Euros)	4Q18	4Q19	4Q19 / 4Q18	2018	2019	2019 / 2018
Operating Revenues	408.9	414.0	1.3%	1,576.2	1,599.2	1.5%
Telco	389.8	394.3	1.1%	1,505.9	1,522.3	1.1%
Consumer Revenues	245.5	250.0	1.8%	973.0	979.4	0.7%
Business and Wholesale Revenues	127.6	129.3	1.3%	459.6	470.1	2.3%
Others and Eliminations	16.7	15.0	(10.4%)	73.4	72.7	(0.9%)
Audiovisuals & Cinema <sup>(1)</sup>	29.8	30.3	1.8%	111.5	118.8	6.5%
Others and Eliminations	(10.8)	(10.6)	(1.8%)	(41.3)	(41.8)	1.3%
Operating Costs Excluding D&A	(276.3)	(278.3)	0.7%	(951.9)	(958.2)	0.7%
Direct Costs	(152.7)	(159.8)	4.7%	(546.1)	(558.8)	2.3%
Non-Direct Costs <sup>(2)</sup>	(123.6)	(118.5)	(4.1%)	(405.7)	(399.3)	(1.6%)
EBITDA <sup>(3)</sup>	132.6	135.7	2.4%	624.3	641.1	2.7%
EBITDA Margin	32.4%	32.8%	0.3pp	39.6%	40.1%	0.5pp
Telco	118.3	121.7	2.8%	569.2	585.0	2.8%
EBITDA Margin	30.4%	30.9%	0.5pp	37.8%	38.4%	0.6pp
Cinema Exhibition and Audiovisuals	14.3	14.0	(1.5%)	55.1	56.0	1.7%
EBITDA Margin	47.8%	46.3%	(1.5pp)	49.4%	47.2%	(2.2pp)
Depreciation and Amortization	(101.6)	(123.3)	21.4%	(421.4)	(421.3)	(0.0%)
(Other Expenses) / Income	(5.1)	(3.9)	(23.4%)	(1.0)	(17.9)	n.a.
Operating Profit (EBIT) <sup>(4)</sup>	25.9	8.5	(67.3%)	201.9	201.8	(0.0%)
Share of results of associates and joint ventures	(2.0)	(3.3)	66.8%	(6.4)	(1.0)	(84.1%)
(Financial Expenses) / Income	(6.6)	(5.6)	(15.4%)	(30.7)	(24.8)	(19.3%)
Income Before Income Taxes	17.3	(0.4)	n.a.	164.8	176.0	6.9%
Income Taxes	(4.5)	5.8	n.a.	(27.5)	(32.8)	19.4%
Net Income Before Associates & Non-Controlling Interests	14.7	8.7	(41.0%)	143.7	144.3	0.4%
Income From Continued Operations	12.8	5.4	(57.8%)	137.3	143.2	4.3%
o.w. Attributable to Non-Controlling Interests	(0.1)	0.0	n.a.	0.5	0.3	(49.4%)
Net Income	12.7	5.4	(57.3%)	137.8	143.5	4.2%

(1) Includes cinema operations in Mozambique.

(2) Non-Direct Costs Include Commercial & Customer Related Costs and Operating & Structure Costs.

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

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

# 4Q19 Financial Highlights

## Revenues

In 4Q19, Consolidated Revenues posted growth of 1.3% yoy to 414 million euros, with growth in core telco revenues of 1.1% to 394.3 million euros and with a slowdown in yoy performance of the audiovisuals and cinema businesses, which grew 1.8% yoy to 30.3 million euros.

Telco Consumer revenues grew by 1.8% yoy to 250 million euros, an increase that resulted from solid growth yoy in revenues from fixed residential services, in stand-alone mobile services and in equipment sales due to increased focus on sales of mobile handsets and related services. This growth was partially mitigated by the continued decline in residential satellite revenues, which fell by close to 11% in 4Q19. Business and Wholesale Revenues grew by 1.3% in the quarter to 129.3 million euros, with growth in customer revenues of 2% yoy and in wholesale revenues of 3.1%, which again posted another good quarter in terms of lower margin traffic and data contracts and also benefitted from the yoy increase in revenues from network sharing. The growth in customer and wholesale revenues in B2B was mitigated by the decline of Equipment sales in this segment.

