



# Consolidated Management Report 3Q17





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# 9M17 Highlights

9M17 Highlights	9M16	9M17	9M17 / 9M16
<b>Financial Highlights</b>			
Operating Revenues	1,124.1	1,162.5	3.4%
Telco Revenues	1,070.9	1,105.8	3.3%
EBITDA	431.8	451.6	4.6%
EBITDA Margin	38.4%	38.8%	0.4pp
Net Income Before Associates & Non-Controlling Interests	86.5	90.8	5.0%
Net Income	78.4	105.5	34.5%
EBITDA - Total CAPEX	139.1	188.0	35.1%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	48.2	136.0	182.3%
<b>Operational Highlights (EoP)</b>			
Total RGUs	8,941.5	9,365.7	4.7%
Mobile	4,395.6	4,643.7	5.6%
Pay TV	1,586.1	1,615.7	1.9%
Fixed Voice	1,692.1	1,752.9	3.6%
Broadband	1,236.8	1,320.6	6.8%
Convergent RGUs	3,272.9	3,631.5	11.0%
Convergent Customers	661.2	718.5	8.7%
Convergent Customers as % of Fixed Access Customers	45.1%	47.3%	2.2pp
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	43.2	44.5	3.0%
<b>Operational Highlights (Net Adds)</b>			
Total RGUs	476.6	288.9	(39.4%)
Mobile	272.6	188.0	(31.0%)
Pay TV	42.3	15.1	(64.3%)
Fixed Voice	68.8	28.2	(59.0%)
Broadband	92.1	56.0	(39.2%)
Convergent RGUs	419.2	244.3	(41.7%)
Convergent Customers	70.4	38.3	(45.5%)

- Revenue growth of 3.4% in 9M17 with Telco revenues accelerating to 3.3%;
- OPEX growing less than revenues, by 2.7% in 9M17, supporting EBITDA growth of 4.6% yoy to 451.6 million euros;
- EBITDA – CAPEX growth of 35.1% yoy to 188.0 million euros, 16.2% of Revenues;
- FCF yoy increase of 88 million euros in 9M17;
- Growth in all key operating metrics, with RGUs growing 4.7% yoy to 9.37 million services;
- Pay TV net adds in 9M17 of 15.1 thousand;
- 188.0 thousand mobile net adds in 9M17, with 3Q17 a strong quarter with 94.6 thousand new customers taking NOS services;
- Continued growth of convergent penetration to 47.3% of fixed base compared with 45.1% in 9M16;
- Residential ARPU growth of 3.0% to 44.5 euros;
- Cinema ticket sales up 7.0% on 9M16 to 7.252 million tickets.

# Governing Bodies

As at the date of this report, 8 November 2017, NOS' Governing Bodies had the following composition:

## Board of Directors

<b>Chairman of the Board of Directors</b>	Jorge de Brito Pereira
<b>Chairman of the Executive Committee</b>	Miguel Almeida
<b>Members of the Executive Committee</b>	José Pedro Pereira da Costa, Vice-Presidente, CFO Ana Paula Marques Manuel Ramalho Eanes Jorge Graça Luís Nascimento
<b>Members</b>	Ângelo Paupério António Domingues António Lobo Xavier Catarina Távira Van-Dúnem Cláudia Azevedo João Torres Dolores Joaquim de Oliveira Lorena Fernandes Mário Leite da Silva

## Fiscal Board

<b>Chairman of the Fiscal Board</b>	Paulo Cardoso Correia da Mota Pinto
<b>Members</b>	Eugénio Ferreira Patrícia Teixeira Lopes
<b>Alternate</b>	Luís Filipe da Silva Ferreira

## Officials of the General Meeting of Shareholders

<b>Chairman</b>	Pedro Canastra de Azevedo Maia
<b>Secretary</b>	Tiago Antunes da Cunha Ferreira de Lemos

## Statutory Auditor

<b>In Office</b>	ERNST & YOUNG AUDIT & ASSOCIADOS, SROC, S.A., (ROC number 178 and registered at CMVM with the number 9011, represented by Sandra e Sousa Amorim (ROC number 1213);
<b>Alternate</b>	Paulo Jorge Luis da Silva (ROC n.º 1334)

# Management Report

## Business Review

In 9M17 NOS continued to see growth in all key operating metrics.

Convergence is a maturing trend with 47.3% of fixed subscribers already taking household communication and entertainment services in bundled offers. The most recent market share data reported by the regulator for the end of 2Q17 shows that NOS ranks #1 with a 40% market share of bundled packages.

ARPU growth is led by a combination of increased RGUs sold per account, increased proportion of higher value accounts in the customer mix and an improved pricing environment. In 9M17, Residential ARPU increased by 3.0% yoy to 44.5 euros.

Pay TV subscriptions are the core measure of residential growth as the basis for upselling all other services. In 9M17, NOS grew the level of pay TV subscriptions by 15.1 thousand resulting from a combination of an additional 22.2 thousand new fixed access customers and a decline in the satellite base of 7.1 thousand. DTH customers have been posting negative quarterly trends in net adds primarily due to the increasing coverage of NGN fixed networks in Portugal with the main operators expanding their respective footprints.

Penetration of fixed broadband and voice is still growing. By the end of 9M17, NOS had 1.321 million fixed broadband and 1.753 million fixed voice subscribers, representing respectively 77.4% and 87.0% of the fixed access base.

On the B2B front NOS is focusing efforts primarily on capturing a greater share of wallet within existing large and medium corporate accounts and expanding sale of new business, namely by implementing IT and data management related services with full service solutions for the various subsegments. The operational model in B2B sub segments has been revisited to guarantee that NOS is present in the most margin relevant stages of the customer relationship, becoming a producer rather than a pure reseller of services where relevant. NOS is well positioned to capture value from innovative services developing technological solutions supported by leading network assets and service platforms and strong institutional partnerships when appropriate. Continuous and open product and service innovation and excellence in service delivery are the foundations upon which NOS differentiates itself in the market. In the smaller business segment where NOS has a comparatively larger market share than in the large Corporate space, the key priority is to defend revenue and margin potential and progressively capture natural share of gross adds. In 9M17, NOS increased total B2B RGUs by 41.8 thousand with ARPU per RGU declining by 4.3% to 15.7 euros.

### **Investing to secure long term competitiveness**

Fixed and mobile traffic continues to grow exponentially, for NOS and for the market in general. Year to date, fixed and mobile data traffic has increased by 28% and 32% for NOS, clear indication of the increasing demands placed on the network.

To meet the challenges of continued growth in traffic and guarantee service quality, a number of major network development projects are currently underway across both the mobile and fixed infrastructure.

In 3Q17 NOS initiated a mobile network overhaul replacing all the active elements of the network with the latest generation of radio equipment, introducing Single RAN architecture to optimize spectrum utilization and network efficiency, increasing capacity by almost three times and enhancing coverage. The project will be implemented over the next 5 years, with the lion's share of the investment set to occur in 2018 and 2019.

On the fixed network front, by the end of 1Q18, NOS will have completed the Docsis 3.1 upgrade of its HFC network, allowing for provision of 1Gbps speeds across the entire footprint. At the time of this report almost 50% of the HFC footprint was already upgraded, enabling NOS to launch a premium 1Gbps quad play offer.

With the objective of extending fixed coverage further under economically viable terms and progressively increasing penetration of FttH, at the end of September, NOS reached an agreement with Vodafone Portugal to develop and share FttH infrastructure nationwide, enabling both operators to extend their commercial offers over the shared network as from the beginning of 2018. The agreement encompasses reciprocal sharing of dark fibre in around 2.6 million homes, with each operator sharing an equivalent value in terms of investment. The partnership also applies to mobile infrastructure, with a minimum of 200 mobile towers to be shared. With this agreement both companies retain the freedom to develop their respective commercial offers and technological solutions, whilst guaranteeing complete independence and confidentiality of customer relationship and information management.

By the end of 2018, NOS' next generation fixed network will cover 4.4 million homes, representing an increase a more than 10% increase in addressable market and will be able to provide Gigabit services to 100% of its footprint with the upgrade to Docsis 3.1. NOS' coverage also includes wholesale access to 280 thousand households from DST, a regional fibre operator. By the end of 2022, approximately 70% of NOS' fixed network will be covered with FttH.

A measure of NOS' successful track record in network expansion is that of the new households covered since 2014 average gross penetration now stands at 25%.

### **Differentiation through innovation and entertainment**

NOS is positioned as the leading entertainment and communications provider in Portugal. With its nationwide NGN network, the most advanced multi-device TV and video platform, "UMA" and access to the largest chain of movie theatres in Portugal, NOS boasts the most exciting entertainment and communications experience in the market. The starting level convergent package includes 176 channels over the UMA platform, 100 Mbps of broadband speed and unlimited broadband and voice traffic, 1 mobile SIM card with 500MB of data included for a 56.99 euro monthly fee plus access to the NOS on demand video library NPlay. Each new SIM card is charged at 11.90 euros and residential customers may go up to a limit of 4 cards. NOS' mobile data solution within converged bundles offers customers the ability to share the total monthly data allowance amongst all SIMs within the family account. At the top end of the range, reflecting a "more for more" approach, and leveraging the increased network capabilities with the Docsis 3.1 upgrade, for an additional 17 euros a month, broadband speeds increase to 1Gbps and the mobile data allowance per SIM increases to 10 GB per month. The UMA TV and online video interface is continuously evolving with new content and features targeting upsell to higher end packages at more premium pricing. During the last months, NOS launched a number of new features for the platform, one of the most significant of which being the inclusion of YouTube over the integrated UMA TV, computer and smartphone platforms.



Operating Indicators ('000)	9M16	9M17	9M17 / 9M16
<b>Telco <sup>(1)</sup></b>			
<b>Aggregate Indicators</b>			
Homes Passed	3,741.4	4,065.9	8.7%
Total RGUs	8,941.5	9,365.7	4.7%
Mobile	4,395.6	4,643.7	5.6%
Pre-Paid	2,089.3	2,070.5	(0.9%)
Post-Paid	2,306.3	2,573.2	11.6%
ARPU / Mobile Subscriber (Euros)	8.6	0.0	(100.0%)
Pay TV	1,586.1	1,615.7	1.9%
Fixed Access <sup>(2)</sup>	1,250.8	1,287.8	3.0%
DTH	335.4	327.9	(2.2%)
Fixed Voice	1,692.1	1,752.9	3.6%
Broadband	1,236.8	1,320.6	6.8%
Others and Data	30.8	32.8	6.4%
3,4&5P Subscribers (Fixed Access)	1,040.3	1,108.4	6.5%
% 3,4&5P (Fixed Access)	83.2%	86.1%	2.9pp
Convergent RGUs	3,272.9	3,631.5	11.0%
Convergent Customers	661.2	718.5	8.7%
Fixed Convergent Customers as % of Fixed Access Customers	45.1%	47.3%	2.2pp
% Convergent Customers	41.7%	44.5%	2.8pp
IRIS & UMA Subscribers	955.1	1,040.2	8.9%
IRIS & UMA as % of 3,4&5P Subscribers (Fixed Access)	91.8%	93.8%	2.2%
<b>Net Adds</b>			
Homes Passed	141.3	302.0	113.6%
Total RGUs	476.6	288.9	(39.4%)
Mobile	272.6	188.0	(31.0%)
Pre-Paid	13.8	(0.8)	(105.7%)
Post-Paid	258.8	188.8	(27.1%)
Pay TV	42.3	15.1	(64.3%)
Fixed Access	35.4	22.2	(37.3%)
DTH	6.9	(7.1)	(202.5%)
Fixed Voice	68.8	28.2	(59.0%)
Broadband	92.1	56.0	(39.2%)
Others and Data	0.9	1.6	80.1%
3,4&5P Subscribers (Fixed Access)	71.9	46.6	(35.2%)
Convergent RGUs	419.2	244.3	(41.7%)
Convergent Customers	70.4	38.3	(45.5%)
IRIS & UMA Subscribers	90.1	57.6	(36.1%)

(1) Portuguese Operations

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

Operating Indicators ('000)	9M16	9M17	9M17 / 9M16
<b>Telco <sup>(1)</sup></b>			
<b>Indicators per Segment</b>			
<b>Consumer</b>			
Total RGUs	7,560.0	7,906.0	4.6%
Pay TV	1,466.3	1,489.6	1.6%
Fixed Access	1,160.0	1,189.5	2.5%
DTH	306.2	300.2	(2.0%)
IRIS & UMA Subscribers	908.6	984.6	8.4%
Broadband	1,119.3	1,194.6	6.7%
Fixed Voice	1,381.4	1,410.5	2.1%
Mobile	3,593.0	3,811.3	6.1%
% 1P (Fixed Access)	5.7%	4.6%	(1.1pp)
% 2P (Fixed Access)	11.8%	9.9%	(1.9pp)
% 3,4&5P (Fixed Access)	82.5%	85.5%	3.0pp
ARPU / Unique Subscriber With Fixed Access (Euros)	43.2	44.5	3.0%
<b>Net Adds</b>			
Total RGUs	379.4	247.1	(34.9%)
Pay TV	30.7	11.3	(63.1%)
Fixed Access	25.7	17.5	(31.9%)
DTH	5.0	(6.2)	(223.1%)
IRIS & UMA Subscribers	80.1	51.3	(36.0%)
Broadband	80.2	51.1	(36.3%)
Fixed Voice	44.5	17.2	(61.3%)
Mobile	224.0	167.5	(25.2%)
<b>Business</b>			
Total RGUs	1,381.5	1,459.7	5.7%
Pay TV	119.9	126.1	5.2%
IRIS & UMA Subscribers	46.6	55.6	19.3%
Broadband	148.3	158.7	7.1%
Fixed Voice	310.7	342.4	10.2%
Mobile	802.7	832.4	3.7%
ARPU per RGU (Euros)	16.4	15.7	(4.3%)
<b>Net Adds</b>			
Total RGUs	97.2	41.8	(57.0%)
Pay TV	11.6	3.8	(67.2%)
IRIS & UMA Subscribers	10.0	6.3	(36.5%)
Broadband	12.8	6.5	(49.2%)
Fixed Voice	24.3	11.0	(54.6%)
Mobile	48.5	20.5	(57.8%)

## Cinema and Audiovisuals

NOS' Cinema ticket sales posted a yoy increase of 7.0% to 7.252 million tickets in 9M17, in line with the performance of the market as a whole which improved by 7.8%<sup>[1]</sup>. Average revenue per ticket remained stable yoy at 4.7 euros in 9M17.

Operating Indicators ('000)	9M16	9M17	9M17 / 9M16
Cinema <sup>(1)</sup>			
Revenue per Ticket (Euros)	4.7	4.7	0.3%
Tickets Sold	6,779.2	7,251.7	7.0%
Screens (units)	215	215	0.0%

(1) Portuguese Operations

The most successful films exhibited in 9M17 were "The Fate of the Furious", "Despicable Me 3", "Beauty and the Beast", "Fifty Shades Darker" and "Pirates of the Caribbean: Dead Men Tell No Tales".

NOS' gross box-office revenues increased by 7.3% in 9M17, which compares with an 8.7% yoy improvement for the market as a whole. NOS continues to maintain its leading market position, with a market share of 62.3% in terms of gross revenues in 9M17. Cinema Exhibition revenues increased by 7.3% yoy in 9M17 to 47.9 million euros.

Revenues in the Audiovisuals division increased by 3.2% yoy to 54.3 million euros in 9M17. This improvement in revenues was driven primarily by the positive yoy performance in Cinema Distribution. Of the top 10 cinema box-office hits in 9M17, NOS distributed 7 (including the top 5), "The Fate of the Furious", "Despicable Me 3", "Beauty and the Beast", "Fifty Shades Darker", "Pirates of the Caribbean: Dead Men Tell No Tales", "Baywatch", and "Cars 3", therefore maintaining its leading position.

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

# Consolidated Financial Review

## Consolidated Income Statement

Profit and Loss Statement (Millions of Euros)	9M16	9M17	9M17 / 9M16
Operating Revenues	1,124.1	1,162.5	3.4%
Telco	1,070.9	1,105.8	3.3%
Consumer Revenues	668.1	700.9	4.9%
Business and Wholesale Revenues	310.1	322.5	4.0%
Equipment Sales	37.4	36.6	(2.0%)
Others and Eliminations	55.4	45.7	(17.4%)
Audiovisuals	52.6	54.3	3.2%
Cinema <sup>(1)</sup>	44.7	47.9	7.3%
Others and Eliminations	(44.0)	(45.5)	3.4%
Operating Costs Excluding D&A	(692.3)	(710.9)	2.7%
W&S	(68.7)	(66.1)	(3.8%)
Direct Costs	(334.9)	(359.0)	7.2%
Commercial Costs <sup>(2)</sup>	(73.5)	(66.5)	(9.5%)
Other Operating Costs	(215.3)	(219.4)	1.9%
EBITDA	431.8	451.6	4.6%
EBITDA Margin	38.4%	38.8%	0.4pp
Telco	394.8	414.0	4.8%
EBITDA Margin	36.9%	37.4%	0.6pp
Cinema Exhibition and Audiovisuals	36.9	37.6	1.8%
EBITDA Margin	42.5%	41.4%	(1.1pp)
Depreciation and Amortization	(292.5)	(310.4)	6.1%
(Other Expenses) / Income	(11.5)	(11.7)	1.8%
Operating Profit (EBIT) <sup>(3)</sup>	127.8	129.4	1.3%
Share of results of associates and joint ventures	(8.2)	15.0	n.a.
(Financial Expenses) / Income	(18.8)	(18.3)	(2.5%)
Income Before Income Taxes	100.7	126.1	25.2%
Income Taxes	(22.5)	(20.4)	(9.5%)
Net Income Before Associates & Non-Controlling Interests	86.5	90.8	5.0%
Income From Continued Operations	78.2	105.8	35.2%
o.w. Attributable to Non-Controlling Interests	0.2	(0.3)	n.a.
Net Income	78.4	105.5	34.5%

(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.

## Operating Revenues

Consolidated Revenues grew by 3.4% yoy to 1,162.5 million euros.

Continued growth in RGUs associated with higher ARPU are driving an acceleration in yoy revenue growth in the Telecom operation with revenues growing by 3.8% yoy to 374 million euros in 3Q17, compared with 2.9% in 1Q17 and 3.1% in 2Q17. In 9M17, Telco Revenues grew by 3.3% to 1,105.8 million euros.

Within the Consumer segment, Residential revenues grew by 4.9% yoy led by the growth of customer revenues. Revenues from the personal segment posted growth of 5.0% yoy, driven by similar growth in customer and operator revenues on the back of higher stand-alone mobile RGUs and an increase in average ARPU of almost 3%. Higher yoy operator revenues result from the fact that with NOS' larger subscriber base and increased market share, more calls are being terminated on the NOS network than in previous years. This is also true for converged mobile customers however operator revenues in converged ARPU weigh less than in stand-alone mobile ARPU.

Business revenues ex-wholesale increased by 3.6% yoy as a result of customer revenue growth driven primarily by higher ARPU per account and still some RGU growth, albeit slower than in the past. Revenues in the wholesale segment grew by 4.8% yoy benefiting from some recovery in mass calling services in 3Q17 and increased volume of roaming in revenues generated from the "Roam Like at Home" (RLAH) European directive implemented in mid-June 2017. Roaming revenues year-to-date to the EU declined by 7% with a decrease in roaming out partially offset by strong growth of roaming in despite the lower tariffs.

Equipment sales decreased by 2.0% yoy in 9M17. The remaining revenue aggregate in the telecom segment, "others and eliminations" posted a yoy decline of 17.4% to 45.7 million euros. This aggregate contains mostly revenues received from advertising revenue share on TV channels, sale of TV channels and a number of other telecom related revenues.

Cinemas posted yoy growth in revenues of 7.3% in 9M17, despite the weaker movie line-up in 3Q17 in comparison with 3Q16. In 9M17 the Audiovisuals division posted revenue growth of 3.2% as a result of the yoy improvement box-office sales affecting movie distribution revenues, and despite small reduction in the homevideo and rights management areas.

## Consolidated Operating Costs

Growth of 2.7% in Consolidated OPEX to 710.9 million euros was below that of Operating Revenues, translating into EBITDA expansion of 4.6% during 9M17.