Overall, total customer revenues grew by close to 1%, benefiting from higher growth in basic customer revenues which was dampened by a decline in traffic revenues, due to the regulatory imposition of tariff caps on international calls within Europe, which came into force in May 2019. Premium sports revenues posted a marked improvement from the very negative yoy trends of previous quarters and were actually marginally positive, with the average number of premium services stabilizing for the first time in many years.

Revenues from Audiovisuals and Cinemas slowed to 1.8% in 4Q19, reaching 30.3 million euros, due to the weaker line-up of box office hits in comparison with the previous couple of quarters, as discussed above. Audiovisual cinema distribution revenues actually performed ahead of Cinema Exhibition revenues given the very strong movie distribution share achieved in the quarter, having been responsible for distribution of 7 out of the top 10 movies.

## EBITDA and Net Results

Total OPEX grew by 0.7% yoy, 2 million euros, to 278.3 million euros in 4Q19, leading to growth in Consolidated EBITDA of 2.4% to 135.7 million euros. Telco EBITDA grew by 2.8% yoy to 121.7 million euros however Audiovisuals and Cinema EBITDA fell yoy by 1.5% to 14 million euros, reflecting the weaker sales in the quarter.

The quarter was negatively impacted primarily by an increase in traffic costs led by increased WS activity yoy, increased cost of goods sold due to higher sales of mobile handsets and due to increased advertising costs related with campaigns in the quarter. OPEX was positively impacted by efficiencies in more structural cost items such as maintenance and repairs and SGA, resulting from ongoing transformational initiatives, and by a lower level of operating provisions. The increase in Depreciation and Amortization to 123.3 million euros in the quarter was mainly the result of network modernization and equipment related impairments.



Net Results in 4Q19 reduced to 5.4 million euros, mainly due to the impact of higher depreciation. Other cost items below recorded a mix of positive and negative impacts, namely a reduction in interest costs due to better financing terms and lower cost of debt, lower non-recurrent costs due to less restructuring related charges and finally a deterioration in contribution from associate companies due to significant local currency devaluation in recent months, in particular in October. As a result of these combined impacts, Earnings before Tax were significantly lower and, alongside an alteration in the tax rate applied to deferred tax assets recorded, this led to a negative provision for tax in the quarter of 5.8 million euros.

## CAPEX

Table 4.

CAPEX (Millions of Euros) <sup>(1)</sup>	4Q18	4Q19	4Q19 / 4Q18	2018	2019	2019 / 2018
Total CAPEX Excluding Leasing Contracts	94.3	99.7	5.7%	373.8	374.4	0.1%
Telco	87.0	89.7	3.1%	345.6	344.5	(0.3%)
% of Telco Revenues	22.3%	22.7%	0.4pp	23.0%	22.6%	(0.3pp)
o.w. Technical CAPEX	48.7	52.6	8.1%	199.6	203.1	1.8%
% of Telco Revenues	12.5%	13.4%	0.9pp	13.3%	13.3%	0.1pp
Baseline Telco	26.1	34.2	31.1%	118.7	136.0	14.6%
Network Expansion / Substitution and Integration Projects and Others	22.6	18.4	(18.5%)	80.8	67.1	(17.0%)
o.w. Customer Related CAPEX	38.3	37.0	(3.2%)	146.1	141.4	(3.2%)
% of Telco Revenues	9.8%	9.4%	(0.4pp)	9.7%	9.3%	(0.4pp)
Audiovisuals and Cinema Exhibition	7.3	10.0	37.0%	28.2	29.9	5.9%
Leasing Contracts	16.8	33.6	100.1%	49.9	69.8	39.9%
Total Group CAPEX	111.1	133.3	20.0%	423.8	444.2	4.8%

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

Total CAPEX of 99.7 million euros (excluding leasing contracts) was 5.7% higher yoy in 4Q19, representing 24.1% as a proportion of Consolidated Revenues. With the implementation of IFRS16 as from 2019, and as in previous quarters, the level of operational leasing contracts is isolated in the table above to provide a better proxy of cash CAPEX for the period and to reduce quarterly volatility resulting from operating lease capitalization under the new accounting rules.