Direct costs are those that weigh the most in the cost structure, approximately 30% as a proportion of Operating Revenues. This aggregate is composed mostly of programming and royalty costs, interconnection and telecom capacity related costs and is closely tied to the level of commercial activity. The well flagged yoy increase in premium sports costs was less significant in 3Q17 than in previous quarters with the most relevant impacts already having passed through the accounts. Further yoy increases will persist, as agreed in the terms of the long term contracts signed, although are set to be less material than in recent quarters. Excluding premium football sports content, direct costs posted a small increase of 1.0%, mainly related to the increase in royalties paid related to the good performance of the cinema and audiovisuals areas and to an increase in interconnection costs.

The yoy saving achieved in commercial costs of 9.5% was due to a combination of lower advertising spend in the telco division and lower cost of goods sold than in 9M16. Other Operating Costs grew by 1.9% in 9M17.

EBIT grew by 1.3% yoy to 129.4 million euros reflecting the expansion in Consolidated EBITDA of 4.6% due to revenues growing at a faster pace than costs. Telco EBITDA margin in particular reflected a strong trend with yoy growth of 4.8% compared with growth in revenues of 3.3%, taking margin to 37.4% as a proportion of telco revenues, compared with 36.9% in 9M16. Although 6.1% higher yoy in 9M17, quarterly Depreciation and Amortization has remained relatively stable throughout the year.

Net Income posted a 34.5% increase to 105.5 million euros in 9M17 led by the good EBIT performance, and significantly improved share of results of associates and joint ventures to 15 million euros in 9M17 which compares with a negative contribution of 8.2 million euros in 9M16, mainly due to the improved financial contribution of Sport TV resulting from the revised distribution model implemented during 2H16 and to the improved performance at ZAP.

Financial charges of 18.3 million euros reflect lower interest costs due to the decline in average cost of debt from 2.3% in 9M16 to 2.1% in 9M17, a saving mitigated by a lower level of interest received on outstanding client debt.

Tax provision in 9M17 amounted to 20.4 million euros, representing 16.1% of Income Before Income Taxes.

## CAPEX

CAPEX (Millions of Euros)	9M16	9M17	9M17 / 9M16
Telco	264.7	239.5	(9.5%)
o.w. Technical CAPEX	130.3	125.5	(3.7%)
% of Telco Revenues	12.2%	11.4%	(0.8pp)
Baseline Telco	92.5	90.5	(2.1%)
Network Expansion / Substitution and Integration Projects and Others	37.8	35.0	(7.5%)
o.w. Customer Related CAPEX	134.4	114.0	(15.2%)
% of Telco Revenues	12.6%	10.3%	(0.2pp)
Audiovisuals and Cinema Exhibition	27.9	24.1	(13.8%)
Total Group CAPEX	292.6	263.6	(9.9%)
% of Total Group Revenues	26.0%	22.7%	(0.1pp)

Total Telecom CAPEX fell by 9.5% yoy to 239.5 million euros, representing 21.7% of telecom sales. Of this amount, Technical CAPEX started to pick up quarter over quarter reaching 47.1 million euros in 3Q17, 12.6% of telco revenues as expected with the launch in 2H17 of the major network projects discussed earlier in this report. Technical CAPEX will continue to increase quarter on quarter, albeit remaining within the guidance range of 12-13% of full year telco revenues. For 9M17, technical CAPEX amounted to 125.5 million euros. Within technical CAPEX, baseline CAPEX amounted to 90.5 million euros, 8.2% of telecom revenues. Customer related CAPEX posted a material decline of 15.2% yoy to 114 million euros in 9M17 reflecting the anticipated slowdown in slowdown in RGU growth and customer acquisition.

Total Group CAPEX was 263.6 million euros in 9M17, 22.7% of Consolidated Revenues. Audiovisuals and Cinema CAPEX declined to 24.1 million euros from 27.9 million euros in 9M16.

## Cash Flow

Cash Flow (Millions of Euros)	9M16	9M17	9M17 / 9M16
EBITDA	431.8	451.6	4.6%
Total CAPEX	(292.6)	(263.6)	(9.9%)
EBITDA - Total CAPEX	139.1	188.0	35.1%
% of Revenues	12.4%	16.2%	3.8pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(39.7)	(25.3)	(36.2%)
Operating Cash Flow	99.4	162.7	63.6%
Long Term Contracts	(13.0)	(11.3)	(13.2%)
Cash Restructuring Payments	(11.8)	(13.7)	16.6%
Interest Paid	(15.5)	(17.9)	15.5%
Income Taxes Paid	(14.9)	(9.7)	(34.7%)
Disposals	3.7	25.9	n.a.
Other Cash Movements	0.2	0.0	(100.0%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	48.2	136.0	182.3%
Acquisition of Own Shares	(20.7)	0.0	(100.0%)
Dividends	(82.1)	(102.6)	25.0%
Free Cash Flow	(54.6)	33.3	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(11.2)	(0.9)	(92.4%)
Change in Net Financial Debt	65.9	(32.5)	n.a.

FCF growth continues to accelerate yoy reflecting NOS' strong cash generation momentum and potential for attractive growth in shareholder remuneration.

In 9M17, EBITDA-CAPEX grew by 35.1% yoy to 188 million euros and Operating Cash Flow increased by 63.6% to 162.7 million euros.

Of the main cash movements below OCF, in 9M17, NOS paid cash taxes of 9.7 million euros, down from 14.9 million euros in 9M16. Interest payments increased by 15.5% yoy to 17.9 million euros in 9M17 reflecting the decline of financing interest costs from lower average cost of debt, which was offset by the lower yoy level of client default interest payments. Restructuring payments amounted to 13.7 million euros in 9M17.

Total FCF before dividends, financial investments and own share acquisitions increased 182.3% in 9M17 to 136 million euros translating into an 11.7% margin as a percentage of total revenues compared with 4.3% in 9M16.



## Consolidated Balance Sheet

Balance Sheet (Millions of Euros)	2016	9M17
Non-current Assets	2,453.0	2,418.5
Current Assets	529.6	526.5
Total Assets	2,982.6	2,945.0
Total Shareholders' Equity	1,053.1	1,060.2
Non-current Liabilities	1,168.7	1,137.2
Current Liabilities	760.8	747.7
Total Liabilities	1,929.5	1,884.9
Total Liabilities and Shareholders' Equity	2,982.6	2,945.0

## Capital Structure

At the end of 9M17, Net Financial Debt stood at 1,079.8 million euros.

Total financial debt was 1,081.8 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.0 million euros. At the end of 9M17, NOS also had 210 million euros of unissued commercial paper programmes. For 9M17, the all-in average cost of NOS' Net Financial Debt amounted to 2.1%.

During the 9M17 NOS executed two financing deals to refinance existing lines:

- In March, a new commercial paper program with a maximum amount of 75M Euros and maturing in 2021, with Banco Millennium bcp; and
- In June, a new commercial paper program with a maximum amount of 100M Euros, 50% of which amortized in 2021, and the remaining in 2023, with Banco Santander Totta.

Net Financial Gearing was 50.5% at the end of 9M17 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.9x. The average maturity of NOS' Net Financial Debt at the end of 9M17 was 3 years.

Taking into account the loans issued at a fixed rate, the interest rate hedging operations in place, and the negative interest rate environment, as at 30 September 2017, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 73%.

Net Financial Debt (Millions of Euros)	2016	9M17	9M17 / 2016
Short Term	213.9	193.3	(9.6%)
Bank and Other Loans	196.4	177.5	(9.6%)
Financial Leases	17.5	15.8	(9.8%)
Medium and Long Term	900.7	888.5	(1.4%)
Bank and Other Loans	871.8	869.9	(0.2%)
Financial Leases	28.9	18.7	(35.5%)
Total Debt	1,114.6	1,081.8	(2.9%)
Cash and Short Term Investments	2.3	2.0	(14.0%)
Net Financial Debt	1,112.3	1,079.8	(2.9%)
Net Financial Gearing <sup>(1)</sup>	51.4%	50.5%	(0.9pp)
Net Financial Debt / EBITDA	2.0x	1.9x	n.a.

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

# Consolidated Financial Statements

## Consolidated statement of financial position at 31 December 2016 and 30 September 2017

(Amounts stated in thousands of euros)

	NOTES	31-12-2016	30-09-2017
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Tangible assets	7	1,158,181	1,130,908
Investment property		663	662
Intangible assets	8	1,158,779	1,142,355
Investments in jointly controlled companies and associated companies	9	7,888	23,020
Accounts receivable - other	10	6,489	6,417
Tax receivable	11	3,617	1,029
Available-for-sale financial assets		77	77
Deferred income tax assets	12	117,302	114,045
Derivative financial instruments	17	6	-
<b>TOTAL NON - CURRENT ASSETS</b>		<b>2,453,002</b>	<b>2,418,513</b>
<b>CURRENT ASSETS:</b>			
Inventories	13	51,043	34,315
Accounts receivable - trade	14	348,926	397,184
Accounts receivable - other	10	15,814	11,537
Tax receivable	11	2,861	1,035
Prepaid expenses	15	84,391	80,452
Non-current assets held-for-sale	16	24,237	-
Derivative financial instruments	17	54	7
Cash and cash equivalents	18	2,313	1,988
<b>TOTAL CURRENT ASSETS</b>		<b>529,639</b>	<b>526,518</b>
<b>TOTAL ASSETS</b>		<b>2,982,641</b>	<b>2,945,031</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	19.1	5,152	5,152
Capital issued premium	19.2	854,219	854,219
Own shares	19.3	(18,756)	(12,681)
Legal reserve	19.4	1,030	1,030
Other reserves and accumulated earnings	19.4	112,031	97,662
Net income		90,381	105,466
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>		<b>1,044,057</b>	<b>1,050,848</b>
Non-controlling interests	20	9,041	9,331
<b>TOTAL EQUITY</b>		<b>1,053,098</b>	<b>1,060,178</b>
<b>LIABILITIES</b>			
<b>NON - CURRENT LIABILITIES</b>			
Borrowings	21	972,003	954,649
Provisions	22	146,287	136,479
Accounts payable	26	21,551	21,092
Tax payable	11	1,298	1,293
Accrued expenses	23	9,185	9,042
Deferred income	24	4,138	3,847
Derivative financial instruments	17	4,027	2,809
Deferred income tax liabilities	12	10,206	7,960
<b>TOTAL NON - CURRENT LIABILITIES</b>		<b>1,168,696</b>	<b>1,137,171</b>
<b>CURRENT LIABILITIES:</b>			
Borrowings	21	224,692	205,805
Accounts payable - trade	25	238,828	222,152
Accounts payable - other	26	68,733	46,691
Tax payable	11	23,957	34,040
Accrued expenses	23	174,514	212,253
Deferred income	24	30,123	26,731
Derivative financial instruments	17	-	10
<b>TOTAL CURRENT LIABILITIES</b>		<b>760,847</b>	<b>747,682</b>
<b>TOTAL LIABILITIES</b>		<b>1,929,543</b>	<b>1,884,853</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,982,641</b>	<b>2,945,031</b>

As a standard practice, only the annual accounts are audited, the quarterly results are not audited separately. The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 30 September 2017.

Chief Accountant

Board of Directors

## Consolidated statement of income by nature for the three and nine months ended on 30 September 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
<b>REVENUES:</b>					
Services rendered		357,815	1,060,685	370,055	1,102,601
Sales		19,149	50,235	20,192	50,062
Other operating revenues		4,016	13,174	2,850	9,804
	27	<b>380,980</b>	<b>1,124,094</b>	<b>393,097</b>	<b>1,162,467</b>
<b>COSTS, LOSSES AND GAINS:</b>					
Wages and salaries	28	22,997	68,718	23,199	66,087
Direct costs	29	115,697	334,901	118,875	358,989
Costs of products sold	30	16,155	41,071	14,758	36,224
Marketing and advertising		9,845	23,371	8,230	22,774
Support services	31	21,945	67,607	21,901	68,356
Supplies and external services	31	48,239	139,131	46,062	135,096
Other operating losses / (gains)		128	398	129	483
Taxes		7,474	21,816	8,677	24,336
Provisions and adjustments	32	(6,732)	(4,682)	50	(1,435)
Depreciation, amortisation and impairment losses	7, 8 and 33	98,674	292,503	103,675	310,413
Restructuring costs		5,365	10,709	2,178	6,018
Losses / (gains) on sale of assets, net		105	20	(69)	1
Other losses / (gains) non recurrent net		29	777	1,740	5,694
		<b>339,921</b>	<b>996,340</b>	<b>349,405</b>	<b>1,033,036</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>		<b>41,059</b>	<b>127,754</b>	<b>43,692</b>	<b>129,431</b>
Net losses / (gains) of affiliated companies	9 and 34	(1,408)	8,245	(6,012)	(14,983)
Financial costs	35	4,429	12,566	4,817	15,786
Net foreign exchange losses / (gains)		316	729	15	122
Net other financial expenses / (income)	35	1,796	5,480	1,637	2,391
		<b>5,133</b>	<b>27,020</b>	<b>457</b>	<b>3,316</b>
<b>INCOME BEFORE TAXES</b>		<b>35,926</b>	<b>100,734</b>	<b>43,236</b>	<b>126,116</b>
Income taxes	12	8,600	22,499	9,707	20,365
<b>NET CONSOLIDATED INCOME</b>		<b>27,326</b>	<b>78,235</b>	<b>33,529</b>	<b>105,751</b>
<b>ATTRIBUTABLE TO:</b>					
NOS Group Shareholders		27,491	78,387	33,639	105,466
Non-controlling interests	20	(165)	(152)	(110)	285
<b>EARNINGS PER SHARES</b>					
Basic - euros	36	0.05	0.15	0.07	0.21
Diluted - euros	36	0.05	0.15	0.07	0.21

As standard practice, only the annual accounts are audited, the quarterly results are not audited separately. The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the nine months ended on 30 September 2017.

Chief Accountant

Board of Directors

## Consolidated statement of comprehensive income

### for the three and nine months ended on 30 September 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
<b>NET CONSOLIDATED INCOME</b>		<b>27,326</b>	<b>78,235</b>	<b>33,529</b>	<b>105,751</b>
<b>OTHER INCOME</b>					
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:</b>					
Accounting for equity method	9	111	(867)	33	(16)
Fair value of interest rate swap	17	494	(2,013)	(64)	1,303
Deferred income tax - interest rate swap	17	(111)	453	15	(293)
Fair value of equity swaps	17	90	90	(70)	20
Deferred income tax - equity swap	17	(21)	(21)	15	(5)
Fair value of exchange rate forward	17	(9)	57	-	-
Deferred income tax - exchange rate forward	17	3	(16)	(4)	(4)
Currency translation differences and others		78	(604)	4	(31)
<b>INCOME RECOGNISED DIRECTLY IN EQUITY</b>		<b>635</b>	<b>(2,921)</b>	<b>(71)</b>	<b>974</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>27,961</b>	<b>75,314</b>	<b>33,458</b>	<b>106,725</b>
<b>ATTRIBUTABLE TO:</b>					
NOS Group Shareholders		27,796	75,162	33,567	106,440
Non-controlling interests		165	152	(110)	285
		<b>27,961</b>	<b>75,314</b>	<b>33,458</b>	<b>106,725</b>

As standard practice, only the annual accounts are audited, the quarterly results are not audited separately. The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the nine months ended on 30 September 2017.

Chief Accountant

Board of Directors

## Consolidated statement of changes in shareholders' equity for the nine months ended on 30 September 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES, DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	NON - CONTROLLING INTERESTS	TOTAL
<b>BALANCE AS AT 1 JANUARY 2016</b>		5,152	854,219	(10,559)	3,556	119,004	82,720	9,430	1,063,522
Result appropriation		-	-	-	-	-	-	-	-
Transfers to reserves		-	-	-	(2,526)	85,246	(82,720)	-	-
Dividends paid		-	-	-	-	(82,121)	-	-	(82,121)
Acquisition of own shares	19.3	-	-	(20,676)	-	-	-	-	(20,676)
Distribution of own shares - share incentive scheme	19.3	-	-	9,640	-	(10,401)	-	-	(761)
Distribution of own shares - other remunerations	19.3	-	-	2,747	-	(213)	-	-	2,534
Share Plan - costs incurred in the period and others	40	-	-	-	-	1,586	-	(8)	1,578
Comprehensive Income		-	-	-	-	(2,921)	78,387	(152)	75,314
<b>BALANCE AS AT 30 SEPTEMBER 2016</b>		5,152	854,219	(18,848)	1,030	110,180	78,387	9,270	1,039,390
<b>BALANCE AS AT 1 JANUARY 2017</b>		5,152	854,219	(18,756)	1,030	112,031	90,381	9,041	1,053,098
Result appropriation		-	-	-	-	-	-	-	-
Transfers to reserves		-	-	-	-	90,381	(90,381)	-	-
Dividends paid		-	-	-	-	(102,617)	-	-	(102,617)
Distribution of own shares - share incentive scheme	19.3	-	-	5,790	-	(5,453)	-	-	337
Distribution of own shares - other remunerations	19.3	-	-	285	-	(79)	-	-	206
Share Plan - costs incurred in the period and others	40	-	-	-	-	2,257	-	5	2,262
Comprehensive Income		-	-	-	-	974	105,466	285	106,725
Other		-	-	-	-	168	-	-	168
<b>BALANCE AS AT 30 SEPTEMBER 2017</b>		5,152	854,219	(12,681)	1,030	97,662	105,466	9,331	1,060,178

As standard practice, only the annual accounts are audited, the quarterly results are not audited separately.

The Notes to the Financial Statements form an integral part of the consolidated statement of changes in shareholders' equity for the nine months ended on 30 September 2017.

Chief Accountant

Board of Directors

# Consolidated statement of cash flows

## for the nine months ended on 30 September 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	9M 16	9M 17
<b>OPERATING ACTIVITIES</b>			
Collections from clients		1,341,248	1,330,415
Payments to suppliers		(862,563)	(732,441)
Payments to employees		(86,911)	(85,914)
Receipts / (Payments) relating to income taxes		(15,101)	(9,765)
Other cash receipts / (payments) related with operating activities		45,338	(78,793)
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>		<b>422,011</b>	<b>423,501</b>
<b>INVESTING ACTIVITIES</b>			
<b>CASH RECEIPTS RESULTING FROM</b>			
Financial investments	9	25,347	-
Tangible assets		4,359	2,620
Intangible assets		40	39
Available-for-sale financial assets	16	-	29,776
Interest and related income		6,890	4,009
		<b>36,636</b>	<b>36,443</b>
<b>PAYMENTS RESULTING FROM</b>			
Financial investments	9	(25,347)	-
Tangible assets		(209,659)	(167,245)
Intangible assets		(151,276)	(124,501)
		<b>(386,282)</b>	<b>(291,747)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (2)</b>		<b>(349,646)</b>	<b>(255,304)</b>
<b>FINANCING ACTIVITIES</b>			
<b>CASH RECEIPTS RESULTING FROM</b>			
Borrowings		335,998	188,000
		<b>335,998</b>	<b>188,000</b>
<b>PAYMENTS RESULTING FROM</b>			
Borrowings		(255,000)	(207,027)
Lease rentals (principal)		(15,585)	(21,337)
Interest and related expenses		(25,112)	(23,426)
Dividends	19.4	(82,121)	(102,617)
Aquisition of own shares	19.3	(20,676)	-
		<b>(398,494)</b>	<b>(354,407)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES (3)</b>		<b>(62,496)</b>	<b>(166,407)</b>
Change in cash and cash equivalents (4)=(1)+(2)+(3)		9,869	1,790
Effect of exchange differences		(309)	17
Cash and cash equivalents at the beginning of the period		(29,348)	(13,877)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>(19,788)</b>	<b>(12,070)</b>
Cash and cash equivalents	18	1,510	1,988
Bank overdrafts	21	(21,298)	(14,058)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>(19,788)</b>	<b>(12,070)</b>

As standard practice, only the annual accounts are audited, the quarterly results are not audited separately.

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the nine months ended on 30 September 2017.