Total Telco CAPEX posted a 3.1% increase to 89.7 million euros (22.7% of Telco Revenues). Technical Telco investments were 8.1% higher in 4Q19 and as a percentage of Telco Sales, Technical Telco CAPEX amounted to 13.4% in 4Q19, and to 13.3% in the full year.

Audiovisuals and Cinema CAPEX increased by 37% yoy to 10 million euros due to a one-off peak in Cinema CAPEX due to the refurbishment of one cinema multiplex.

## Cash Flow

Table 5.

Cash Flow (Millions of Euros)	4Q18	4Q19	4Q19 / 4Q18	2018	2019	2019 / 2018
EBITDA	132.6	135.7	2.4%	624.3	641.1	2.7%
Total CAPEX Excluding Leasings	(94.3)	(99.7)	5.7%	(373.8)	(374.4)	0.1%
EBITDA - Total CAPEX Excluding Leasings	38.3	36.0	(6.0%)	250.5	266.7	6.5%
% of Revenues	9.4%	8.7%	(0.7pp)	15.9%	16.7%	0.8pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(10.6)	0.8	n.a.	(8.0)	(9.2)	14.8%
Leasings (Capital & Interest) <sup>(1)</sup>	(16.2)	(16.5)	1.4%	(61.3)	(65.0)	6.0%
Operating Cash Flow	11.4	20.4	78.1%	181.2	192.6	6.3%
Interest Paid	(2.8)	(4.2)	51.4%	(15.1)	(16.0)	6.2%
Income Taxes Paid	(7.4)	(10.2)	37.5%	(3.6)	(19.0)	n.a.
Disposals	0.4	0.0	(90.7%)	1.3	1.4	11.2%
Other Cash Movements <sup>(2)</sup>	(1.4)	(3.6)	161.0%	16.6	(12.2)	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	0.3	2.4	n.a.	180.4	146.8	(18.7%)
Financial Investments	0.0	(0.2)	n.a.	0.0	(0.2)	n.a.
Acquisition of Own Shares	0.0	(3.2)	n.a.	(3.1)	(6.7)	116.7%
Dividends	0.0	0.0	n.a.	(153.9)	(179.6)	16.7%
Free Cash Flow	0.3	(1.0)	n.a.	23.4	(39.8)	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(5.7)	(3.4)	(40.7%)	(15.3)	(11.0)	(28.4%)
Change in Net Financial Debt	5.4	4.3	(19.5%)	(8.1)	50.7	n.a.

<sup>(1)</sup> Includes Long Term Contracts.

<sup>(2)</sup> Includes Cash Restructuring Payments and Other Cash Movements.

Presentation of some aggregates has changed since FY18 to accommodate introduction of the IFRS16 accounting standard and to facilitate yoy comparisons and understanding of cash flow trends.

Free Cash Flow Before Dividends increased marginally in 4Q19 to 2.4 million euros bringing the total for FY19 to 146.8 million euros. The decline versus last year is due to the positive impact, in 3Q18, of a non-recurrent inflow related with the receival of a legal settlement in favour of NOS, regarding a pending regulatory dispute over operator terminator rate charges.

EBITDA-CAPEX excluding the impact of leases reached 36 million euros in 4Q19, while the level of investment in working capital and non-cash adjustments in EBITDA-CAPEX amounted to a positive amount of 0.8 million euros, which compares with a negative amount of 10.6 million euros in 4Q18, mostly due to the phasing of payments related to CAPEX. The cash impact of leasing contracts, relating to both components of capital amortization and interest charges, was 16.5 million euros in 4Q19, marginally up from 16.2 million euros in 4Q18. Combining these effects, Operating Cash Flow increased by 78.1% to 20.4 million euros in 4Q19. Cash Taxes amounted to 10.2 million euros in 4Q19, which compares with a value of 7.4 million euros in 4Q18 due to greater advance payments made in the quarter.

## Consolidated Balance Sheet

Table 6.

Balance Sheet (Millions of Euros)	2018	2019	2019 / 2018
Non-current Assets	2,528.7	2,534.3	0.2%
Current Assets	530.1	553.8	4.5%
Total Assets	3,058.8	3,088.2	1.0%
Total Shareholders' Equity	1,053.6	1,012.3	(3.9)%
Non-current Liabilities	1,164.2	1,333.3	14.5%
Current Liabilities	841.0	742.5	(11.7)%
Total Liabilities	2,005.2	2,075.9	3.5%
Total Liabilities and Shareholders' Equity	3,058.8	3,088.2	1.0%

## Capital Structure and Funding

At the end of 2019, Total Net Debt, including Leasings and Long-Term Contracts (according to IFRS16) amounted to 1,347.3 million euros. Total Debt stood at 1,106.4 million euros and was offset with a cash and short-term investment position on the balance sheet of 12.8 million euros. At the end of 2019, NOS also had 202 million euros in unissued commercial paper programmes.

The all-in average cost of debt stood at 1.3% for 4Q19 which compares with 1.6% in 4Q18. Net Financial Debt / EBITDA After Lease Payments (last 4 quarters) now stands at 1.9x. NOS targets a leverage ratio in the range of 2x Net Financial Debt / EBITDA after lease payments, which represents a solid and conservative capital structure that NOS is committed to maintain.

The average maturity of debt at the end of 2019 was 3.1 years. Taking into account loans issued at a fixed rate, interest rate hedging operations in place and the negative interest rate environment, as at 31 December 2019, the proportion of **NOS' issued debt paying interest** at a fixed rate was approximately 95%.

Table 7.

Net Financial Debt (Millions of Euros)	2018	2019	2019 / 2018
Short Term	219.7	84.6	(61.5%)
Medium and Long Term	825.4	1,021.8	23.8%
Total Debt	1,045.1	1,106.4	5.9%
Cash and Short Term Investments	2.2	12.8	n.a.
Net Financial Debt <sup>(1)</sup>	1,042.9	1,093.6	4.9%
Net Financial Debt / EBITDA after lease payments (last 4 quarters) <sup>(2)</sup>	1.9x	1.9x	n.a.
Leasings and Long Term Contracts	252.4	253.7	0.5%
Net Debt	1,295.2	1,347.3	4.0%
Net Debt / EBITDA	2.1x	2.1x	n.a.
Net Financial Gearing <sup>(3)</sup>	55.3%	57.3%	2.0pp

(1) Net Financial Debt = Borrowings - Leasings + Cash

(2) EBITDA After Lease Payments = EBITDA - Lease Cash Payments (Capital & Interest)

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

## Shareholder Remuneration

NOS' Board has agreed the proposal of a dividend per share of 27.8 euro cents representing 100% of Net Earnings generated in 2019 and a 6.2% dividend yield at the date of this report. Although NOS' financial structure is still well within the 2x Net Financial Debt / EBITDA After Leases threshold, and operating and financial momentum is robust, the Board has proposed a dividend payment which is more consistent with current limited visibility surrounding the potential operating and financial implications of the upcoming 5G spectrum auction terms, which will only be known later this year. This proposal is subject to final approval at the General Shareholders' Meeting to be held on 16 April 2020.

## Subsequent Events

On 23 January, Jorge Brito Pereira (Chairman of the Board of Directors), Paula Oliveira and Mário Leite da Silva (Members of the Board of Directors) resigned from their positions.

On 27 January, Ângelo Paupério, Member of the Board of Directors, was nominated Chairman of the Board of Directors.