Chief Accountant

Board of Directors

# Notes to the consolidated financial statements as at 30 September 2017

(Amounts stated in thousands of euros, unless otherwise stated)

## 1. Introductory note

NOS, SGPS, S.A. ("NOS", "NOS SGPS" or "Company"), formerly named ZON OPTIMUS, SGPS, S.A. ("ZON OPTIMUS") and until 27 August 2013 named ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON"), with Company headquarters registered at Rua Actor António Silva, nº9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on 15 July 1999 for the purpose of implementing its multimedia business strategy.

During the 2007 financial year, Portugal Telecom proceeded with the spin-off of ZON through the attribution of its participation in the company to their shareholders, which became fully independent from Portugal Telecom.

During the 2013 financial year, ZON and Optimus, SGPS, S.A. ("Optimus SGPS") have merged through the incorporation of Optimus SGPS into ZON. Thereafter, the Company adopted the designation of ZON OPTIMUS, SGPS, S.A..

On 20 June 2014, as a result of the launch of the new brand "NOS" on 16 May 2014, the General Meeting of Shareholders approved the change of the Company's name to NOS, SGPS, S.A..

The businesses operated by NOS and its associated companies, form the "NOS Group" or "Group", which includes cable and satellite television services, voice and Internet access services, video production and sale, advertising on Pay TV channels, cinema exhibition and distribution, the production of channels for Pay TV, management of data centers and consulting services in IT.

NOS shares are listed on the Euronext Lisbon market. The Group's shareholder structure as at 30 September 2017 is shown in Note 19.

Cable and satellite television in Portugal is mainly provided by NOS Comunicações, S.A. ("NOS SA") and its subsidiaries, NOS Açores and NOS Madeira. These companies carry out: a) cable and satellite television distribution; b) the operation of the latest generation mobile communication network, GSM/UMTS/LTE; c) the operation of electronic communications services, including data and multimedia communication services in general; d) IP voice services ("VOIP" - Voice over IP); e) Mobile Virtual Network Operator ("MVNO"), and f) the provision of consultancy and similar services directly or indirectly related to the above mentioned activities and services. The business of NOS SA, NOS Açores and NOS Madeira is regulated by Law no. 5/2004 (Electronic Communications Law), which establishes the legal regime governing electronic communications networks and services.

NOSPUB and NOS Lusomundo TV operate in the television and content production business, and currently produce films and series channels, which are distributed, among other operators, by NOS SA and its subsidiaries. NOSPUB also manages the advertising space on Pay TV channels and in the cinemas of NOS Cinemas.

NOS Audiovisuais and NOS Cinemas, together with their associated companies, operate in the audiovisual sector, which includes video production and sale, cinema exhibition and distribution, and the acquisition/negotiation of Pay TV and VOD (video-on-demand) rights.

NOS Sistemas is a company dedicated to data center management and consulting services in IT.

NOS Inovação main activities are conducting and stimulating scientific activities of R&D (it owns all the intellectual property developed within the NOS Group, intending to guarantee the return of the initial investment through the commercialization of patents and concessions regarding commercial operation, as a result of the creation of new products and services), the demonstration, disclosure, technology and training



transfers in the services and information management domains as well as fixed and mobile solutions of the latest generation of TV, internet, voice and data solutions.

A listing of the other Group companies and their respective business is included in this report. (Annexes)

The Notes of this annex follow the same sequence in which the items appear in the consolidated financial statements.

The consolidated financial statements for the nine months ended on 30 September 2017 were approved by the Board of Directors and their disclosure authorised on 8 November 2017.

The Board of Directors believe that the financial statements give a true and fair view of the Company's operations, financial performance and cash flows.

## 2. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are described below. These policies were consistently applied to all the financial years presented, unless otherwise indicated.

### 2.1. Principles of presentation

The consolidated financial statements of NOS were prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), adopted by the European Union, in force as at 1 January 2017.

These consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Accordingly, these financial statements do not include all the information required by IFRS and should be read in conjunction with the consolidated financial statements for the year ended on 31 December 2016.

The consolidated financial statements are presented in euros as this is the main currency of the Group's operations. The financial statements of subsidiaries located abroad were converted into euros in accordance with the accounting policies described in Note 2.3.19.

The consolidated financial statements were prepared on a going concern basis from the ledgers and accounting records of the companies included in the consolidation (Annex A)), using the historical cost convention, adjusted where necessary for the valuation of financial assets and liabilities (including derivatives) at their fair value (Note 2.3.22).

In preparing the consolidated financial statements in accordance with IFRS, the Board used estimates, assumptions and critical judgments with impact on the value of assets and liabilities and the recognition of income and costs in each reporting period. Although these estimates were based on the best information available at the date of preparation of the consolidated financial statements, current and future results may differ from these estimates. The areas involving a higher element of judgment and estimates are described in Note 3.

In the preparation and presentation of the consolidated financial statements, the NOS Group declares that it complies explicitly and without reservation with IAS/IFRS reporting standards and related SIC/IFRIC interpretations as approved by the European Union.

### Changes in accounting policies and disclosures

The following standards and interpretations, with mandatory application in future financial years endorsed by the European Union, at the date of approval of these financial statements:

- IFRS 9 (new), "Financial instruments – classification and measurement" (effective for annual periods beginning on or after 1 January 2018). The initial phase of IFRS 9 forecasts two types of measurement: amortised cost and fair value. All equity instruments are measured at fair value. A financial instrument is measured at amortised cost only if the company has it to collect contractual cash flows and the cash flows represents principal and interest. Otherwise, financial instruments are valued at fair value through profit and loss.
- IFRS 15 (new), "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). This standard establishes a single, comprehensive framework for revenue recognition. The framework will be applied consistently across transactions, industries and capital markets, and will improve comparability in the 'top line' of the financial statements of companies globally. IFRS 15 replaces the following standards and interpretations: IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue — Barter Transactions Involving Advertising Services.

The Group is evaluating the impact of these changes and will apply these standards in the period in which they become effective.

The following standards, interpretations, amendments and revisions, have not yet been endorsed by the European Union, at the date of approval of these financial statements:

- IFRS 14 (new), "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016). This standard's main purpose is to improve comparability of financial reports for companies in regulated markets, allowing the companies that currently record assets and liabilities in result of the regulation from the markets where they operate, in accordance with the adopted accounting principles, to not have the need to eliminate those assets and liabilities in the first time adoption of the IFRS. The endorsement by the European Union is suspended.
- IAS 7 (amendment), "Cash Flow Statements" (effective for annual periods beginning on or after 1 January 2017). This standard requires that the entity discloses information about changes in liabilities related to financing activities, including: (i) changes in financing cash flows; (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in exchange rates; (iv) fair value changes; and (v) other changes.
- IAS 12 (amendment), "Recognition of deferred tax assets of unrealised losses" (effective for annual periods beginning on or after 1 January 2017). The amendments clarify when it should be recognized an asset for deferred tax arising from unrealised losses.
- Improvements in International Financial Reporting Standards (2014-2016 cycle effective for periods beginning on or after 1 January 2017/2018). These improvements involve the review of various standards.

These amendments will have no material impact on the consolidated financial statements.

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years have not yet been endorsed by the European Union, at the date of approval of these financial statements:

- IFRS 2 (amendment), "Classification and measurement of share-based payments transactions" (effective for annual periods beginning on or after 1 January 2018). These amendments incorporate the standard payment transactions based on shares and settled in cash.
- IFRS 4 (amendment), "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018). The amendments complement the current options in the standard that can be used to bridge the concern related with the temporary volatility of the results.
- IFRS 10 and IAS 28 (amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date to be designated). The amendments address an acknowledged

inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

- IFRS 15 (clarification), "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018). The clarifications presented are about the transition and not about changes in the underlying principles of the standard.
- IFRS 16 (new), "Leasings" (effective for annual periods beginning on or after 1 January 2019, with early application option). This standard sets out recognition, presentation and disclosure of leasing contracts, defining a single accounting model. Aside from contracts shorter than 12 months, leases should be accounted as an asset and a liability.
- IFRS 17 (new), "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021). IFRS 17 provides an accounting model, with greater utility and consistency, for insurance contracts among entities that issue them globally.
- IAS 40 (amendment), "Investment property transfers" (effective for annual periods beginning on or after 1 January 2018). The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.
- IFRIC 22 (interpretation), "Foreign currency transactions and advance consideration" (effective for periods beginning on or after 1 January 2018). Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- IFRIC 23 (interpretation), "Uncertainty over income tax treatments" (effective for annual periods beginning in or after 1 January 2019). The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
- IFRS 9 (amendment), "Prepayment Features with Negative Compensation" (effective for periods beginning on or after 1 January 2019). The interpretation clarifies how IFRS 9 classifies particular prepayable financial assets.
- IAS 28 (amendment), Long-term Interests in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, to which the equity method is not applied.

The Group is calculating the impact of these changes and will apply these standards as soon as they become effective, or previously when permitted.

## 2.2. Bases of Consolidation

### Controlled Companies

Controlled companies were consolidated by the full consolidation method. Control is deemed to exist when the Group is exposed or has rights, as a result of their involvement, to a variable return of the entity's activities, and has capacity to affect this return through the power over the entity. Namely, when the Company directly or indirectly holds a majority of the voting rights at a General Meeting of Shareholders or has the power to determine the financial and operating policies. In situations where the Company has, in substance, control of other entities created for a specific purpose, although it does not directly hold equity in them, such entities are consolidated by the full consolidation method. The entities in these situations are listed in Annex A).

The interest of third parties in the equity and net profit of such companies' income is presented separately in the consolidated statement of financial position and in the consolidated statement, respectively, under the item "Non-controlling Interests" (Note 20).

The identifiable acquired assets and the liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the existence of non-controlled interests. The excess of acquisition cost over the fair value of the Group's share of identifiable acquired assets and liabilities is stated in Goodwill. Where the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the income statement of the period in which the acquisition occurs.

The interests of minority shareholders are initially recognised at their proportion of the fair value of the identifiable assets and liabilities.

On the acquisition of additional equity shares in companies already controlled by the Group, the difference between the share of capital acquired and the corresponding acquisition value is recognised directly in equity.

Where an increase in position in the capital of an associated company results in the acquisition of control, with the latter being included in the consolidated financial statements by the full consolidation method, the share of the fair values assigned to the assets and liabilities, corresponding to the percentages previously held, is considered as part of the purchase price, with the difference between the accounting value of the position in the associated company and the fair value of said position being recognised in the income statement.

The directly attributable transaction costs are recognised immediately in profit or loss.

The results of companies acquired or sold during the year are included in the income statements as from the date of acquisition or until the date of their disposal, respectively.

Intercompany transactions, balances, unrealised gains on transactions and dividends distributed between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction shows evidence of impairment of the transferred asset.

Where necessary, adjustments are made to the financial statements of controlled companies in order to align their accounting policies with those of the Group.

### **Jointly controlled companies**

The classification of investments as jointly controlled companies is determined based on the existence of shareholder agreements which show and regulate the joint control. Financial investments of jointly controlled companies (Annex C) are stated by the equity method. Under this method, financial investments are adjusted periodically by an amount corresponding to the share in the net profits of jointly controlled companies, as a contra entry in "Losses / (gains) of affiliated companies" in the income statement before financial results and taxes. Direct changes in the post-acquisition equity of jointly controlled companies are recognised as the value of the shareholding as a contra entry in reserves, in equity.

Additionally, financial investments may also be adjusted for recognition of impairment losses.

Any excess of acquisition cost over the fair value of identifiable net assets and liabilities (goodwill) is recorded as part of the financial investment of jointly controlled companies and subject to impairment testing when there are indicators of loss of value. Where the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the income statement in the period in which the acquisition occurs.

Losses in jointly controlled companies which exceed the investment made in them are not recognised, except where the Group has entered into undertakings with that company.

Dividends received from these companies are recorded as a reduction in the value of the financial investments.

## Associated companies

An associated company is a company in which the Group exercises significant influence through participation in decisions about its financial and operating policies, but in which does not have control or joint control.

Any excess of the acquisition cost of a financial investment over the fair value of the identifiable net assets is recorded as goodwill and is added to the value of the financial investment and its recovery is reviewed annually or whenever there are indications of possible loss of value. Where the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the statement of comprehensive income in the period in which the acquisition occurs.

Financial investments of associated companies (Annex B)) are stated by the equity method. Under this method, financial investments are adjusted periodically by an amount corresponding to the share in the net profits of associated companies, as a contra entry in "Losses / (gains) of affiliated companies" in the income statement. Direct changes in the post-acquisition equity of associated companies are recognised as the value of the shareholding as a contra entry in reserves, in equity. Additionally, financial investments may also be adjusted for recognition of impairment losses.

Losses in associated companies which exceed the investment made in them are not recognised, except where the Group has entered into undertakings with that associated company.

Dividends received from these companies are recorded as a reduction in the value of the financial investments.

## Balances and transactions between Group companies

Balances and transactions as well as unrealised gains between Group companies, and between them and the parent company, are eliminated in the consolidation.

Unrealised gains arising from transactions with associated companies or jointly controlled companies attributable to the Group is eliminated in the consolidation. Unrealised losses are similarly eliminated except where they show evidence of impairment of the transferred asset.

## 2.3. Accounting policies

### 2.3.1. Segment reporting

As stipulated in IFRS 8, the Group presents operating segments based on internally produced management information.

Operating segments are reported consistently with the internal management information model provided to the chief operating decision maker of the Group, who is responsible for allocating resources to the segment and for assessing its performance, and for taking strategic decisions.

### 2.3.2. Classification of the statement of the financial position and income statement

Realisable assets and liabilities due in less than one year from the date of the statement of financial position are classified as current in assets and liabilities, respectively.

In accordance with IAS 1, "Restructuring costs", "Losses / (gains) on disposal of assets" and "Other losses / (gains)" reflect unusual expenses that should be disclosed separately from the usual lines items, to avoid distortion of the financial information from regular operations.

### 2.3.3. Tangible Assets

Tangible assets are stated at acquisition cost, less accumulated depreciation and impairment losses, where applicable. Acquisition cost includes, in addition to the purchase price of the asset: (i) costs directly attributable to the purchase; and (ii) the estimated costs of decommissioning and removal of the assets and

restoration of the site, which in Group applies to the cinema operation business, telecommunication towers and offices (Notes 2.3.12 and Note 7).

Estimated losses resulting from the replacement of equipment before the end of its useful life due to technological obsolescence are recognised by a deduction from the corresponding asset as a contra entry in profit and loss. The costs of current maintenance and repairs are recognised as a cost when they are incurred. Significant costs incurred on renovations or improvements to the asset are capitalised and depreciated over the corresponding estimated payback period when it is probable that there will be future economic benefits associated with the asset and when these can be measured reliably.

### Non-current assets held for sale

Non-current assets (or discontinued operations), are classified as held for sale if their value is realisable through a sale transaction rather than through their continued use.

This situation is deemed to arise only where: (i) the sale is highly probable and the asset is available for immediate sale in its present condition; (ii) the Group has given an undertaking to sell; and (iii) it is expected that the sale will be realised within 12 months. In this case, non-current assets are valued at the lesser of their book value or their fair value less the sale costs.

From the time that certain tangible assets become deemed as "held for sale", the depreciation of such assets ceases and they are classified as non-current assets held for sale. Gains and losses on disposals of tangible assets, corresponding to the difference between the sale price and the net book value, are recognised in results in "Losses / (gains) on disposals of assets".

### Depreciation

Tangible assets are depreciated from the time they are completed or ready to be used. These assets, less their residual value, are depreciated by the straight-line method, in twelfths, from the month in which they become available for use, according to the useful life of the assets defined as their estimated utility.

The depreciation rates used correspond to the following estimated useful lives:

	<b>2016 (YEARS)</b>	<b>2017 (YEARS)</b>
Buildings and other constructions	2 - 50	2 - 50
Technical equipment:		
Network Installations and equipment	7 - 40	7 - 40
Terminal equipment	2 - 8	2 - 8
Other telecommunication equipment	3 - 10	3 - 10
Other technical equipment	1 - 16	1 - 16
Transportation equipment	3 - 4	3 - 4
Administrative equipment	2 - 10	2 - 10
Other tangible assets	4 - 8	4 - 8

### 2.3.4. Intangible Assets

Intangible assets are stated at acquisition cost, less accumulated amortisation and impairment losses, where applicable. Intangible assets are recognised only where they generate future economic benefits for the Group and where they can be measured reliably.

Intangible assets consist mainly of goodwill, satellite and distribution network capacity utilisation rights, customer portfolios, costs incurred in raising customers' loyalty contracts, telecom and software licenses, content utilisation rights and other contractual rights.

## Goodwill

Goodwill represents the excess of acquisition cost over the net fair value of the assets, liabilities and contingent liabilities of a subsidiary, jointly controlled company or associated company at the acquisition date, in accordance with IFRS 3.

Goodwill is recorded as an asset and included in "Intangible assets" (Note 8) in the case of a controlled company or in the case in which the excess of cost has been originated by a merger, and in "Financial investments in group companies" (Note 9) in the case of a jointly controlled company or an associated company.

Goodwill is not amortised and is subject to impairment tests at least once a year, on a specified date, and whenever there are changes in the test's underlying assumptions at the date of the statement of financial position which may result in a possible loss of value. Any impairment loss is recorded immediately in the income statement in "Impairment losses" and is not liable to subsequent reversal.

For the purposes of impairment tests, goodwill is attributed to the cash-generating units to which it is related (Note 8), which may correspond to the business segments in which the Group operates, or a lower level.

## Internally generated intangible assets

Internally generated intangible assets, including expenditure on research, are expensed when they are incurred. Research and development costs are only recognised as assets where the technical capability to complete the intangible asset is demonstrated and where it is available for use or sale.

## Industrial property and other rights

Assets classified under this item relate to the rights and licenses acquired under contract by the Group to third parties and used in realising the Group's activities, and include:

- Satellite capacity utilisation rights;
- Distribution network utilisation rights;
- Telecom licenses;
- Software licenses;
- Customer portfolios;
- Costs incurred in raising customers' loyalty contracts (i.e. commissions incurred in customer acquisition, portability costs, negative margin in equipment sales, etc.);
- Content utilisation rights;
- Other contractual rights.

The signing of contracts related with sports content originate rights that are, initially, classified as contractual commitments.

The content exploration rights are recorded in the consolidated statement of financial position, as intangible assets, where the following conditions are fulfilled: (i) there is control over the content, (ii) the Company has the right to choose the way to explore the content and (iii) it is available for exhibition.

In the specific case of broadcasting rights of sports competitions, these are recognised as assets where the necessary conditions to organize each sports competition are present, which occurs in the homologation date of the participating teams in the competition that is being held in the sports season to be initiated, by the organizing entity, taking into consideration that it is from that date that the conditions for the recognition of an asset are present, namely, the unequivocal attainment of the exploration rights of the games of the stated season. In this situation, the stated rights are recognised in the income statement in "Depreciation, amortisation

and impairment losses", by the linear method, by twelfths, starting from the beginning of the month in which they are available for use.

As a result of the agreements established for the transfer of exclusive rights to exploit sports content, and as allowed by IAS 1, NOS presents the net assets and liabilities of the values made available to other operators, as it considers that this compensation better reflects the transactions' substance.

### Intangible assets in progress

Group companies periodically carry out an impairment assessment of intangible assets in progress. This impairment assessment is also carried out whenever events or changes in circumstances indicate that the amount at which the asset is recorded may not be recoverable. Where such indications exist, the Group calculates the recoverable value of the asset in order to determine the existence and extent of the impairment loss.

### Amortisation

These assets are amortised by the straight-line method, in twelfths, from the beginning of the month in which they become available for use.

The amortisation rates used correspond to the following estimated useful lives:

	2016 (YEARS)	2017 (YEARS)
Rights of using capacities	Period of the contract	Period of the contract
Telecom licences	30 to 33	30 to 33
Software licences	1 to 8	1 to 8
Customer portfolios	5 to 6	5 to 6
Costs incurred in raising costumers loyalty contracts	Loyalty contract period	Loyalty contract period
Content utilization rights	Period of the contract	Period of the contract
Other	1 to 8	1 to 8

### 2.3.5. Impairment of non-current assets, excluding goodwill

Group companies periodically carry out an impairment assessment of non-current assets. This impairment assessment is also carried out whenever events or changes in circumstances indicate that the amount at which the asset is recorded may not be recoverable. Where such indications exist, the Group calculates the recoverable value of the asset in order to determine the existence and extent of the impairment loss.