On 4 February, NOS announced to the market that a Letter of Intent was signed between NOS and Vodafone Portugal, framing the negotiation principles for a mobile network sharing agreement of assets that are currently held or will be held by the aforementioned Parties.

NOS' purpose is to enhance the efficiency of its investments and achieve larger and faster coverage of the national territory, thus delivering a reinforced service with more benefits for its customers. NOS believes this agreement will also be a significant contribution to the economic and digital development of the country.

The proposed agreement does not imply spectrum sharing and parties will maintain exclusive strategic control of their networks, thus ensuring independence in the definition and provision of services to their respective customers.

The parties will negotiate on an exclusive basis with a view to reaching a definitive agreement in June 2020.

On 13 February, S&P Global Ratings affirmed NOS' Long Term Issuer Default Rating at "BBB-" with a Stable Outlook. Maintaining its investment grade long term issuer credit rating with S&P enables NOS to reinforce the conditions to further diversify its sources of funding, extend average debt maturity and continue to reduce the already low average cost of debt.

# Appendix I

Table 8.

Operating Indicators ('000)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
<b>Telco <sup>(1)</sup></b>								
Homes Passed	4,108.5	4,174.8	4,277.4	4,427.5	4,482.5	4,530.2	4,608.9	4,646.1
Total RGUs	9,440.6	9,483.4	9,548.9	9,580.4	9,556.5	9,583.8	9,653.0	9,722.7
o.w. Consumer RGUs	7,960.7	7,994.9	8,055.6	8,078.3	8,044.3	8,069.2	8,138.1	8,202.8
o.w. Business RGUs	1,479.9	1,488.5	1,493.3	1,502.1	1,512.2	1,514.6	1,514.9	1,519.8
Mobile	4,700.0	4,722.6	4,761.3	4,767.7	4,749.5	4,769.1	4,808.8	4,851.1
Pre-Paid	2,057.7	2,050.7	2,051.1	2,029.3	1,995.0	1,994.0	2,013.1	2,008.2
Post-Paid	2,642.4	2,671.9	2,710.2	2,738.4	2,754.5	2,775.1	2,795.6	2,842.9
Pay TV Fixed Access <sup>(2)</sup>	1,295.0	1,301.8	1,312.5	1,324.5	1,326.3	1,329.7	1,347.3	1,356.0
Pay TV DTH	319.6	314.8	309.2	298.8	290.5	287.4	284.1	282.7
Fixed Voice	1,755.0	1,759.2	1,765.6	1,774.3	1,771.5	1,771.2	1,773.4	1,779.3
Broadband	1,339.7	1,353.7	1,369.4	1,383.4	1,386.8	1,393.8	1,406.4	1,418.6
Others and Data	31.1	31.2	31.0	31.7	31.8	32.6	33.0	34.9
3,4&5P Subscribers (Fixed Access)	1,120.4	1,132.0	1,147.3	1,163.2	1,169.9	1,176.7	1,198.2	1,209.4
% 3,4&5P (Fixed Access)	86.5%	87.0%	87.4%	87.8%	88.2%	88.5%	88.9%	89.2%
Convergent + Integrated RGUs	4,293.4	4,361.2	4,432.8	4,482.8	4,521.0	4,574.7	4,622.1	4,704.5
Convergent + Integrated Customers	855.2	868.0	880.4	889.8	896.1	907.1	914.8	930.7
Fixed Convergent + Integrated Customers as % of Fixed Access Customers	55.9%	56.7%	57.4%	57.9%	58.5%	59.2%	59.1%	59.8%
% Convergent + Integrated Customers	53.0%	53.7%	54.3%	54.8%	55.4%	56.1%	56.1%	56.8%
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	44.2	44.3	44.1	43.9	44.1	44.2	44.1	44.0
<b>Net Adds</b>								
Homes Passed	14.5	66.3	102.6	150.1	55.0	47.7	78.7	37.2
Total RGUs	40.6	42.8	65.6	31.5	(24.0)	27.3	69.2	69.6
o.w. Consumer RGUs	14.2	34.2	60.7	22.7	(34.0)	24.9	68.9	64.7
o.w. Business RGUs	26.4	8.6	4.8	8.8	10.0	2.4	0.3	5.0
Mobile	30.0	22.6	38.7	6.4	(18.2)	19.6	39.7	42.3
Pre-Paid	(22.0)	(6.9)	0.4	(21.8)	(34.3)	(1.0)	19.1	(4.9)
Post-Paid	52.0	29.5	38.3	28.2	16.1	20.6	20.5	47.2
Pay TV Fixed Access	2.8	6.8	10.6	12.1	1.8	3.4	17.6	8.7
Pay TV DTH	(4.7)	(4.8)	(5.6)	(10.4)	(8.4)	(3.0)	(3.3)	(1.4)
Fixed Voice	2.2	4.2	6.4	8.7	(2.8)	(0.4)	2.3	5.9
Broadband	10.1	13.9	15.7	14.0	3.4	7.0	12.6	12.2
Others and Data	0.3	0.1	(0.2)	0.7	0.1	0.8	0.4	1.9
3,4&5P Subscribers (Fixed Access)	8.3	11.6	15.3	15.9	6.6	6.9	21.5	11.2
Convergent + Integrated RGUs	-	67.8	71.6	49.9	38.3	53.6	47.4	82.4
Convergent + Integrated Customers	-	12.8	12.4	9.4	6.3	11.0	7.7	15.9