The recoverable value is estimated for each asset individually or, if that is not possible, assets are grouped at the lowest levels for which there are identifiable cash flows to the cash-generating unit to which the asset belongs. Each of the Group's businesses is a cash-generating unit, except for the assets allocated to the cinema exhibition business which are grouped into regional cash-generating units.

The recoverable amount is calculated as the higher of the net sale price and the current use value. The net sale price is the amount that would be obtained from the sale of the asset in a transaction between independent and knowledgeable entities, less the costs directly attributable to the sale. The current use value is the current value of the estimated future cash flows resulting from continued use of the asset or of the cash-generating unit. Where the amount at which the asset is recorded exceeds its recoverable value, it is recognised as an impairment loss.

The reversal of impairment losses recognised in previous years is recorded when there are indications that these losses no longer exist or have decreased. The reversal of impairment losses is recognised in the statement of comprehensive income in the year in which it occurs. However, an impairment loss can only be reversed up to



the amount that would be recognised (net of amortisation or depreciation) if no impairment loss had been recorded in previous years.

### **2.3.6. Financial Assets**

Financial assets are recognised in the statement of financial position of the Group on the trade or contract date, which is the date on which the Group undertakes to purchase or sell the asset.

Initially, financial assets are recognised at their fair value plus directly attributable transaction costs, except for assets at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. These assets are derecognised when: (i) the Group's contractual rights to receive their cash flows expire; (ii) the Group has substantially transferred all the risks and benefits associated with their ownership; or (iii) although it retains part but not substantially all of the risks and benefits associated with their ownership, the Group has transferred control of the assets.

Financial assets and liabilities are offset and shown as a net value when, and only when, the Group has the right to offset the recognised amounts and intends to settle for the net value.

The Group classifies its financial assets into the following categories: financial investments at fair value through profit or loss, financial assets available for sale, investments held to maturity and borrowings and receivables. The classification depends on management's intention at the time of their acquisition.

#### **Financial assets at fair value through profit and loss**

This category includes non-derivative financial assets acquired with the intention of selling them in the short term. This category also includes derivatives that do not qualify for hedge accounting purposes. Gains and losses resulting from changes in the fair value of assets measured at fair value through profit or loss are recognised in results in the year in which they occur under "Losses / (gains) on financial assets", including the income from interest and dividends.

#### **Financial assets available for sale**

Financial assets available for sale are non-derivative financial assets which: (i) are designated as available for sale at the time of their initial recognition; or (ii) do not fit into the other categories of financial assets above. They are recognised as non-current assets except where there is an intention to sell them within 12 months following the date of the statement of financial position.

Shareholdings other than shares in Group companies, jointly controlled companies or associated companies are classified as financial investments available for sale and are recognised in the statement of financial position as non-current assets.

Investments are initially recognised at their acquisition cost. After initial recognition, investments available for sale are revalued at their fair value by reference to their market value at the date of the statement of financial position, without any deduction for transaction costs that may occur until their sale. In situations where investments are equity instruments not listed on regulated markets and for which it is not possible to reliably estimate their fair value, they are maintained at acquisition cost less any impairment losses.

The potential resulting capital gains and losses are recognised directly in reserves until the financial investment is sold, received or otherwise disposed of, at which time the accumulated gain or loss previously recognised in equity is included in the income statement.

Dividends on equity instruments classified as available for sale are recognised in results for the year under "Losses / (gains) on financial assets", where the right to receive the payment is established.

#### **Investments held to maturity**

Investments held to maturity are classified as non-current investments except where they mature in less than 12 months from the date of the statement of financial position. This item includes investments with defined

maturities which the Group has the intention and ability to keep until that date. Investments held to maturity are valued at amortised cost, less any impairment losses.

### **Borrowings and receivables**

The assets classified in this category are non-derivative financial assets with fixed or determinable payments not listed on an active market.

Accounts receivable are initially recognised at fair value and subsequently valued at amortised cost, less adjustments for impairment, where applicable. Impairment losses on customers and accounts receivable are recorded where there is objective evidence that they are not recoverable under the initial terms of the transaction. The identified impairment losses are recorded in the income statement under "Provisions and adjustments", and subsequently reversed by results, when the impairment indicators reduce or cease to exist.

### **Cash and cash equivalents**

The amounts included in "Cash and cash equivalents" correspond to the amounts of cash, bank deposits, term deposits and other investments with maturities of less than three months which may be immediately realisable and with a negligible risk of change of value.

For the purposes of the statement of cash flows, "Cash and cash equivalents" also includes bank overdrafts included in the statement of financial position under "Borrowings" (where applicable).

### **2.3.7. Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to their contractual substance irrespective of their legal form. Equity instruments are contracts that show a residual interest in the Group's assets after deducting the liabilities. The equity instruments issued by Group companies are recorded at the amount received, net of the costs incurred in their issue. Financial liabilities and equity instruments are recognised only when extinguished, i.e. when the obligation is settled, cancelled or extinguished.

### **Borrowings**

Loans are stated as liabilities at their nominal value, net of the issuance costs of the loans. Financial charges, calculated in accordance with the effective rate of interest, including premiums payable, are recognised in accordance with the accruals principle.

### **Accounts Payable**

Accounts payable are recognised initially at their fair value and subsequently at amortised cost in accordance with the effective interest rate method. Accounts payable are recognised as current liabilities unless they are expected to be settled within 12 months from the date of the statement of financial position.

### **Derivative financial instruments**

See accounting policy 2.3.9.

### **2.3.8. Impairment of financial assets**

At the date of each statement of financial position, the Group examines whether there is objective evidence that a financial asset or group of financial assets is impaired.

### **Financial assets available for sale**

In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered as an indicator that the instrument is impaired. If any similar evidence exists for financial assets classified as available for sale, the accumulated loss – measured as the difference between the acquisition cost and the current fair value, less any impairment of the financial asset that has already been recognised in results – is removed from equity and recognised in the income statement.

Impairment losses on equity instruments recognised in results are not reversed through the income statement.

### **Customers, other debtors and other financial assets**

Adjustments are made for impairment losses when there are objective indications that the Group will not receive all the amounts to which it is entitled under the original terms of the contracts. Various indicators are used to identify impairment situations, such as default analysis, financial difficulties of the debtor, including probability of insolvency of the debtor.

The adjustment for impairment losses is calculated as the difference between the recoverable value of the financial asset and its value in the statement of financial position and is stated in profit and loss for the year. The value of these assets in the statement of financial position is reduced to the recoverable amount by means of an adjustments account. When an amount receivable from customers and other debtors is considered non recoverable, it is written off using the adjustments account for impairment losses. The subsequent recovery of amounts that have been written off is recognised in profit and loss.

When there are receivables from customers or other debtors that are overdue, and these are subject to renegotiation of their terms, these are no longer regarded as overdue and become treated as new receivables.

### **2.3.9. Derivative financial instruments**

The Group has a policy of contracting derivative financial instruments with the objective of hedging the financial risks to which it is exposed, resulting from variations in exchange rates and interest rates. The Group does not contract derivative financial instruments for speculative purposes, and the use of this type of financial instruments complies with the internal policies determined by the Board.

In relation to financial derivative instruments which, although contracted in order to provide hedging in line with the Group's risk management policies, do not meet all the requirements of IAS 39 – Financial instruments: recognition and measurement in terms of their classification as hedge accounting or which have not been specifically assigned to a hedge relationship, the related changes in fair value are stated in the income statement for the period in which they occur.

Derivative financial instruments are recognised on the respective trade date at their fair value. Subsequently, the fair value of the derivative financial instruments is revalued on a regular basis, and the gains or losses resulting from this revaluation are recorded directly in profit and loss for the period, except in the case of hedge derivatives. Recognition of the changes in fair value of hedge derivatives depends on the nature of the risk hedged and the type of hedge used.

### **Hedge accounting**

The possibility of designating a derivative financial instrument as a hedging instrument meets the requirements of IAS 39 - Financial instruments: recognition and measurement.

Derivative financial instruments used for hedging purposes can be classified as hedges for accounting purposes where they cumulatively meet the following conditions:

- a) At the start date of the transaction, the hedge relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument and the evaluation of effectiveness of the hedge;
- b) There is the expectation that the hedge relationship is highly effective at the start date of the transaction and throughout the life of the operation;
- c) The effectiveness of the hedge can be reliably measured at the start date of the transaction and throughout the life of the operation;
- d) For cash flow hedge operations, it must be highly probable that they will occur.

## Exchange rate and interest rate risk

Where expectations of changes in exchange rates and interest rates so warrant, the Group aims to anticipate any adverse impact through the use of derivatives. Operations that qualify as cash flow hedging instruments are stated in the statement of financial position at their fair value and, where they are considered to be effective hedges, the changes in the fair value of the instruments are initially stated as a contra entry in equity and subsequently reclassified as financial costs.

Where hedge transactions are ineffective, they are stated directly in profit and loss. Accordingly, in net terms the cash flows associated with the hedged operations are accrued at the rate applying to the contracted hedge operation.

When a hedge instrument expires or is sold, or when the hedge ceases to fulfil the criteria required for hedge accounting, the accumulated variations in the fair value of the derivative in reserves are shown in profit and loss when the operation hedged also affects profit and loss.

### 2.3.10. Inventories

Inventories, which mainly include mobile phones, customer terminal equipment, DVDs and content broadcasting rights are valued at the lower of their cost or net realisable value.

The acquisition cost includes the invoice price, freight and insurance costs, using the weighted average cost as the method of costing goods sold.

Inventories are adjusted for technological obsolescence, as well as for the difference between the purchase cost and the net realisable value, whichever is the lower, and this reduction is recognised directly in the income statement.

The net realisable value corresponds to the normal sale price less restocking costs and selling costs.

The differences between the cost and the corresponding net realisable value of inventories, where this is less than the cost, are recorded as operating costs in "Cost of goods sold".

Inventories in transit, since they are not available for consumption or sale, are separated out from other inventories and are valued at their specific acquisition cost.

The signing of contracts related with sports content originate rights that are, initially, classified as contractual commitments.

The content broadcasting rights are recorded in the consolidated statement of financial position, as Inventories, in the event of the nonexistence of full right over the way of exploration of the asset, by the respective value of cost or net realisable value, whenever it is lower, where programmatic content has been received and is available for exhibition or use, according to contractual conditions, given that the necessary conditions for the organization of each sports competition are present, which occurs in the homologation date of the participating teams in the competition that is being held in the sports season to be initiated, by the organizing entity. The stated rights are recognised in the income statement in "Direct costs: Exhibition costs", on a systematic basis given the pattern of economic benefits obtained through their commercial exploration.

Due to the agreement between the three national operators of reciprocal availability, for several sports seasons, of sports content (national and international) owned by them (Note 37), NOS considered the recognition of the costs, excluding those divided by the remaining operators, on a systematic basis, given the pattern of economic benefits obtained through their commercial exploration.

### 2.3.11. Subsidies

Subsidies are recognised at their fair value where there is a reasonable assurance that they will be received and Group companies will meet the requirements for their award.

Operating subsidies, mainly for employee training, are recognised in the statement of comprehensive income by deduction from the corresponding costs incurred.

Investment subsidies are recognised in the statement of financial position as deferred income.

If the subsidy is considered as deferred income, it is recognised as income on a systematic and rational basis during the useful life of the asset.

### **2.3.12. Provisions and contingent liabilities**

Provisions are recognised where: (i) there is a present obligation arising from past events and it is likely that in settling that obligation the expenditure of internal resources will be necessary; and (ii) the amount or value of such obligation can be reasonably estimated. Where one of the above conditions is not met, the Group discloses the events as a contingent liability unless the likelihood of an outflow of funds resulting from this contingency is remote, in which case they are not disclosed.

Provisions for legal procedures taking place against the Group are made in accordance with the risk assessments carried out by the Group and by their legal advisers, based on success rates.

Provisions for restructuring are only recognised where the Group has a detailed, formal plan identifying the main features of the restructuring programme and after these facts have been reported to the entities involved.

Provisions for dismantling costs, removal of assets and restoration of the site are recognised when the assets are installed, in line with the best estimates available at that date. The amount of the provisioned liability reflects the effects of the passage of time and the corresponding financial indexing is recognised in results as a financial cost.

Obligations that result from onerous contracts are registered and measured as provisions. There is an onerous contract when the Company is an integral part of the provisions of an agreement contract, which entail costs that cannot be avoided and which exceed the economic benefits derived from the agreement.

Provisions for potential future operating losses are not covered.

Contingent liabilities are not recognised in the financial statements, unless the exception provided under IFRS 3 business combination, and are disclosed whenever there is a good chance to shed resources including economic benefits. Contingent assets are not recognised in the financial statements, being disclosed when there is a likelihood of a future influx of financial resources.

Provisions are reviewed and brought up to date at the date of the statement of financial position to reflect the best estimate at that time of the obligation concerned.

### **2.3.13. Leases**

Leasing contracts are classified as: (i) finance leases, if substantially all the risks and benefits incident to ownership of the corresponding assets concerned have been transferred; or (ii) operating leases, if substantially all risks and rewards incident to ownership of those assets have not been transferred.

The classification of leases as finance or operating leases is made on the basis of substance rather than contractual form.

The assets acquired under finance leases and the corresponding liabilities are recorded using the financial method, and the assets, related accumulated depreciation and pending debts are recorded in accordance with the contractual finance plan. In addition, the interest included in the rentals and the depreciation of the tangible and intangible assets are recognised in the income statement for the period to which they relate.

In the case of operating leases, the rentals due are recognised as costs in the income statement over the period of the leasing contract.

#### 2.3.14. Income tax

NOS is covered by the special tax regime for groups of companies, which covers all the companies in which it directly or indirectly owns at least 75% of the share capital and which simultaneously are resident in Portugal and subject to Corporate Income Tax (IRC).

The remaining subsidiaries not covered by the special tax regime for groups of companies are taxed individually on the basis of their respective taxable incomes and the applicable tax rates.

Income tax is stated in accordance with the IAS 12 criteria. In calculating the cost relating to income tax for the period, in addition to current tax, allowance is also made for the effect of deferred tax calculated in accordance with the liability method, taking into account the temporary differences resulting from the difference between the tax basis of assets and liabilities and their values as stated in the consolidated financial statements, and the tax losses carried forward at the date of the statement of financial position. The deferred income tax assets and liabilities were calculated on the basis of the tax legislation currently in force or of legislation already published for future application.

As stipulated in the above standard, deferred income tax assets are recognised only where there is reasonable assurance that these may be used to reduce future taxable profit, or where there are deferred income tax liabilities whose reversal is expected to occur in the same period in which the deferred income tax assets are reversed. At the end of each period an assessment is made of deferred income tax assets, and these are adjusted in line with the likelihood of their future use.

The amount of tax to be included either in current tax or in deferred tax resulting from transactions or events recognised in equity accounts is recorded directly under those items and does not affect the results for the period.

In a business combination the deferred tax benefits acquired are recognised as follows:

- a) The deferred tax benefits acquired recognised in the measurement period of one year after the date of merger and that result from new information about facts and circumstances that existed at the date of acquisition are recorded against the goodwill carrying amount related to the acquisition. If the goodwill carrying amount is null, any remaining deferred tax benefits are recognised in the income statement.
- b) All the other acquired deferred tax benefits performed are recognised in the income statement (or, when applicable, directly in shareholders' equity).

#### 2.3.15. Share-based payments

The benefits granted to employees under share purchase or share option incentive plans are recorded in accordance with the requirements of IFRS 2 – Share-based payments.

In accordance with IFRS 2, since it is not possible to reliably estimate the fair value of the services received from employees, their value is measured by reference to the fair value of equity instruments in accordance with their share price at the grant date.

The cost is recognised, linearly over the period in which the service is provided by employees, under the caption “Wages and salaries” in the income statement, with the corresponding increase in “Other reserves” in equity.

The accumulated cost recognised at the date of each statement of financial position up to the vesting reflects the best estimate of the number of own shares that will be vested, weighted by the time elapse between the grant and the vesting. The impact on the income statement each year corresponds to the accumulated cost valuation between the beginning and the end of the year.

In turn, benefits granted on the basis of shares but paid in cash lead to the recognition of a liability valued at fair value at the date of the statement of financial position.

### 2.3.16. Equity

#### Legal reserve

Portuguese commercial legislation requires that at least 5% of annual net profit must be appropriated to a legal reserve until it represents at least 20% of the share capital. This reserve is not distributable, except in case of liquidation, but can be used to absorb losses, after having exhausted all other reserves and to increase share capital.

#### Share premium reserves

Issue of shares corresponds to premiums from the issuance or capital increases. According to Portuguese law, share premiums follow the treatment given to the "Legal reserve", that is, the values are not distributable, except in case of liquidation, but can be used to absorb losses after having exhausted all other reserves and to increase share capital.

#### Reserves for plans of medium term incentive

According to IFRS 2 - "Share-based payments", the responsibility with the medium-term incentive plans settled by delivery of own shares is recorded as credit under "Reservations for mid-term incentive plans" and such reserve is not likely to be distributed or used to absorb losses.

#### Hedging reserves

Hedging reserve reflects the changes in fair value of derivative financial instruments as cash flow hedges that are considered effective, and they are not likely to be distributed or be used to absorb losses.

#### Own shares reserves

The "Own shares reserves" reflect the value of the shares acquired and follows the same legal regime as the legal reserve. Under Portuguese law, the amount of distributable reserves is determined according to the individual financial statements of the company prepared in accordance with IFRS. In addition, the increases resulting from the application of fair value through equity components, including its application through the net profit can only be distributed when the elements that originated them are sold, exercised liquidated or when the end their use, in the case of tangible assets or intangible assets.

#### Own shares

The own shares are recorded at acquisition cost as a deduction from equity. Gains or losses on the sale of own shares are recorded under "Other reserves".

#### Other reserves and Retained results

This item includes the results available for distribution to shareholders and earnings per fair value in financial instruments increases, financial investments and investment properties, which, in accordance with paragraph 2 of article 32 of the CSC, will only be available for distribution when the elements or rights that originated them are sold, exercised, terminated or settled.

### 2.3.17. Revenue

The main types of revenue of NOS subsidiaries are as follows:

i. Revenues of Telecommunications Services:

Cable television, fixed broadband and fixed voice: The revenues from services provided using the fibre optic cable network result from: (a) basic channel subscription packages that can be sold in a bundle with fixed broadband/fixed voice services; (b) premium channel subscription packages and S-VOD; (c) terminal equipment rental; (d) consumption of content (VOD); (e) traffic and voice termination; (f) service activation; (g) sale of equipment; and (h) other additional services (ex: firewall, antivirus).

Satellite television: Revenues from the satellite television service mainly result from: (a) basic and premium channel subscription packages; (b) equipment rental; (c) consumption of content (VOD); (d) service activation; and (e) sale of equipment.

Mobile broadband and voice services: Revenues from mobile broadband Internet access services and mobile voice services result mainly from monthly subscriptions and/or usage of the Internet and voice service, as well as the traffic associated with the type chosen by the client.

- ii. Advertising revenue: Advertising revenues mainly derive from the attraction of advertising for Pay TV channels to which the Group has publicity rights and in cinemas. These revenues are recognised from when they are received, taken off any discounts given.
- iii. Film showings and distribution: Distribution revenue pertains to the distribution of films to film exhibitors not distributed by the Group, that are included in the film showings, whilst income from film showings mostly derive from cinema ticket sales and the product sales in the bars; the film showings revenue includes the revenue from ticket sales and bar sales respectively.
- iv. Revenue from producing and distributing channel content: Revenue from production and distribution essentially includes the sale of DVDs, the sale of content and the distribution of television channels subscriptions to third parties and count from the time at which they are sold, shown and made available for distribution to telecommunications operators, respectively.
- v. Consultancy and datacenter management: information systems consultancy and datacenter management are the major services rendered by NOS Sistemas.

Revenue from selling equipment are included when the buyer takes on the risks and advantages of taking possession of goods and the value of the benefits are reasonably quantified.