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

<sup>(2)</sup> Fixed Access Subscribers include customers served by the HFC, FTTH and ULL networks and indirect access customers.

## Appendix II

Table 9.

Profit and Loss Statement (Millions of Euros)	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
Operating Revenues	383.0	389.3	395.0	408.9	1,576.2	385.3	396.4	403.4	414.0	1,599.2
Telco	365.7	374.2	376.2	389.8	1,505.9	369.8	377.8	380.4	394.3	1,522.3
Consumer Revenues	240.4	241.2	245.9	245.5	973.0	241.1	241.9	246.5	250.0	979.4
Business and Wholesale Revenues	109.0	114.0	109.0	127.6	459.6	112.7	112.8	115.3	129.3	470.1
Others and Eliminations	16.3	19.0	21.3	16.7	73.4	16.0	23.1	18.6	15.0	72.7
Audiovisuals & Cinema <sup>(1)</sup>	27.2	25.5	29.0	29.8	111.5	25.8	29.1	33.6	30.3	118.8
Others and Eliminations	(9.8)	(10.5)	(10.2)	(10.8)	(41.3)	(10.3)	(10.5)	(10.5)	(10.6)	(41.8)
Operating Costs Excluding D&A	(225.6)	(222.7)	(227.3)	(276.3)	(951.9)	(224.6)	(225.2)	(230.0)	(278.3)	(958.2)
Direct Costs	(128.2)	(134.4)	(130.8)	(152.7)	(546.1)	(129.4)	(136.2)	(133.4)	(159.8)	(558.8)
Non-Direct Costs <sup>(2)</sup>	(97.4)	(88.3)	(96.4)	(123.6)	(405.7)	(95.2)	(89.0)	(96.6)	(118.5)	(399.3)
EBITDA <sup>(3)</sup>	157.4	166.6	167.7	132.6	624.3	160.7	171.2	173.4	135.7	641.1
EBITDA Margin	41.1%	42.8%	42.5%	32.4%	39.6%	41.7%	43.2%	43.0%	32.8%	40.1%
Telco	143.6	153.8	153.4	118.3	569.2	147.4	158.2	157.7	121.7	585.0
EBITDA Margin	39.3%	41.1%	40.8%	30.4%	37.8%	39.9%	41.9%	41.5%	30.9%	38.4%
Cinema Exhibition and Audiovisuals	13.7	12.8	14.3	14.3	55.1	13.3	13.0	15.7	14.0	56.0
EBITDA Margin	50.6%	50.1%	49.3%	47.8%	49.4%	51.6%	44.8%	46.7%	46.3%	47.2%
Depreciation and Amortization	(114.2)	(102.4)	(103.2)	(101.6)	(421.4)	(97.3)	(103.1)	(97.5)	(123.3)	(421.3)
(Other Expenses) / Income	12.1	(4.5)	(3.5)	(5.1)	(1.0)	(3.3)	(3.8)	(6.9)	(3.9)	(17.9)
Operating Profit (EBIT) <sup>(4)</sup>	55.3	59.7	61.0	25.9	201.9	60.1	64.3	69.0	8.5	201.8
Share of results of associates and joint ventures	(6.3)	0.6	1.3	(2.0)	(6.4)	0.2	1.1	1.0	(3.3)	(1.0)
(Financial Expenses) / Income	(8.2)	(8.7)	(7.2)	(6.6)	(30.7)	(6.4)	(5.9)	(6.8)	(5.6)	(24.8)
Income Before Income Taxes	40.7	51.6	55.1	17.3	164.8	53.9	59.4	63.2	(0.4)	176.0
Income Taxes	(6.0)	(7.0)	(9.9)	(4.5)	(27.5)	(11.5)	(11.9)	(15.3)	5.8	(32.8)
Net Income Before Associates & Non-Controlling Interests	41.0	44.1	43.9	14.7	143.7	42.2	46.5	46.9	8.7	144.3
Income From Continued Operations	34.7	44.6	45.2	12.8	137.3	42.4	47.6	47.9	5.4	143.2
o.w. Attributable to Non-Controlling Interests	0.3	0.2	0.1	(0.1)	0.5	0.1	0.2	(0.0)	0.0	0.3
Net Income	34.9	44.9	45.3	12.7	137.8	42.5	47.7	47.9	5.4	143.5