Revenue from equipment rental is recognised linearly over the rental agreement, except in the case of instalment sales which are accounted as credit sales.

The Group attributes to its customers, loyalty points which might be exchanged, over a limited time period, for discounts in equipment purchase. These points represent a deferred liability, until the date when the points are definitely converted into benefits, as its utilization implies an additional retention. The fair value of the liability is calculated based on an estimated utilisation point rate and an average cost per point, taking into consideration the available points at the date of each report.

Revenue from telecom services subscriptions (TV, internet, mobile and fixed voice services bundle subscription, individually or as a bundle) is recognised linearly over the subscription period.

Revenue related with traffic, roaming, data usage, audiovisual content and others is recognised when the service is rendered. The Group also offers various personalised solutions, particularly to its corporate customers in telecom management, access, voice and data transmission services. These personalised solutions are also recognised when the service is rendered.

Revenue is measured by the fair value of the amount received or receivable, taking into consideration that revenue is recorded net of any commercial and quantity discounts granted by the entity.

Unless demanded or allowed by IFRS, the compensation of revenues and costs is not performed, namely, when it reflects the nature of the transaction or other event.

The compensation of revenues and costs is performed in the following situations:

- i. When the gross inflows from economic benefits do not result in equity increases to the Group, i.e., the amount charged to the customer is equal to the amount delivered to the partner. This situation is applicable to the revenue obtained by the invoicing special services operators, in these cases the amounts charged on account of the capital are not revenue; and,



- ii. When the counterpart is not a “customer” but a partner who shares the risks and benefits of developing a product or services in order for it to be commercialised. Thus, a counterpart of a contract will not be a customer if, for instance, the counterpart has hired from NOS to participate in an activity or process in which the parties in the contract share the risks and benefits instead of obtaining the Group’s ordinary activities result. These cases are designated collaborative arrangements. This situation is applicable to revenues from operators affected by the reciprocal availability agreement regarding broadcasting rights of sports content.

Discounts granted to customers related with loyalty programmes are allocated to the entire retention contract to which the customer is committed to. Therefore, the discount is recognised as the goods and services are made available to the customer.

Amounts that have not been invoiced for are included based on estimates. The differences between the estimated amounts and the actual amounts, which are normally immaterial, are recorded in the next financial year.

Until 31 December 2014, revenue from penalties, due to inherent uncertainties, was recorded only at the moment when it was received, and the amount was disclosed as a contingent asset (Note 39). From 1 January 2015, Revenue from penalties is recognised taking into account an estimated collectability rate taking into account the Group’s collection history.

Interest revenue is recognised using the effective interest method, only where they generate future economic benefits for the Group and where they can be measured reliably.

#### **2.3.18. Accruals**

Group’s revenues and costs are recognised in accordance with the accruals principle, under which they are recognised as they are generated or incurred, irrespective of when they are received or paid.

The costs and revenues related to the current period and whose expenses and income will only occur in future periods are registered under “Accounts receivable – trade”, “Accounts receivable – other”, “Deferred costs”, “Accrued expenses” and “Deferred income”, as well as the expenses and income that have already occurred that relate to future periods, which will be recognised in each of those periods, for the corresponding amount.

The costs related to the current period and whose expenses will only occur in future periods are registered under “Accrued expenses” when it is possible to estimate with certainty the related amount, as well as the timing of the expense’s materialization. If uncertainty exists related to any of these aspects, the value is classified as Provisions (Note 2.3.12).

#### **2.3.19. Assets, liabilities and transactions in foreign currencies**

Transactions in foreign currencies are converted into the functional currency at the exchange rate on the transactions dates. On each accounting date, outstanding balances (monetary items) are updated by applying the exchange rate prevailing on that date. The exchange rate differences in this update are recognised in the income statement for the year in which they were calculated, under “Net foreign exchange losses / (gains)”. Exchange rate variations generated on monetary items which constitute enlargement of the investment denominated in the functional currency of the Group or of the subsidiary in question are recognised in equity. Exchange rate differences on non-monetary items are classified in “Other reserves” in equity.

The financial statements of subsidiaries denominated in foreign currencies are converted at the following exchange rates:

- The exchange rate obtained on the date of the statement of financial position for the conversion of assets and liabilities;
- The average exchange rate in the period for the conversion of items in the income statement;

- The average exchange rate in the period, for the conversion of cash flows (in cases where the exchange rate approximates to the real rate, and for the remaining cash flows the rate of exchange at the date of the operations is used);
- The historical exchange rate for the conversion of equity accounts.

Exchange differences arising from the conversion into euros of the financial statements of subsidiaries denominated in foreign currencies are included in equity under "Other reserves".

At 31 December 2016 and 30 September 2017, assets and liabilities expressed in foreign currencies were converted into euros using the following exchange rates of such currencies against the euro, as published by the Bank of Portugal:

	31-12-2016	30-09-2017
US Dollar	1.0541	1.1806
Angolan Kwanza	184.4750	184.4950
British Pound	0.8562	0.8818
Mozambican Metical	74.5400	72.3400
Canadian Dollar	1.4188	1.4687
Swiss Franc	1.0739	1.1457
Real	3.4305	3.7635

In the nine months ended at 30 September 2016 and 2017, the income statements of subsidiaries expressed in foreign currencies were converted to euros at the average exchange rates of the currencies of their countries of origin against the euro, which are as follows:

	9M 16	9M 17
Angolan Kwanza	181.4076	184.7887
Mozambican Metical	66.7544	71.6700

### 2.3.20. Financial charges and borrowings

Financial charges related to borrowings are recognised as costs in accordance with the accruals principle, except in the case of loans incurred (whether these are generic or specific) for the acquisition, construction or production of an asset that takes a substantial period of time (over one year) to be ready for use, which are capitalised in the acquisition cost of that asset.

### 2.3.21. Investment property

Investment property mainly includes buildings held to generate rents rather than for use in the production or supply of goods or services, or for administrative purposes, or for sale in the ordinary course of business. These are measured initially at cost.

Subsequently, the Group uses the cost model for the valuation of investment property since use of the fair value model would not result in material differences.

An investment property is eliminated from the statement of financial position on disposal or when the investment property is taken permanently out of use and no financial benefit is expected from its disposal.

### 2.3.22. Fair value measurement

The Group measures part of the financial assets, such as financial assets available for sale, and some of its non-financial assets, such as investment properties, at fair value on the date of the financial statements.

The fair value measurement assumes that the asset or liability is exchanged in an orderly transaction among market participants to sell the asset or transfer the liability at the measurement date under current market conditions. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability may occur:

- On the main market of the assets and liabilities, or
- In the absence of a primary market, it is assumed that the transaction occurs in the most advantageous market. This is what maximizes the amount that would be received to selling asset or minimizes the amount that would be paid to transfer the liability, after considering transaction costs and transport costs.

Because different entities and businesses within a single entity can have access to different markets, the main or most advantageous market for the same asset or liability can vary from one entity to another, or even between businesses within the same entity, but it is assumed that they are accessible to the Group.

The fair value measurement uses assumptions that market participants use in defining price of the asset or liability, assuming that market participants would use the asset to maximize its value.

The Group uses valuation techniques appropriate to the circumstances whenever there is information to measure the fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or of which disclosure is mandatory, are rated on a fair value hierarchy, which ranks data in three levels to be used in the measurement at fair value, and detailed below:

Level 1 – Listed and unadjusted market prices, in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - valuation techniques using inputs that aren't quoted, but which are directly or indirectly observable;

Level 3 - valuation techniques using inputs not based on observable market data, based on unobservable inputs.

The fair value measurement is classified in the same fair value hierarchy level at the lowest level of input which is significant to the measurement as a whole.

### **2.3.23. Assets and liabilities offsetting**

Financial assets and liabilities are offset and presented at the net amount when, and only when, the Group has the right to offset the recognised amounts and intends to settle for the net amount.

### **2.3.24. Employee benefits**

Personnel expenses are recognised when the service is rendered by employees independently of their date of payment. Here are some specificities:

- a) Termination of employment. The benefits for termination of employment are due for payment when there is cessation of employment before the normal retirement date or when an employee accepts leaving voluntarily in exchange for these benefits. The Group recognizes these benefits when it can be shown to be committed to a termination of current employees according to a detailed formal plan for termination and there is no realistic possibility of withdrawal or these benefits are granted to encourage voluntary redundancy. Where the benefits of cessation of employment are due more than 12 months after the balance sheet date, they are updated to their present value.
- b) Holiday, holiday allowances and bonuses. According to the labor law, employees are entitled to 22 days annual leave, as well as one month of holiday allowances, rights acquired in the year preceding payment. These liabilities of the Group are recorded when incurred, independently of the moment of payment, and are reflected under the item "Accounts payable and other".
- c) Labor Compensation Fund (FCT) and the Labour Compensation Guarantee Fund (FGCT). Based on the publication of Law No 70/2013 and subsequent regulation by Order No. 294-A / 2013, entered into force on 1 October the Labor Compensation Fund schemes (FCT) and the Guarantee Fund Compensation of Labor (FGCT). In this context, companies that hire a new employee are required to deduct a

percentage of the respective salary for these two new funds (0.925% to 0.075% and the FCT for FGCT), in order to ensure, in the future, the partial payment of compensation for dismissal. Considering the characteristics of each Fund, the following is considered:

- The monthly deliveries to FGCT, made by the employer are recognised as expense in the period to which they relate.
- The monthly deliveries to FCT, made by the employer are recognised as a financial asset of the entity, measured at fair value with changes recognised in the respective results.

### **2.3.25. Statement of cash flows**

The statement of cash flows is prepared in accordance with the direct method. The Group classifies under "Cash and cash equivalents" the assets with maturities of less than three months and for which the risk of change in value is negligible. For purposes of the statement of cash flows, the balance of cash and cash equivalents also include bank overdrafts included in the statement of financial position under "Borrowings".

The statement of cash flows is divided into operating, investing and financing activities.

Operating activities include cash received from customers and payments to suppliers, staff and others related to operating activities. Under "Other cash receipts / (payments) related with operating activity" are included the amounts received in 2016 and 2017, and subsequent payments regarding credit assignments without recourse, coordinated by the Banco Comercial Português and Caixa Geral de Depósitos, and these operations do not involve any change in the accounting treatment of the underlying receivables or in the relationship with their clients.

The cash flows included in investing activities include acquisitions and disposals of investments in subsidiaries and cash received and payments arising from the purchase and sale of tangible and intangible assets, amongst others.

Financing activities include cash received and payments relating to borrowings, the payment of interest and similar costs, finance leases, the purchase and sale of own shares and the payment of dividends.

### **2.3.26. Subsequent events**

Events occurring after the date of the statement of financial position which provide additional information about conditions that existed at that date are taken into account in the preparation of financial statements for the year.

Events occurring after the date of the statement of financial position which provide information on conditions that occur after that date are disclosed in the notes to the financial statements, when they are materially relevant.

## **3. Judgements and estimates**

### **3.1. Relevant accounting estimates**

The preparation of consolidated financial statements requires the Group's management to make judgments and estimates that affect the statement of financial position and the reported results. These estimates are based on the best information and knowledge about past and/or present events, and on the operations that the Company considers may it may implement in the future. However, at the date of completion of such operations, their results may differ from these estimates.

Changes to these estimates that occur after the date of approval of the consolidated financial statements will be corrected in the income statement in a prospective manner, in accordance with IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors".

The estimates and assumptions that imply a greater risk of giving rise to a material adjustment in assets and liabilities are described below:

#### **Entities included in the consolidation perimeter**

To determine the entities to be included in the consolidation perimeter, the Group assesses the extent to which it is exposed, or has rights, to variability in returns from its involvement with that entity and can take possession of them through the power it holds over this entity.

The decision that an entity must be consolidated by the Group requires the use of judgment, estimates and assumptions to determine the extent to which the Group is exposed to return variability and the ability to take possession of them through its power.

Other assumptions and estimates could lead to the Group's consolidation perimeter being different, with direct impact on the consolidated financial statements.

#### **Impairment of non-current assets, excluding goodwill**

The determination of a possible impairment loss can be triggered by the occurrence of various events, such as the availability of future financing, the cost of capital or other market, economic and legal changes or changes with an adverse effect on the technological environment, many of which are beyond the Group's control.

The identification and assessment of impairment indicators, the estimation of future cash flows and the calculation of the recoverable value of assets involve a high degree of judgment by the Board.

#### **Impairment of goodwill**

Goodwill is subjected to impairment tests annually or whenever there are indications of a possible loss of value, in accordance with the criteria described in Note 8. The recoverable values of the cash-generating units to which goodwill is allocated are determined on the basis of the calculation of current use values. These calculations require the use of estimates by management.

#### **Intangible and tangible assets**

The life of an asset is the period during which the Company expects that an asset will be available for use and this should be reviewed at least at the end of each financial year.

The determination of the useful lives of assets, the amortisation/depreciation method to be applied and the estimated losses resulting from the replacement of equipment before the end of its useful life due to technological obsolescence is crucial in determining the amount of amortisation/depreciation to be recognised in the consolidated income statement each period.

These three parameters are defined using management's best estimates for the assets and businesses concerned, and taking account of the practices adopted by companies in the sectors in which the Group operates.

The capitalised costs with the audiovisual content distribution rights acquired for commercialisation in the various windows of exhibition are amortised over the period of exploration of the respective contracts. Additionally, these assets are subject to impairment tests whenever there are indications of changes in the pattern generation of future revenue underlying each contract.

#### **Provisions**

The Group periodically reviews any obligations arising from past events which should be recognised or disclosed. The subjectivity involved in determining the probability and amount of internal resources required to meet obligations may give rise to significant adjustments, either due to changes in the assumptions made, or due to the future recognition of provisions previously disclosed as contingent liabilities.

### **Deferred income tax assets**

Deferred income tax assets are recognised only where there is strong assurance that there will be future taxable income available to use the temporary differences or where there are deferred tax liabilities whose reversal is expected in the same period in which the deferred tax assets are reversed. The assessment of deferred income tax assets is undertaken by management at the end of each period taking account of the expected future performance of the Group.

### **Impairment of account receivables**

The credit risk on the balances of accounts receivable is assessed at each reporting date, taking account of the customer's history and their risk profile. Accounts receivable are adjusted for the assessment made by management and the estimated collection risks at the date of the statement of financial position, which may differ from the effective risk incurred.

### **Fair value of financial assets and liabilities**

When the fair value of an asset or liabilities is calculated, on an active market, the respective market price is used. Where there is no active market, which is the case with some of the Group's financial assets and liabilities, valuation techniques generally accepted in the market, based on market assumptions, are used.

The Group uses evaluation techniques for unlisted financial instruments such as derivatives, financial instruments at fair value through profit and loss, and assets available for sale. The valuation models that are used most frequently are discounted cash flow models and options models, incorporating, for example, interest rate and market volatility curves.

For certain types of more complex derivatives, more advanced valuation models are used containing assumptions and data that are not directly observable in the market, for which the Group uses internal estimates and assumptions.

### **3.2. Errors, estimates and changes to accounting policies**

During the nine months ended at 30 September 2016 and 2017 no material errors, estimates and accounting policies were recognised relating to previous years.

## 4. Changes in the consolidation perimeter

During the period ended on 30 September 2016, the changes in the consolidated perimeter were as follows:

1. On 18 January 2016, ZON Finance BV was liquidated, which had no impact on the Group's consolidated financial statements.
2. On 28 July 2016, with the entrance of Vodafone on the share capital of Sport TV, NOS SGPS now owns a share of 33.33% (prior to 50%). This operation originated a gain of 2,509 thousand euros in "Net losses / (gains) of affiliated companies" (1,926 thousand euros due to the dilution of negative results from 2016 and 583 thousand euros due to the dilution of the share capital on 1 January – Note 9).

During the nine months ended on 30 September 2017, the changes in the consolidated perimeter were as follows:

1. On 24 February 2017, MEO became part of Sport TV's shareholders, NOS SGPS now owns a share of 25% of Sport TV;
2. On 29 March 2017, the companies NOS Internacional, SGPS ("NOS Internacional SGPS") and NOS Audiovisuais, SGPS ("NOS Audio SGPS") were formed, being 100% owned by NOS SGPS.
3. On 13 July 2017, NOS SGPS acquired 5,664 shares representing 0.126% of social capital of Lusomundo – SII, SGPS, SA from MPBS Imobiliária, SA. With this transaction, NOS SGPS now holds 100% of social capital of Lusomundo – SII, SGPS, SA.
4. On 13 July 2017, Lusomundo SII acquired 4,262 shares representing 0.196% of social capital of Lusomundo – Imobiliária 2, SA from MPBS Imobiliária, SA. With this transaction, NOS SGPS now holds 100% of social capital of Lusomundo – Imobiliária 2, SA.

## 5. Segment reporting

The business segments are as follows:

- Telco – TV, Internet (fixed and mobile) and voice (fixed and mobile) services rendered and includes the following companies: NOS Technology, NOS Towering, Per-mar, Sontária, NOS SGPS, NOS Açores, NOS Communications, NOS Madeira, NOSPUB, NOS SA, NOS Lusomundo TV, Teliz Holding, NOS Sistemas, NOS Sistemas España, NOS Inovação and NOS Internacional SGSP.
- Audiovisual – the supply of video production services and sales, cinema exhibition and distribution and the acquisition/negotiation of Pay TV and VOD (video-on-demand) rights and includes the following companies: NOS Audiovisuais, NOS Cinemas, Lusomundo Moçambique, Lda ("Lusomundo Moçambique"), Lusomundo Imobiliária 2, S.A. ("Lusomundo Imobiliária 2"), Lusomundo Sociedade de Investimentos Imobiliários, SGPS, S.A. ("Lusomundo SII"), Empracine – Empresa Promotora de Atividades Cinematográficas, Lda ("Empracine") and NOS Audio SGPS.

Assets and liabilities by segment at 31 December 2016 and 30 September 2017 are shown below:

	31-12-2016			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS:</b>				
Tangible assets	1,145,456	12,725	-	1,158,181
Intangible assets	1,061,081	97,698	-	1,158,779
Investments in jointly controlled companies and associated companies	91,177	13,731	(97,020)	7,888
Accounts receivable - other	55,358	26,520	(75,389)	6,489
Deferred income tax assets	103,434	13,868	-	117,302
Other non-current assets	3,700	663	-	4,363
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,460,206</b>	<b>165,205</b>	<b>(172,409)</b>	<b>2,453,002</b>
<b>CURRENT ASSETS:</b>				
Inventories	36,687	14,356	-	51,043
Account receivables	346,689	66,374	(48,323)	364,740
Prepaid expenses	81,993	2,398	-	84,391
Other current assets	26,560	1,010	(418)	27,152
Cash and cash equivalents	798	1,515	-	2,313
<b>TOTAL CURRENT ASSETS</b>	<b>492,727</b>	<b>85,653</b>	<b>(48,741)</b>	<b>529,639</b>
<b>TOTAL ASSETS</b>	<b>2,952,933</b>	<b>250,858</b>	<b>(221,150)</b>	<b>2,982,641</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	5,152	28,699	(28,699)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(18,756)	-	-	(18,756)
Legal reserve	1,030	1,087	(1,087)	1,030
Other reserves and accumulated earnings	83,518	69,526	(41,013)	112,031
Net income	84,837	31,347	(25,803)	90,381
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,010,000</b>	<b>130,659</b>	<b>(96,602)</b>	<b>1,044,057</b>
Non-controlling interests	8,982	22	37	9,041
<b>TOTAL EQUITY</b>	<b>1,018,982</b>	<b>130,681</b>	<b>(96,565)</b>	<b>1,053,098</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES:</b>				
Borrowings	995,074	52,318	(75,389)	972,003
Provisions	139,505	6,782	-	146,287
Accrued expenses	9,185	-	-	9,185
Other non-current liabilities	30,556	458	-	31,014
Deferred income tax liabilities	9,738	468	-	10,206
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,184,059</b>	<b>60,026</b>	<b>(75,389)</b>	<b>1,168,696</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	254,689	609	(30,606)	224,692
Accounts payable	288,169	31,071	(11,679)	307,561
Tax payable	19,842	4,533	(418)	23,957
Accrued expenses	157,170	23,837	(6,493)	174,514
Other current liabilities	30,022	101	-	30,123
<b>TOTAL CURRENT LIABILITIES</b>	<b>749,892</b>	<b>60,151</b>	<b>(49,196)</b>	<b>760,847</b>
<b>TOTAL LIABILITIES</b>	<b>1,933,950</b>	<b>120,177</b>	<b>(124,585)</b>	<b>1,929,543</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,952,933</b>	<b>250,858</b>	<b>(221,150)</b>	<b>2,982,641</b>



	30-09-2017			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS:</b>				
Tangible assets	1,118,650	12,259	(1)	1,130,908
Intangible assets	1,046,977	95,378	-	1,142,355
Investments in jointly controlled companies and associated companies	109,705	16,385	(103,070)	23,020
Accounts receivable - other	51,189	24,617	(69,389)	6,417
Deferred income tax assets	100,408	13,637	-	114,045
Other non-current assets	1,106	662	-	1,768
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,428,035</b>	<b>162,937</b>	<b>(172,458)</b>	<b>2,418,513</b>
<b>CURRENT ASSETS:</b>				
Inventories	33,449	866	-	34,315
Account receivables	385,915	76,869	(54,063)	408,721
Prepaid expenses	79,082	1,693	(323)	80,452
Other current assets	629	413	-	1,042
Cash and cash equivalents	706	1,282	-	1,988
<b>TOTAL CURRENT ASSETS</b>	<b>499,781</b>	<b>81,123</b>	<b>(54,385)</b>	<b>526,518</b>
<b>TOTAL ASSETS</b>	<b>2,927,816</b>	<b>244,059</b>	<b>(226,844)</b>	<b>2,945,031</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	5,152	32,749	(32,749)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(12,681)	-	-	(12,681)
Legal reserve	1,030	1,087	(1,087)	1,030
Other reserves and accumulated earnings	49,975	75,763	(28,076)	97,662
Net income	121,227	24,981	(40,742)	105,466
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,018,920</b>	<b>134,579</b>	<b>(102,651)</b>	<b>1,050,848</b>
Non-controlling interests	9,273	21	37	9,331
<b>TOTAL EQUITY</b>	<b>1,028,193</b>	<b>134,600</b>	<b>(102,615)</b>	<b>1,060,178</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES:</b>				
Borrowings	975,816	48,221	(69,388)	954,649
Provisions	130,064	6,415	-	136,479
Accrued expenses	9,042	-	-	9,042
Other non-current liabilities	28,585	456	-	29,041
Deferred income tax liabilities	7,495	465	-	7,960
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,151,002</b>	<b>55,557</b>	<b>(69,388)</b>	<b>1,137,171</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	230,793	7,177	(32,165)	205,805
Accounts payable	264,637	19,041	(14,835)	268,843
Tax payable	31,894	2,146	-	34,040
Accrued expenses	195,192	24,577	(7,516)	212,253
Other current liabilities	26,104	961	(324)	26,741
<b>TOTAL CURRENT LIABILITIES</b>	<b>748,621</b>	<b>53,901</b>	<b>(54,840)</b>	<b>747,682</b>
<b>TOTAL LIABILITIES</b>	<b>1,899,623</b>	<b>109,459</b>	<b>(124,228)</b>	<b>1,884,853</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,927,816</b>	<b>244,059</b>	<b>(226,844)</b>	<b>2,945,031</b>

The results by segment and investments in tangible and intangible assets for the nine months ended on 30 September 2016 and 2017 are shown below:

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 16	9M 16
<b>REVENUES:</b>								
Services rendered	342,662	1,021,442	27,287	75,381	(12,134)	(36,138)	357,815	1,060,685
Sales	14,260	37,393	4,951	12,925	(62)	(83)	19,149	50,235
Other operating revenues	3,943	13,199	360	858	(287)	(883)	4,016	13,174
	<b>360,865</b>	<b>1,072,034</b>	<b>32,598</b>	<b>89,164</b>	<b>(12,483)</b>	<b>(37,104)</b>	<b>380,980</b>	<b>1,124,094</b>
<b>COSTS, LOSSES AND GAINS:</b>								
Wages and salaries	20,440	61,171	2,557	7,547	-	-	22,997	68,718
Direct costs	117,956	344,791	7,763	20,125	(10,022)	(30,015)	115,697	334,901
Costs of products sold	16,197	41,009	(40)	73	(2)	(11)	16,155	41,071
Marketing and advertising	9,134	23,195	2,454	5,270	(1,743)	(5,094)	9,845	23,371
Support services	21,837	67,351	491	1,386	(383)	(1,130)	21,945	67,607
Supplies and external services	42,961	123,962	5,613	16,024	(335)	(855)	48,239	139,131
Other operating losses / (gains)	128	357	-	41	-	-	128	398
Taxes	7,446	21,725	26	90	2	1	7,474	21,816
Provisions and adjustments	(6,472)	(5,254)	(260)	572	-	-	(6,732)	(4,682)
	<b>229,627</b>	<b>678,307</b>	<b>18,604</b>	<b>51,128</b>	<b>(12,483)</b>	<b>(37,104)</b>	<b>235,748</b>	<b>692,331</b>
<b>EBITDA</b>	<b>131,238</b>	<b>393,727</b>	<b>13,994</b>	<b>38,036</b>	<b>-</b>	<b>-</b>	<b>145,232</b>	<b>431,763</b>
Depreciation, amortisation and impairment losses	90,374	264,194	8,300	28,309	-	-	98,674	292,503
Other losses / (gains), net	5,497	11,402	2	104	-	-	5,499	11,506
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>35,367</b>	<b>118,131</b>	<b>5,692</b>	<b>9,623</b>	<b>-</b>	<b>-</b>	<b>41,059</b>	<b>127,754</b>
Net losses / (gains) of affiliated companies	(1,250)	8,959	(158)	(714)	-	-	(1,408)	8,245
Financial costs	4,285	12,163	144	403	-	-	4,429	12,566
Net foreign exchange losses / (gains)	-	(4)	316	733	-	-	316	729
Net losses / (gains) on Financial assets	(0)	(5,611)	-	(4,592)	0	10,203	-	-
Net other Financial expenses / (income)	1,782	5,430	14	50	-	-	1,796	5,480
	<b>4,817</b>	<b>20,937</b>	<b>316</b>	<b>(4,120)</b>	<b>0</b>	<b>10,203</b>	<b>5,133</b>	<b>27,020</b>
<b>INCOME BEFORE TAXES</b>	<b>30,550</b>	<b>97,194</b>	<b>5,376</b>	<b>13,743</b>	<b>(0)</b>	<b>(10,203)</b>	<b>35,926</b>	<b>100,734</b>
Income taxes	7,280	20,207	1,320	2,292	-	-	8,600	22,499
<b>NET INCOME</b>	<b>23,270</b>	<b>76,987</b>	<b>4,056</b>	<b>11,451</b>	<b>(0)</b>	<b>(10,203)</b>	<b>27,326</b>	<b>78,235</b>
<b>CAPEX</b>	<b>171,946</b>	<b>264,680</b>	<b>19,722</b>	<b>27,949</b>	<b>-</b>	<b>-</b>	<b>191,668</b>	<b>292,629</b>
<b>EBITDA - CAPEX</b>	<b>(40,708)</b>	<b>129,047</b>	<b>(5,728)</b>	<b>10,087</b>	<b>-</b>	<b>-</b>	<b>(46,436)</b>	<b>139,134</b>
	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	3 <sup>o</sup> QUARTER 17	9M 17	3 <sup>o</sup> QUARTER 17	9M 17	3 <sup>o</sup> QUARTER 17	9M 17	3 <sup>o</sup> QUARTER 17	9M 17
<b>REVENUES:</b>								
Services rendered	704,219	1,060,370	25,810	78,773	(11,906)	(36,542)	370,055	1,102,601
Sales	15,298	36,641	4,948	13,613	(54)	(192)	20,192	50,062
Other operating revenues	3,003	10,052	131	637	(284)	(885)	2,850	9,804
	<b>374,452</b>	<b>1,107,063</b>	<b>30,889</b>	<b>93,023</b>	<b>(12,244)</b>	<b>(37,619)</b>	<b>393,097</b>	<b>1,162,467</b>
<b>COSTS, LOSSES AND GAINS:</b>								
Wages and salaries	20,537	58,464	2,662	7,623	-	-	23,199	66,087
Direct costs	121,511	365,249	7,024	23,646	(9,660)	(29,906)	118,875	358,989
Costs of products sold	14,712	36,057	48	178	(2)	(11)	14,758	36,224
Marketing and advertising	8,336	22,708	1,741	5,655	(1,847)	(5,589)	8,230	22,774
Support services	21,802	67,972	502	1,571	(403)	(1,187)	21,901	68,356
Supplies and external services	40,802	120,062	5,591	15,960	(331)	(926)	46,062	135,096
Other operating losses / (gains)	115	445	14	38	-	-	129	483
Taxes	8,644	23,963	33	373	-	-	8,677	24,336
Provisions and adjustments	90	(861)	(41)	(575)	1	1	50	(1,435)
	<b>236,549</b>	<b>694,059</b>	<b>17,574</b>	<b>54,469</b>	<b>(12,242)</b>	<b>(37,618)</b>	<b>241,881</b>	<b>710,910</b>
<b>EBITDA</b>	<b>137,903</b>	<b>413,004</b>	<b>13,315</b>	<b>38,554</b>	<b>(2)</b>	<b>(1)</b>	<b>151,216</b>	<b>451,557</b>
Depreciation, amortisation and impairment losses	95,523	283,597	8,151	26,815	1	1	103,675	310,413
Other losses / (gains), net	3,841	11,494	8	220	-	(1)	3,849	11,713
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>38,539</b>	<b>117,913</b>	<b>5,156</b>	<b>11,519</b>	<b>(3)</b>	<b>(1)</b>	<b>43,692</b>	<b>129,431</b>
Net losses / (gains) of affiliated companies	(5,871)	(14,329)	(141)	(654)	-	-	(6,012)	(14,983)
Financial costs	4,765	15,460	51	325	1	1	4,817	15,786
Net foreign exchange losses / (gains)	6	117	9	5	-	-	15	122
Net losses / (gains) on Financial assets	-	(25,113)	-	(15,629)	-	40,742	-	-
Net other Financial expenses / (income)	1,625	2,358	13	34	(1)	(1)	1,637	2,391
	<b>525</b>	<b>(21,507)</b>	<b>(68)</b>	<b>(15,919)</b>	<b>-</b>	<b>40,742</b>	<b>457</b>	<b>3,316</b>
<b>INCOME BEFORE TAXES</b>	<b>38,014</b>	<b>139,420</b>	<b>5,224</b>	<b>27,439</b>	<b>(3)</b>	<b>(40,743)</b>	<b>43,236</b>	<b>126,116</b>
Income taxes	8,435	17,907	1,272	2,458	-	-	9,707	20,365
<b>NET INCOME</b>	<b>29,579</b>	<b>121,513</b>	<b>3,953</b>	<b>24,981</b>	<b>(3)</b>	<b>(40,743)</b>	<b>33,529</b>	<b>105,751</b>
<b>CAPEX</b>	<b>84,176</b>	<b>239,472</b>	<b>6,576</b>	<b>24,079</b>	<b>-</b>	<b>-</b>	<b>90,752</b>	<b>263,551</b>
<b>EBITDA - CAPEX</b>	<b>53,727</b>	<b>173,532</b>	<b>6,739</b>	<b>14,475</b>	<b>(2)</b>	<b>(1)</b>	<b>60,464</b>	<b>188,006</b>

Transactions between segments are performed on market terms and conditions in a comparable way to transactions performed with third parties.

## 6. Financial assets and liabilities classified in accordance with the IAS 39 categories – financial instruments: recognition and measurement

The accounting policies set out in IAS 39 for financial instruments were applied to the following items:

31-12-2016				
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
<b>ASSETS</b>				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 17)	-	-	-	60
Accounts receivable - trade (Note 14)	348,926	-	-	-
Accounts receivable - other (Note 10)	19,201	-	-	-
Cash and cash equivalents (Note 18)	2,313	-	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>370,440</b>	<b>77</b>	<b>-</b>	<b>60</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 17)	-	-	-	4,027
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,027</b>

31-12-2016				
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets	-	77	-	77
Derivative financial instruments (Note 17)	-	60	-	60
Accounts receivable - trade (Note 14)	-	348,926	-	348,926
Accounts receivable - other (Note 10)	-	19,201	3,102	22,303
Cash and cash equivalents (Note 18)	-	2,313	-	2,313
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>370,577</b>	<b>3,102</b>	<b>373,679</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	1,196,695	1,196,695	-	1,196,695
Derivative financial instruments (Note 17)	-	4,027	-	4,027
Accounts payable - trade (Note 25)	238,828	238,828	-	238,828
Accounts payable - other (Note 26)	90,132	90,132	152	90,284
Accrued expenses (Note 23)	183,699	183,699	-	183,699
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,709,354</b>	<b>1,713,381</b>	<b>152</b>	<b>1,713,533</b>

30-09-2017				
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
<b>ASSETS</b>				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 17)	-	-	-	7
Accounts receivable - trade (Note 14)	397,184	-	-	-
Accounts receivable - other (Note 10)	13,890	-	-	-
Cash and cash equivalents (Note 18)	1,989	-	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>413,063</b>	<b>77</b>	<b>-</b>	<b>7</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 17)	-	-	-	2,819
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,819</b>

30-09-2017				
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets	-	77	-	77
Derivative financial instruments (Note 17)	-	7	-	7
Accounts receivable - trade (Note 14)	-	397,184	-	397,184
Accounts receivable - other (Note 10)	-	13,890	4,064	17,954
Cash and cash equivalents (Note 18)	-	1,989	-	1,988
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>413,147</b>	<b>4,064</b>	<b>417,210</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	1,160,454	1,160,454	-	1,160,454
Derivative financial instruments (Note 17)	-	2,819	-	2,819
Accounts payable - trade (Note 25)	222,152	222,152	-	222,152
Accounts payable - other (Note 26)	67,570	67,570	213	67,783
Accrued expenses (Note 23)	221,295	221,295	-	221,295
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,671,471</b>	<b>1,674,290</b>	<b>213</b>	<b>1,674,503</b>

Considering its nature, the balances of the amounts to be paid and received to/from state and other public entities were considered outside the scope of IFRS 7. Also, the captions of "Deferred costs" and "Deferred income" were not included in this note, as the nature of such balances are not included in the scope of IFRS 7.

The Board of Directors believes that the fair value of the breakdown of financial instruments recorded at amortised cost or registered at the present value of the payments does not differ significantly from their book value. This decision is based on the contractual terms of each financial instrument.

The Group's activity is subject to a variety of financial risks, such as market risk, credit and liquidity risk and economical and judicial risks, which are described in the Management Report.

## 7. Tangible assets

During the nine months ended on 30 September 2016 and 2017, the movements under this heading were as follows:

	31-12-2015	INCREASES	TRANSFER AND OTHERS	30-09-2016
<b>ACQUISITION COST</b>				
Land	919	-	-	919
Buildings and other constructions	325,185	5,352	34,487	365,024
Basic equipment	2,466,229	97,497	(48,952)	2,514,774
Transportation equipment	14,655	(15)	(4,965)	9,675
Tools and dies	1,266	0	72	1,338
Administrative equipment	329,029	12,969	(60,583)	281,415
Other tangible assets	42,251	134	(654)	41,731
Tangible assets in-progress	43,271	60,215	(74,786)	28,700
	<b>3,222,805</b>	<b>176,152</b>	<b>(155,380)</b>	<b>3,243,577</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>				
Buildings and other constructions	37	-	-	37
Buildings and other constructions	168,657	9,294	17,674	195,625
Basic equipment	1,534,237	131,600	(67,805)	1,598,032
Transportation equipment	6,174	1,294	(4,182)	3,286
Tools and dies	1,225	20	-	1,245
Administrative equipment	304,204	14,921	(61,588)	257,537
Other tangible assets	40,733	(588)	312	40,457
	<b>2,055,267</b>	<b>156,539</b>	<b>(115,588)</b>	<b>2,096,218</b>
	<b>1,167,538</b>	<b>19,614</b>	<b>(39,793)</b>	<b>1,147,359</b>

The net amount of "Transfer and others" corresponds mainly to the reclassification to "Non-current assets held-for-sale" in the amount of 24.2 million euros (Note 16) and to the transfer of assets, in the amount of 10.8 million euros to "Intangible assets".

	31-12-2016	INCREASES	TRANSFER AND OTHERS	30-09-2017
<b>ACQUISITION COST</b>				
Land	919	-	-	919
Buildings and other constructions	368,233	849	9,899	378,981
Basic equipment	2,538,387	57,714	42,377	2,638,478
Transportation equipment	8,673	447	(421)	8,699
Tools and dies	1,341	-	1	1,342
Administrative equipment	275,569	10,182	167	285,918
Other tangible assets	41,088	221	426	41,735
Tangible assets in-progress	32,067	86,505	(80,157)	38,415
	<b>3,266,278</b>	<b>155,917</b>	<b>(27,707)</b>	<b>3,394,488</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>				
Land	37	-	-	37
Buildings and other constructions	198,353	8,125	89	206,567
Basic equipment	1,614,392	154,075	(21,699)	1,746,768
Transportation equipment	3,061	1,248	(130)	4,179
Tools and dies	1,250	24	-	1,274
Administrative equipment	250,866	12,525	488	263,879
Other tangible assets	40,138	6	732	40,876
	<b>2,108,097</b>	<b>176,003</b>	<b>(20,520)</b>	<b>2,263,580</b>
	<b>1,158,181</b>	<b>(20,086)</b>	<b>(7,187)</b>	<b>1,130,908</b>

At 30 September 2017, the tangible assets net value is composed mainly by basic equipment, namely:

- i. Network and telecommunications infrastructure (fiber optic network and cabling, network equipment, and other equipment) in the amount of 762.3 million euros (31 December 2016: 785.8 million euros);
- ii. Terminal equipment installed on client premises, included under Basic equipment, amounts to 129.4 million euros (31 December 2016: 138.2 million euros).

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 31 December 2016 and 30 September 2017, amounted to 231.2 million euros and 207.3 million

euros, and their net book value as of those dates amounted to 112.9 million euros and 95.3 million euros, respectively.

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 30 September 2017, total net value of these costs amounted to 14.96 million euros (31 December 2016: 15.2 million euros). The amount capitalised in the period ended on 30 September 2017 amounted to 0.7 million euros (31 December 2016: 1.1 million euros).

## 8. Intangible Assets

In the period ended on 30 September 2016 and 2017, the movements under this heading were as follows:

	31-12-2015	INCREASES	TRANSFER AND OTHERS	30-09-2016
<b>ACQUISITION COST</b>				
Industrial property and other rights	1,489,997	61,310	100,646	1,651,953
<i>Goodwill</i>	641,599	-	-	641,599
Intangible assets in-progress	30,589	55,168	(45,443)	40,314
	<b>2,162,185</b>	<b>116,478</b>	<b>55,203</b>	<b>2,333,866</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>				
Industrial property and other rights	979,470	135,936	44,132	1,159,538
Other intangible assets	4,156	-	283	4,439
	<b>983,626</b>	<b>135,936</b>	<b>44,415</b>	<b>1,163,977</b>
	<b>1,178,559</b>	<b>(19,458)</b>	<b>10,788</b>	<b>1,169,889</b>

The amount of "Transfer and others" corresponds, mainly, to the transfer of assets, in the amount of 10.8 million euros from "Tangible assets".