(1) Includes cinema operations in Mozambique.

(2) Non-Direct Costs include Commercial & Customer Related Costs and Operating & Structure Costs

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

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

Table 10.

CAPEX (Millions of Euros) <sup>(1)</sup>	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
Total CAPEX Excluding Leasing Contracts	87.6	91.7	100.2	94.3	373.8	87.3	95.2	92.2	99.7	374.4
Telco	80.8	85.4	92.5	87.0	345.6	81.7	89.5	83.6	89.7	344.5
% of Telco Revenues	22.1%	22.8%	24.6%	22.3%	23.0%	22.1%	23.7%	22.0%	22.7%	22.6%
o.w. Technical CAPEX	48.6	51.7	50.6	48.7	199.6	44.9	58.1	47.5	52.6	203.1
% of Telco Revenues	13.3%	13.8%	13.4%	12.5%	13.3%	12.1%	15.4%	12.5%	13.4%	13.3%
Baseline Telco	30.4	35.6	26.6	26.1	118.7	32.8	38.5	30.6	34.2	136.0
Projects and Others	18.2	16.0	23.9	22.6	80.8	12.1	19.6	16.9	18.4	67.1
o.w. Customer Related CAPEX	32.2	33.7	41.9	38.3	146.1	36.8	31.4	36.1	37.0	141.4
% of Telco Revenues	8.8%	9.0%	11.1%	9.8%	9.7%	10.0%	8.3%	9.5%	9.4%	9.3%
Audiovisuals and Cinema Exhibition	6.8	6.3	7.7	7.3	28.2	5.5	5.6	8.7	10.0	29.9
Leasing Contracts	11.5	12.1	9.6	16.8	49.9	3.7	21.4	11.2	33.6	69.8
Total Group CAPEX	99.1	103.7	109.9	111.1	423.8	91.0	116.5	103.4	133.3	444.2

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

Table 11.