	31-12-2016	INCREASES	TRANSFER AND OTHERS	30-09-2017
<b>ACQUISITION COST</b>				
Industrial property and other rights	1,697,035	60,345	59,957	1,817,337
<i>Goodwill</i>	641,599	-	(199)	641,400
Intangible assets in-progress	33,374	47,289	(49,582)	31,081
	<b>2,372,008</b>	<b>107,634</b>	<b>10,176</b>	<b>2,489,818</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>				
Industrial property and other rights	1,208,450	134,408	38	1,342,896
Intangible assets in-progress	4,779	-	(212)	4,567
	<b>1,213,229</b>	<b>134,408</b>	<b>(174)</b>	<b>1,347,463</b>
	<b>1,158,779</b>	<b>(26,774)</b>	<b>10,350</b>	<b>1,142,355</b>

At 30 September 2017, the item "Industrial property and other rights" includes mainly:

- 1) A net amount of 129.0 million euros (31 December 2016: 135.2 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 40.8 million euros (31 December 2016: 42.8 million euros) related to the license, (ii) 13.6 million euros (31 December 2016: 14.3 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.2 million euros (31 December 2016: 4.4 million euros) related to the Share Capital of "Fundação para as Comunicações Móveis", established in 2007, under an agreement entered with Ministério das Obras Públicas, Transportes e Comunicações and the three mobile telecommunication operators in Portugal; (iv) 59.8 million euros (31 December 2016: 62.6 million euros) related with the programme "Initiatives E"; and (v) the net amount of 7.1 million euros (31 December 2016: 7.4 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;
- 2) A net amount of 91.2 million euros (31 December 2016: 94.0 million euros) corresponding to the current value of future payments related with the acquisition of rights of use for frequencies (spectrum) bands of 800 MHz, 1800 MHz, 2600 MHz, which will be used to develop 4th generation services (LTE - Long Term

Evolution) and a net amount of 3.2 million euros (31 December 2016: 3.3 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

- a. A net amount of 50.03 million euros (31 December 2016: 51.0 million euros) relating to the contract for the exclusive acquisition of satellite capacity celebrated between NOS SA and Hispasat, which is recorded as a finance lease;
- 3) Net amounts of approximately 54.5 million euros (31 December 2016: 56.9 million euros) and 17.5 million euros (31 December 2016: 20.9 million euros) corresponding to the capitalised costs related to customers' loyalty contracts and future rights to use movies and series, respectively;
- 4) A net amount of approximately 9 million euros (31 December 2016: 16.4 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger.

### Impairment tests on goodwill

Goodwill was allocated to the cash-generating units of each reportable segment, as follows:

	31-12-2016	30-09-2017
Telco	564,998	564,799
Audiovisuals	76,601	76,601
	<b>641,599</b>	<b>641,400</b>

In 2016, impairment tests were performed based on assessments in accordance with the discounted cash flow method, which corroborate the recoverability of the book value of the Goodwill. The amounts in these assessments are based on the historical performances and forecast growth of the businesses and their markets, incorporated in medium to long term plans approved by the Board.

These estimates are based on the following assumptions:

	TELCO SEGMENT	AUDIOVISUALS SEGMENT	
		NOS AUDIOVISUALS	NOS CINEMAS
Discount rate (before taxes)	7.3%	7.3%	7.3%
Assessment period	5 years	5 years	5 years
EBITDA* Growth	4.8%	-0.9%	1.8%
Perpetuity growth rate	1.5%	1.5%	1.5%

\* EBITDA = Operational result + Depreciation and amortisation (CAGR – average 5 years)

In the Telco segment, the assumptions used are based on past performance, evolution of the number of customers, expected development of regulated tariffs, current market conditions and expectations of future development.

The number of years specified in the impairment tests depends on the degree of maturity of the various businesses and markets, and were determined on the basis of the most appropriate criteria for the valuation of each cash-generating unit.

Sensitivity analyses were performed on variations in discount rates and revenue growth of approximately 10%, from which no impairments resulted.

Sensitivity analyses were also performed for a perpetuity growth rate of 0%, from which no impairments also resulted.

At 30 September 2017, it was understood that the assumptions made in the impairment tests carried out in 2016 did not have material variations, and therefore there are no indications of any impairment.

## 9. Financial investments in group companies

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
<b>INVESTMENTS - EQUITY METHOD</b>		
Sport TV	2,219	5,055
Dreamia	3,770	4,400
Finstar	1,632	13,292
Mstar	(825)	(602)
Upstar	139	157
Canal 20 TV, S.A.	13	13
East Star	36	(12)
Big Picture 2 Films	80	104
	<b>7,063</b>	<b>22,405</b>
<b>ASSETS</b>	<b>7,888</b>	<b>23,020</b>
<b>LIABILITIES (NOTE 22)</b>	<b>(825)</b>	<b>(615)</b>

Movements in "Financial investments in group companies" in the periods ended on 30 September 2016 and 2017 were as follows:

	9M 16	9M 17
<b>AS AT JANUARY 1</b>	<b>29,922</b>	<b>7,063</b>
Gains / (losses) for the nine months (Note 34)	(8,828)	14,122
Gains i)	583	1,237
Capital increase	25,347	-
Return of supplementary ii)	(41,547)	-
Changes in equity iii)	(867)	(16)
Changes in equity iii)	(867)	(16)
<b>AS AT SEPTEMBER 30</b>	<b>4,610</b>	<b>22,030</b>

- i. Gains generated by the entrance of MEO in the share capital of Sport TV (Note 4).
- ii. During the first quarter of 2016, Sport TV returned supplementary payments in the amount of 41.5 million euros through the delivery of cash in the amount of 25.3 million euros and the assignment of credits in the amount of 16.2 million euros.
- iii. Amounts related to changes in equity of the companies registered by the equity method of consolidation are mainly related to foreign exchange impacts of the investment in other currencies than euro.



The Group's interest in the results and assets and liabilities of the jointly controlled companies and associated companies in the period ended on 31 December 2016 and the period ended on 30 September 2017 is as follows:

2016							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	162,219	155,561	6,658	150,429	(11,342)	33.33%	(3,781)
Dreamia	15,085	7,546	7,539	3,790	1,314	50.00%	657
Finstar	206,721	201,281	5,440	229,535	(7,983)	30.00%	(2,395)
Mstar	7,148	9,898	(2,750)	19,946	(3,703)	30.00%	(1,111)
Upstar	169,448	168,986	462	117,163	141	30.00%	42
Canal 20 TV, S.A.	27	1	26	-	(9)	50.00%	(5)
East Star	137	17	120	-	-	30.00%	-
Big Picture 2 Films	2,530	2,130	400	9,679	205	20.00%	41
	<b>563,315</b>	<b>545,420</b>	<b>17,895</b>	<b>530,542</b>	<b>(21,377)</b>		<b>(6,550)</b>

\* The share capital is adjusted, in return of liabilities, in the amount of 5.1 million euros due to supplementary payments made by other stakeholders above its equity.

2017							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	183,606	163,386	20,220	137,302	6,398	25.00%	1,600
Dreamia	16,584	7,784	8,800	3,101	1,260	50.00%	630
Finstar	269,078	224,771	44,307	206,516	38,827	30.00%	11,648
Mstar	7,856	9,864	(2,008)	15,262	833	30.00%	250
Upstar	201,465	200,942	523	81,011	61	30.00%	18
Canal 20 TV, S.A.	27	1	26	-	-	50.00%	-
East Star	2	43	(41)	-	(6)	30.00%	(48)
Big Picture 2 Films	3,447	2,927	520	7,528	120	20.00%	24
	<b>682,065</b>	<b>609,718</b>	<b>72,347</b>	<b>450,720</b>	<b>47,493</b>		<b>14,122</b>

\* The share capital is adjusted, in return of liabilities, in the amount of 10.2 million euros due to supplementary payments made by other stakeholders above its equity.

Note: consolidated adjustments are reflected in the indicators presented in the table above.

## 10. Accounts receivable – other

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016		30-09-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables i)	13,560	7,317	8,195	7,245
Advances of suppliers	3,102	-	4,064	-
	<b>16,662</b>	<b>7,317</b>	<b>12,259</b>	<b>7,245</b>
Impairment of other receivable	(848)	(828)	(722)	(828)
	<b>15,814</b>	<b>6,489</b>	<b>11,537</b>	<b>6,417</b>

The summary of the movements in impairment of other receivables is as follows:

	9M 16	9M 17
<b>AS AT JANUARY 1</b>	<b>2,115</b>	<b>1,676</b>
Increases (Note 32)	10	(7)
Others	(427)	(119)
<b>AS AT SEPTEMBER 30</b>	<b>1,698</b>	<b>1,550</b>

## 11. Taxes payable and receivable

At 31 December 2016 and 30 September 2017, these items were composed as follows:

	31-12-2016		30-09-2017	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
<b>NON CURRENT</b>				
Value-added tax (Note 39.2)	3,617	-	3,617	-
Provisions (i)	-	-	(2,588)	-
Income taxes (ii)	-	1,298	-	1,293
	<b>3,617</b>	<b>1,298</b>	<b>1,029</b>	<b>1,293</b>
<b>CURRENT</b>				
Value-added tax	974	18,633	615	19,201
Income taxes	1,457	1,298	-	10,967
Personnel income tax withholdings	-	1,980	-	1,898
Social Security contributions	-	1,895	-	1,909
Other	430	151	420	65
	<b>2,861</b>	<b>23,957</b>	<b>1,035</b>	<b>34,040</b>
	<b>6,478</b>	<b>25,255</b>	<b>2,064</b>	<b>35,333</b>

- i. In the period ended on 30 September 2017, the amount of 2,588 thousands of euros was reclassified under the heading of provision (Note 22).
- ii. The items include credit amounts, to be paid in 2017 and 2018, in the total amount of 2.6 million euros, following the Group's adhesion to the optional regime of revaluation of fixed tangible assets and investment property in 2016.

At 31 December 2016 and 30 September 2017, the amounts of IRC (Corporate Income Tax) receivable and payable were composed as follows:

	31-12-2016	30-09-2017
Estimated current tax on income	(17,517)	(26,723)
Taxes payable under asset revaluation	(2,596)	(2,585)
Payments on account	15,070	13,373
Withholding income taxes	4,565	4,220
Other	(661)	(545)
	<b>(1,139)</b>	<b>(12,260)</b>

## 12. Income tax expense

NOS and its associated companies are subject to IRC - Corporate Income Tax - at the rate of 21% on taxable amount (taxable profit less eventual tax losses subject to deduction), plus IRC surcharge at the maximum rate of 1.5% on taxable profit, giving an aggregate rate of approximately 22.5%. Additionally, following the introduction of austerity measures approved by Law 66-B/2012 of 31 December, and respective addendum published by Law 2/2014 of 16 January, the rate ("State surcharge") of 3% will be applied to the company's taxable profit between 1.5 million euros and 7.5 million euros, by 5% to the company's taxable profit which

exceeds 7.5 million euros up to 35 million euros, and by 7% to the company's taxable profit above 35 million euros.

In the calculation of taxable income, amounts which are not fiscally allowable are added to or subtracted from the book results. These differences between accounting income and taxable income may be of a temporary or permanent nature.

NOS is taxed in accordance with the special taxation regime for groups of companies (RETGS), which covers the companies in which it directly or indirectly holds at least 75% of their share capital and which fulfill the requirements of Article 69 of the IRC Code.

The companies covered by the RETGS in 2017 are:

- NOS (parent company)
- Empracine
- Lusomundo Imobiliária 2
- Lusomundo SII
- NOS Açores
- NOS Audiovisuais
- NOS Cinemas
- NOS Inovação
- NOS Lusomundo TV
- NOS Madeira
- NOSPUB
- NOS Comunicações SA
- NOS Sistemas
- NOS Technology
- NOS Towering
- Per-mar

Under current legislation, tax declarations are subject to review and correction by tax authorities for a period of four years, except where tax losses have occurred or tax benefits have been obtained, whose term, in these cases, matches the deadline to use them. It should be noted that in the event of inspections, appeals or disputes in progress, these periods may be suspended.

The Board of Directors of NOS, based on information from its tax advisers, believes that these and any other revisions and corrections to these tax declarations, as well as other contingencies of a fiscal nature, will not have a significant effect on the consolidated financial statements as at 30 September 2017.

#### **A) Deferred tax**

NOS and its associated companies have reported deferred tax relating to temporary differences between the taxable basis and the book amounts of assets and liabilities, and tax losses carried forward at the date of the statement of financial position.

The movements in deferred tax assets and liabilities for the periods ended on 30 September 2016 and 2017 were as follows:

	31-12-2015	DEFERRED TAXES OF THE PERIOD		30-09-2016
		INCOME (NOTE B)	EQUITY (NOTE 17)	
<b>DEFERRED INCOME TAX ASSETS</b>				
Doubtful accounts receivable	7,704	798	-	8,502
Inventories	2,573	152	-	2,725
Other provision and adjustments	71,616	997	-	72,613
Intragroup gains	23,918	414	-	24,332
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	8,638	(580)	-	8,058
Derivatives	772	(21)	419	1,170
Tax incentives	7,318	(6,177)	-	1,141
	<b>122,539</b>	<b>(4,417)</b>	<b>419</b>	<b>118,541</b>
<b>DEFERRED INCOME TAX ASSETS</b>				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	11,156	(2,287)	-	8,869
Derivatives	-	-	3	3
Other	2,583	(279)	-	2,304
	<b>13,739</b>	<b>(2,566)</b>	<b>3</b>	<b>11,176</b>
<b>NET DEFERRED TAX</b>	<b>108,800</b>	<b>(1,851)</b>	<b>416</b>	<b>107,365</b>

	31-12-2016	DEFERRED TAXES OF THE PERIOD		30-09-2017
		INCOME (NOTE B)	EQUITY (NOTE 17)	
<b>DEFERRED INCOME TAX ASSETS</b>				
Doubtful accounts receivable	7,380	(205)	-	7,175
Inventories	2,482	(175)	-	2,307
Other provision and adjustments	75,704	(1,248)	-	74,456
Intragroup gains	23,034	(1,091)	-	21,943
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,801	(271)	-	7,530
Derivatives	901	26	(293)	634
	<b>117,302</b>	<b>(2,964)</b>	<b>(293)</b>	<b>114,045</b>
<b>DEFERRED INCOME TAX LIABILITIES</b>				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	7,879	(2,229)	-	5,650
Derivatives	10	(12)	4	2
Other	2,317	(9)	-	2,308
	<b>10,206</b>	<b>(2,250)</b>	<b>4</b>	<b>7,960</b>
<b>NET DEFERRED TAX</b>	<b>107,096</b>	<b>(714)</b>	<b>(297)</b>	<b>106,085</b>

At 30 September 2017, the deferred tax assets related to the other provisions and adjustments are mainly due to:

i) Impairments and acceleration of amortisations beyond the acceptable fiscally and other adjustments in fixed tangible assets and intangible assets, amounted to 60.1 million euros (31 December 2016: 59.3 million euros);

ii) Other provisions amounted to 14.4 million euros (31 December 2016: 16.4 million euros).

At 30 September 2017, the deferred tax liability related to the revaluation of assets relates mainly to the appreciation of customers' portfolio, telecommunications licenses and other assets of Optimus Group companies.

At 30 September 2017, deferred tax assets were not recognised in the amount of 1.8 million euros, corresponding mainly to tax incentives.

Deferred tax assets were recognised where it is probable that taxable profits will occur in future that may be used to absorb tax losses or deductible tax differences. This assessment was based on the business plans of the Group's companies, which are regularly revised and updated.

At 30 September 2017, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21% (2016: 21%). In the case of temporary differences, the rate used was 22.5% (2016: 22.5%) increased to a maximum of 5.46% (2016: 5.46%) of state surcharge when the taxation of temporary differences in the estimated period of application of the state surcharge was perceived as likely. Tax benefits, related to deductions from taxable income, are considered 100%, and in some cases, their full acceptance is conditional upon the approval of the authorities that grants such tax benefits.

Under the terms of article 88 of the IRC Code, the Company is subject to autonomous taxation on a series of charges at the rates set out in that article.

Under the terms of current legislation in Portugal, tax losses generated from 2012 to 2013 and from 2014 to 2016 may be carried forward for a period of five years and twelve years, respectively, after their occurrence and may be deducted from taxable profits generated during that period, up to a limit of 75% of the taxable profit, in 2012 and 2013, and 70% of taxable profit, from 2014 to 2016. For tax losses generated on or after 1 January 2017 they can be carried forward for a period of five years up to a limit of 70% of taxable income.

## B) Effective tax rate reconciliation

In the periods ended on 30 September 2016 and 2017, the reconciliation between the nominal and effective rates of tax was as follows:

	3 <sup>rd</sup> QUARTER 15	9M 16	3 <sup>rd</sup> QUARTER 16	9M 17
Income before taxes	35,926	100,734	43,236	126,116
Statutory tax rate	22.5%	22.5%	22.5%	22.5%
<b>ESTIMATED TAX</b>	<b>8,083</b>	<b>22,665</b>	<b>9,728</b>	<b>28,376</b>
Permanent differences i)	(273)	2,045	(1,706)	(3,565)
Differences in tax rate of group companies	(636)	(2,063)	(434)	(3,193)
Income tax related to previous years	(687)	(4,698)	(2)	(830)
Tax benefits ii)	-	(1,726)	-	(5,098)
State surcharge	1,826	5,459	1,902	5,306
Autonomous taxation	193	579	193	597
Provisions (Note 22)	2	109	(7)	(1,181)
Other	92	129	33	(47)
<b>INCOME TAXES</b>	<b>8,600</b>	<b>22,499</b>	<b>9,707</b>	<b>20,365</b>
Effective Income tax rate	23.9%	22.3%	22.5%	16.1%
Income tax	7,950	20,648	10,560	19,651
Deferred tax	650	1,851	(853)	714
	<b>8,600</b>	<b>22,499</b>	<b>9,707</b>	<b>20,365</b>

i. At 30 September 2016 and 2017 the permanent differences were composed as follows:

	3 <sup>rd</sup> QUARTER 15	9M 16	3 <sup>rd</sup> QUARTER 16	9M 17
Equity method (Note 33)	(1,408)	8,245	(6,012)	(14,983)
Other	192	843	(1,570)	(863)
	<b>(1,216)</b>	<b>9,088</b>	<b>(7,582)</b>	<b>(15,846)</b>
	22.5%	22.5%	22.5%	22.5%
	<b>(273)</b>	<b>2,045</b>	<b>(1,706)</b>	<b>(3,565)</b>

ii. This item corresponds to the amount of deferred taxes and the use of tax benefits for which there was no record of deferred taxes: SIFIDE (Business Research and Development Tax Incentives System), a tax benefit introduced by Law 40/2005 of 3 August, of the RFAI (Investment Tax Incentive Regime) introduced by Law 10/2009 of 10 March and of the CFEI (Tax Credit for Extraordinary Investment) introduced by Law 49/2013 of 16 July. Under the terms of the IRC (Corporate Income Tax) Code, the tax paid may not be less than 90% of the amount which would result if the Company did not benefit from

tax benefits. Therefore, this amount corresponds to that difference, given that the amount is recorded in the controlling company under the Special Taxation Regime for Groups of Companies, and the tax benefits are recorded in the controlled companies.

### 13. Inventories

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
<b>INVENTORIES</b>		
Telco	45,075	41,306
Audiovisuals	15,491	1,746
	<b>60,566</b>	<b>43,052</b>
<b>IMPAIRMENT OF INVENTORIES</b>		
Telco	(8,388)	(7,857)
Audiovisuals	(1,135)	(880)
	<b>(9,523)</b>	<b>(8,737)</b>
	<b>51,043</b>	<b>34,315</b>

The decrease in "Inventories – Audiovisuals" is justified, mainly, by the recognition of the cost of broadcasting rights acquired under the new sports content contracts (Note 37.3).

The movements occurred in impairment adjustments were as follows:

	9M 16	9M 17
<b>AS AT JANUARY 1</b>	<b>9,640</b>	<b>9,523</b>
Increase and decrease - Cost of products sold (Note 30)	1,215	(253)
Others	(675)	(533)
<b>AS AT SEPTEMBER 30</b>	<b>10,180</b>	<b>8,737</b>

### 14. Accounts receivable – other

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
Trade receivables	285,212	331,945
Doubtful accounts for trade receivables	157,753	150,893
Unbilled revenues i)	63,714	65,239
	<b>506,679</b>	<b>548,077</b>
Impairment of trade receivable	(157,753)	(150,893)
	<b>348,926</b>	<b>397,184</b>

- i) Unbilled revenues mainly correspond to revenues related to services rendered that will only be invoiced in the month following the provision of the service.