Cash Flow (Millions of Euros)	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
EBITDA	157.4	166.6	167.7	132.6	624.3	160.7	171.2	173.4	135.7	641.1
Total CAPEX Excluding Leasings	(87.6)	(91.7)	(100.2)	(94.3)	(373.8)	(87.3)	(95.2)	(92.2)	(99.7)	(374.4)
EBITDA - Total CAPEX Excluding Leasings	69.7	74.9	67.5	38.3	250.5	73.5	76.1	81.2	36.0	266.7
% of Revenues	18.2%	19.2%	17.1%	9.4%	15.9%	19.1%	19.2%	20.1%	8.7%	16.7%
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(13.5)	2.2	13.8	(10.6)	(8.0)	(8.3)	4.7	(6.3)	0.8	(9.2)
Leasings (Capital & Interest) <sup>(1)</sup>	(13.7)	(15.5)	(15.7)	(16.2)	(61.3)	(16.0)	(15.6)	(16.9)	(16.5)	(65.0)
Operating Cash Flow	42.5	61.6	65.6	11.4	181.2	49.1	65.2	57.9	20.4	192.6
Interest Paid	(5.3)	(3.8)	(3.1)	(2.8)	(15.1)	(3.0)	(5.9)	(3.0)	(4.2)	(16.0)
Income Taxes Paid	3.3	(0.9)	1.4	(7.4)	(3.6)	(0.4)	(0.7)	(7.6)	(10.2)	(19.0)
Disposals	0.2	(0.0)	0.7	0.4	1.3	0.4	0.4	0.5	0.0	1.4
Other Cash Movements <sup>(2)</sup>	(2.7)	(2.9)	23.6	(1.4)	16.6	(3.3)	(1.9)	(3.4)	(3.6)	(12.2)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	38.0	54.0	88.2	0.3	180.4	42.9	57.1	44.4	2.4	146.8
Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)
Acquisition of Own Shares	(3.1)	0.0	0.0	0.0	(3.1)	0.0	(3.5)	0.0	(3.2)	(6.7)
Dividends	0.0	(153.9)	0.0	0.0	(153.9)	0.0	(179.6)	0.0	0.0	(179.6)
Free Cash Flow	34.9	(99.9)	88.2	0.3	23.4	42.9	(126.0)	44.4	(1.0)	(39.8)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(1.7)	(3.7)	(4.2)	(5.7)	(15.3)	(3.4)	(0.8)	(3.4)	(3.4)	(11.0)
Change in Net Financial Debt	(33.2)	103.7	(83.9)	5.4	(8.1)	(39.5)	126.9	(41.0)	4.3	50.7

(1) Includes Long Term Contracts

(2) Includes Cash Restructuring Payments and Other Cash Movements

Table 12.

Net Financial Debt (Millions of Euros)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Short Term	99.3	199.2	164.2	219.7	180.3	248.0	171.6	84.6
Medium and Long Term	920.8	925.4	875.7	825.4	826.1	893.6	948.8	1,021.8
Total Debt	1,020.1	1,124.5	1,040.0	1,045.1	1,006.4	1,141.6	1,120.4	1,106.4
Cash and Short Term Investments	2.3	3.1	2.5	2.2	3.0	11.3	31.2	12.8
Net Financial Debt <sup>(1)</sup>	1,017.7	1,121.4	1,037.5	1,042.9	1,003.4	1,130.3	1,089.3	1,093.6
Net Financial Debt / EBITDA after lease payments (last 4 quarters) <sup>(2)</sup>	1.8x	2.0x	1.8x	1.9x	1.8x	2.0x	1.9x	1.9x
Leasings and Long Term Contracts	264.0	259.9	253.9	252.4	240.6	245.8	239.8	253.7
Net Debt	1,281.7	1,381.3	1,291.4	1,295.2	1,244.0	1,376.1	1,329.1	1,347.3
Net Debt / EBITDA	2.1x	2.2x	2.1x	2.1x	2.0x	2.2x	2.1x	2.1x
Net Financial Gearing <sup>(3)</sup>	53.9%	58.3%	55.6%	55.3%	53.3%	59.0%	57.0%	57.3%

(1) Net Financial Debt = Borrowings - Leasings + Cash

(2) EBITDA After Lease Payments = EBITDA - Lease Cash Payments (Capital &amp; Interest)

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



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Conference call and audio webcast scheduled for 11.00 (Lisbon/London) on 21 February 2020

Audio webcast available [here](#)

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