The summary of the movements in impairment of other receivables is as follows:

	9M 16	9M 17
<b>AS AT JANUARY 1</b>	<b>194,497</b>	<b>157,753</b>
Increases and decreases (Note 32)	(285)	1,752
Penalties - i)	10,646	10,794
Receivables written off and others	(2,305)	(19,406)
<b>AS AT SEPTEMBER 30</b>	<b>202,553</b>	<b>150,893</b>

- i) Penalties correspond to the estimated amount of uncollectible invoiced penalties recognised in the period, deducted from revenue, as described in Note 39.6.

## 15. Deferred costs

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
Discounts i)	28,957	27,025
Costs of litigation procedure activity	22,775	15,220
Programming costs	16,974	14,472
Rentals	3,754	3,187
Taxes	-	4,697
Advertising	633	1,963
Insurance	1,249	1,595
Others	10,049	12,293
	<b>84,391</b>	<b>80,452</b>

- i) Discounts correspond mainly to discounts to new customers under loyalty programs. These discounts are allocated to the whole loyalty period of the contract.

## 16. Non-current assets held-for-sale

At 31 December 2016, this item corresponds to NOS Comunicações S.A. FTTH network assets, located in the metropolitan areas of Lisbon and Oporto, on which Vodafone has exercised its purchase option, on 25 February 2016, as per the statement of non-opposition decision by the Competition Authority to the operation of merger between ZON and Optimus of 26 August 2013.

At 31 January 2017, the purchase and sale agreement was signed. The agreed and received sale price amounted to 24.2 million euros, and did not give rise to any gains/losses.

## 17. Derivative financial instruments

### Exchange rate derivatives

At the date of the statement of the financial position there were foreign currency forwards open for 1,209 thousand euros (2016: 1,032 thousand euros), the fair value is the positive amount of 7 thousand euros (2016: positive amount of 37 thousand euros).

### Interest rate derivatives

At 30 September 2017, NOS has three interest rate swap contracts in force, totaling 250 million euros (2016: 375 thousand euros). The maturity of one swap of 50 million euros expired in the third quarter of 2017 and the maturity of the other two swaps of 250 million euros will expire in 2019. The fair value of interest rate swaps is a negative amount of 2.7 million euros (2016: negative amount of 4.0 million euros) which was recorded in liabilities, against shareholder's equity.

### Own shares derivatives

At 30 September 2017, NOS had contracted five own shares derivatives, in the amount of 2,318 thousand euros (2016: 2,041) maturing in March 2018, 2019 and 2020, in order to cover the delivery of share plans liquidated in cash.

31-12-2016			
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
Interest rate swaps	375,000	-	4,027
Equity Swaps	2,041	-	-
Exchange rate forward	1,032	-	-
	<b>378,073</b>	<b>-</b>	<b>4,027</b>

30-09-2017			
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
Interest rate swaps	250,000	-	2,724
Equity swaps	2,318	10	85
Exchange rate forward	1,209	-	-
	<b>253,527</b>	<b>10</b>	<b>2,809</b>

Movements during the periods of nine months ended on 30 September 2016 and 2017 were as follows:

	EQUITY	30-09-2016
Fair value interest rate swaps	(2,013)	(5,382)
Fair value exchange rate forward	57	10
Fair value equity swaps	90	181
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>(1,866)</b>	<b>(5,191)</b>
Deferred income tax liabilities	(3)	(3)
Deferred income tax assets	419	1,170
<b>DEFERRED INCOME TAX</b>	<b>416</b>	<b>1,167</b>
	<b>(1,450)</b>	<b>(4,024)</b>

	EQUITY	30-09-2017
Fair value interest rate swaps	1,303	(2,724)
Fair value exchange rate forward	-	7
Fair value equity swaps	20	(95)
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>1,323</b>	<b>(2,812)</b>
Deferred income tax liabilities	(4)	(2)
Deferred income tax assets	(293)	634
<b>DEFERRED INCOME TAX</b>	<b>(297)</b>	<b>632</b>
	<b>1,026</b>	<b>(2,180)</b>



## 18. Cash and cash equivalents

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
Cash	1,572	996
Deposits	240	357
Other deposits i)	501	635
	<b>2,313</b>	<b>1,988</b>

- i) At 31 December 2016 and 30 September 2017, term deposits have short-term maturities and bear interest at normal market rates.

## 19. Shareholder's equity

### 19.1. Share capital

At 31 December 2016 and 30 September 2017 the share capital of NOS was 5,151,613.80 euros, represented by 515,161,380 shares registered book-entry shares, with a nominal value of 1 euro cent per share.

The main shareholders as of 31 December 2016 and 30 September 2017 are:

	31-12-2016		30-09-2017	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA (1)	268,644,537	52.15%	268,644,537	52.15%
Banco BPI, SA (2)	14,275,509	2.77%	14,275,509	2.77%
Blackrock, Inc	10,349,515	2.01%	11,562,497	2.24%
MFS Investment Management	-	-	11,049,477	2.14%
Norges Bank	10,891,068	2.11%	10,891,068	2.11%
<b>TOTAL</b>	<b>304,160,629</b>	<b>59.04%</b>	<b>316,423,088</b>	<b>61.42%</b>

(1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of company, is attributable to ZOPT, Sonaecom and the following entities:

- a. Kento Holding Limited and Unitel International Holdings B.V., as well as Isabel dos Santos, being (i) Kento Holding Limited and Unitel International Holdings, B.V., companies directly and indirectly controlled by Isabel dos Santos, and (ii) ZOPT, a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom under the shareholder agreement signed between them; and,
- b. Entities in a control relationship with Sonaecom, namely, SONTEL, BV, SONAE Investments BV, SONAE, SGPS, S.A., EFANOR Investimentos, SGPS, S.A. and Belmiro Mendes de Azevedo, also due of such control and of the shareholder agreement mentioned in a.

(2) Under the terms of paragraph 1 of Article 20 of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS share capital, held by Banco BPI Pension Fund and BPI Vida - Companhia de Seguros de Vida, S.A are attributable to Banco BPI.

## 19.2. Capital issued premium

On 27 August 2013, and following the completion of the merger between ZON and Optimus SGPS, the Company's share capital was increased by 856,404,278 euros, corresponding to the total number of issued shares (206,064,552 shares), based on the closing market price of 27 August 2013. The capital increase is detailed as follows:

- i) share capital in the amount of 2,060,646 euros;
- ii) premium for issue of shares in the amount of 854,343,632 euros.

Additionally, the premium for issue of shares was deducted in the amount of 125 thousand euros related to costs with the respective capital increase.

The capital issued premium is subject to the same rules as for legal reserves and can only be used:

- a) To cover part of the losses on the balance of the year that cannot be covered by other reserves;
- b) To cover part of the losses carried forward from the previous year that cannot be covered by the net income of the year or by other reserves;
- c) To increase the share capital.

## 19.3. Own shares

Company law regarding own shares requires the establishment of a non-distributable reserve of an amount equal to the purchase price of such shares, which becomes frozen until the shares are disposed of or distributed. In addition, the applicable accounting rules determine that gains or losses on the disposal of own shares are stated in reserves.

At 30 September 2017 there were 2,040,234 own shares, representing 0,396% of the share capital (31 December 2016: 3,017,603 own shares, representing 0.5858% of the share capital).

Movements in the periods ended on 30 September 2016 and 2017 were as follows:

	QUANTITY	VALUE
<b>BALANCE AS AT 1 JANUARY 2016</b>	<b>1,666,482</b>	<b>10,559</b>
Acquisition of own shares	3,312,503	20,676
Distribution of own shares - share incentive scheme	(1,517,016)	(9,640)
Distribution of own shares - other remunerations	(429,540)	(2,747)
<b>BALANCE AS AT 30 SEPTEMBER 2016</b>	<b>3,032,429</b>	<b>18,848</b>
<b>BALANCE AS AT 1 JANUARY 2017</b>	<b>3,017,603</b>	<b>18,756</b>
Distribution of own shares - share incentive scheme	(931,471)	(5,790)
Distribution of own shares - other remunerations	(45,898)	(285)
<b>BALANCE AS AT 30 SEPTEMBER 2017</b>	<b>2,040,234</b>	<b>12,681</b>

## 19.4. Reserves

### Legal reserve

Company law and NOS's Articles of Association establish that at least 5% of the Company's annual net profit must be used to build up the legal reserve until it corresponds to 20% of the share capital. This reserve cannot be distributed except in the event of liquidation of the company, but it may be used to absorb losses after all other reserves have been exhausted, or for incorporation in the share capital.

### Other reserves

Under Portuguese law, the amount of distributable reserves is determined according to the individual financial statements of the company prepared in accordance with IAS / IFRS. Thus, on 30 September 2017, NOS had reserves which by their nature are considered distributable in the amount of approximately 49.7 million euros, not including the net income.

## Dividends

The General Meeting of Shareholders held on 26 April 2016 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.16 euros, totaling 82,426 thousand euros. The dividend attributable to own shares, totaling 305 thousand euros.

	<b>DIVIDENDS</b>
Dividends	82,426
Dividends of own shares	(305)
	<b>82,121</b>

The General Meeting of Shareholders held on 27 April 2017 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.20 euros, totaling 103,032 thousand euros. The dividend attributable to own shares, totaling 415 thousand euros.

	<b>DIVIDENDS</b>
Dividends	103,032
Dividends of own shares	(415)
	<b>102,617</b>

## 20. Non-controlling interests

The movements of the non-controlling interests occurred during the periods ended on 30 September 2016 and 2017 and the results attributable to non-controlling interests for the year are as follows:

	31-12-2015	ATTRIBUTABLE PROFITS	OTHER	30-09-2016
NOS Madeira Comunicações	6,739	(67)	(6)	6,666
NOS Açores Comunicações	2,632	(85)	(1)	2,546
Lusomundo SII	23	-	-	23
Empracine	-	-	-	-
Lusomundo Imobiliária 2, SA	36	-	(1)	35
	<b>9,430</b>	<b>(152)</b>	<b>(8)</b>	<b>9,270</b>

	31-12-2016	ATTRIBUTABLE PROFITS	OTHER	30-09-2017
NOS Madeira Comunicações	6,450	435	4	6,889
NOS Açores Comunicações	2,533	(150)	1	2,384
Lusomundo SII	23	-	-	23
Empracine	-	-	-	-
Lusomundo Imobiliária 2, SA	35	-	-	35
	<b>9,041</b>	<b>285</b>	<b>5</b>	<b>9,331</b>

## 21. Borrowings

At 31 December 2016 and 30 September 2017, the composition of borrowings was as follows:

	31-12-2016		30-09-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
<b>LOANS - NOMINAL VALUE</b>	<b>196,216</b>	<b>876,667</b>	<b>178,391</b>	<b>873,333</b>
Debenture loan	-	585,000	-	585,000
Commercial paper	150,000	200,000	146,000	215,000
Foreign loans	30,027	91,667	18,333	73,333
Bank overdrafts	16,189	-	14,058	-
<b>LOANS - ACCRUALS AND DEFERRALS</b>	<b>204</b>	<b>(4,890)</b>	<b>(880)</b>	<b>(3,469)</b>
<b>FINANCIAL LEASES</b>	<b>28,272</b>	<b>100,226</b>	<b>28,294</b>	<b>84,785</b>
Long Term Contracts	10,785	71,287	12,521	66,128
Other	17,487	28,939	15,773	18,657
	<b>224,692</b>	<b>972,003</b>	<b>205,805</b>	<b>954,649</b>

During the period ended on 30 September 2017, the average cost of debt of the used lines was approximately 1.9% (2016: 2.2%).

### 21.1. Debenture loans

At 31 December 2016 and 30 September 2017, the Company has the following bonds issued, totaling 585 million euros, with maturity after one year:

- i) A bond loan in the amount 100 million euros organised by BPI bank in May 2014 and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.
- ii) A bond loan organised by four financial institutions in September 2014, amounting to 175 million euros and maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.
- iii) A private placement in the amount of 150 million euros organised by BPI bank and Caixa - Banco de Investimento in March 2015 maturing in March 2022. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.
- iv) Two bond issues organised by Caixabank amounting to 50 million euros each, and both maturing in June 2019. The first issue, held in June 2015, pays interest quarterly at a fixed rate. The issue made in July 2015, bears interest at a variable rate indexed to Euribor and paid semiannually.
- v) A bond issue in the amount of 60 million euros, signed in June 2016 and organised by ING, whose maturity occurs in June 2023. The issue bears interest at a variable rate indexed to Euribor and paid semiannually.

At 30 September 2017, an amount of 1,972 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item Loans - accruals and deferrals.

### 21.2. Commercial paper

At 30 September 2017, the Company has borrowings of 361 million euros in the form of commercial paper, of which 76 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 495 million euros, corresponding to ten programmes, with five banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totaling 215 million euros are classified as non-current, since the Company has the ability to unilaterally renew current issues on or before the programmes' maturity dates and because they are underwritten by the organizer. As such, this amount, although having a current maturity, it was classified as non-current for presentation purposes in the financial position statement.

At 30 September 2017, an amount of 653 thousand euros, corresponding to interest and commissions, was deducted to this amount and recorded in the item Loans - accruals and deferrals.

### 21.3. Foreign loans

At 31 December 2016, the escrow account signed with Caixa Geral de Depósitos bears interest at a variable rate indexed to Euribor and paid monthly amounted to 10 million euros. This funding line was finished during the second quarter of 2017.

In November 2013, NOS signed a Finance Contract with the European Investment Bank in the amount of 110 million euros to support the development of the mobile broadband network in Portugal. In June 2014 the total amount of funds was used. This contract matures in a maximum period of 8 years from the use of the funds, with partial amortisations of 18,300 thousand euros per year from June 2017.

Additionally, at 30 September 2017, an amount of 1,724 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidised rate.

### 21.4. Financial leases

On 31 December 2016 and 30 September 2017, the long-term contracts are mainly related to contracts signed by NOS SA for the acquisition of exclusive satellite use, to the contracts signed by NOS SA and NOS Technology related to the purchase of rights to use the distribution network and the contract signed by NOS Cinemas regarding the acquisition of digital equipment.

These medium and long term agreements under which the group has the right to use a specific asset are recorded as finance leases in accordance with IAS 17 - Leases and IFRIC 4 - Determining whether an arrangement contains a lease.

#### Financial leases – payments

	31-12-2016	30-09-2017
Until 1 year	33,779	30,563
Between 1 and 5 years	85,895	66,470
Over 5 years	30,615	32,642
	<b>150,289</b>	<b>129,675</b>
Future financial costs	(21,791)	(16,596)
<b>PRESENT VALUE OF FINANCE LEASE LIABILITIES</b>	<b>128,498</b>	<b>113,079</b>

#### Financial leases – present value

	31-12-2016	30-09-2017
Until 1 year	28,272	28,294
Between 1 and 5 years	72,081	52,922
Over 5 years	28,145	31,863
	<b>128,498</b>	<b>113,079</b>

All bank borrowings contracted (with the exception of EIB loan of 91.7 million euros, bond loan in the amount 50 million euros and finance leases) are negotiated at variable short term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	31-12-2016			30-09-2017		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,183	372,339	209,872	400	522,921	59,955
Commercial paper	149,651	200,000	-	145,347	177,500	37,500
Foreign loans	29,397	71,317	18,249	17,706	71,988	-
Bank overdrafts	16,189	-	-	14,058	-	-
Financial Leases	28,272	72,081	28,145	28,294	52,922	31,863
	<b>224,692</b>	<b>715,737</b>	<b>256,266</b>	<b>205,805</b>	<b>825,331</b>	<b>129,318</b>

## 22. Provisions

At 31 December 2016 and 30 September 2017, the provisions were as follows:

	31-12-2016	30-09-2017
Litigation and other - i)	57,697	50,153
Financial investments - ii)	825	615
Dismantling and removal of assets - iii)	29,694	31,430
Contingent liabilities - iv)	33,486	32,490
Contingencies - other - v)	24,585	21,791
	<b>146,287</b>	<b>136,479</b>

- i) The amount under the item "Litigation and other" corresponds to provisions to cover the legal and tax claims of which stand out:
- Future credits transferred: for the year ended at 31 December 2010, the subsidiary NOS SA was notified of the Report of Tax Inspection, where it is considered that the increase, when calculating the taxable profit for the year 2008, of the amount of 100 million euros, with respect to initial price of future credits transferred to securitization, is inappropriate. Given the principle of periodisation of taxable income, NOS SA was subsequently notified of the improper deduction of the amount of 20 million euros in the calculation of taxable income between 2009 and 2013. Given that the increase made in 2008 was not accepted due to not complying with Article 18 of the CIRC, also in the years following, the deduction corresponding to credits generated in that year, will eliminate the calculation of taxable income, to meet the annual amortisation hired as part of the operation (20 million per year during 5 years). NOS SA challenged the decisions regarding from 2008 to 2012 fiscal year and will appeal for the judicial review in due time the decision regarding the 2013 fiscal year. Regarding the year 2008, the Administrative and Fiscal Court of Porto has already decided unfavorably, in March 2014. The company has appealed;
  - Infringement proceedings due to an alleged failure, by NOS SA, to apply the resolutions taken by ANACOM on 26 October 2005, concerning termination rates for fixed calls. Following a deliberation of Board of Directors of the regulator, in April 2012, a fine of approximately 6.5 million euros was applied to NOS SA; NOS SA has appealed for the judicial review of the decision and the court has declared, in January 2017, the process's nullity (based on violation of NOS, SA's right of defense). In April 2014 ANACOM has notified NOS SA of a new judicial process, based on the same accusations. This process is a repetition of the initial one. In September 2014, ANACOM, based on the same facts, fined NOS SA in the amount of 6.5 million euros. This second decision was contested by NOS SA. In May 2015, it was acquitted by the Court of First Instance, which entirely revoked the decision by ANACOM and the fine which had been applied. Following this, in May 2015 ANACOM appealed the decision, which was ruled by summary decision as unfounded at May 2017 confirming NOS SA's acquittal. No part appealed on the court's final judgment so that the proceedings became final and unappealable at the end of May 2017. In the quarter ended on 30 June 2017 the full amount of the provision, corresponding to 6.5 million euros was reversed.

- c. Supplementary Capital: the fiscal authorities are of the opinion that NOS SA has broken the principle of full competition under the terms of (1) of Article 58 of the Corporate Tax Code (CIRC) – currently Article 63 –, by granting supplementary capital to its subsidiary NOS Towering, without having been remunerated at a market interest rate. In consequence, it has been notified, with regard to the years 2004, 2005, 2006 and 2007 of corrections to the determination of its taxable income in the total amount of 20.5 million euros. NOS SA contested the decision with regard to all the above mentioned years. As for the year 2004, the Court has decided favorably. This decision is concluded (favorably), originating a reversal of provisions, in 2016, in the amount of 1.3 million euros plus interest. As for the years 2006 and 2007, the Oporto Fiscal and Administrative Court has already decided unfavorably. The company has contested this decision and the final decision of the processes is still pending;
- ii) The amount under the item "Financial investments" corresponds to the liabilities assumed, in addition to the investment made, by the Group in jointly controlled companies and associated companies (Note 9);
- iii) The amount under the item "Dismantling and removal of assets" refers to the estimated future costs discounted to the present value, related with the termination of the use of the space where there are telecommunication towers and cinemas;
- iv) The amount in the item "Contingent liabilities" refers to several provisions recorded for present but not likely obligations, related to the merger by incorporation of Optimus SGPS, namely:
- a) Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law nr 35/2012, of 23 August. From 1995 until June 2014, MEO, SA (former PTC) was the sole provider for the universal service of electronic communications, having been designated administratively by the government, i.e. without a tender procedure, which constitutes an illegality, by the way acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the Portuguese State to pay a fine of 3 million euros for illegally designating MEO. In accordance with Article 18 of the abovementioned Law 35/2012 of 23 August, the net costs incurred by the operator responsible for providing the universal service, approved by ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that MEO has been requesting the payment of CLSU to the compensation fund of the several periods during which it was responsible for providing the services. In accordance with law, the compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ANACOM, following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requests the Government compensation for the net costs approved under the terms previously mentioned.

So:

- In 2013, ANACOM deliberated to approve the final results of the CLSU audit presented by MEO, relative to the period from 2007 to 2009, in a total amount of 66.8 million euros, a decision which was contested by NOS. In January 2015, ANACOM issued the settlement notes to NOS SA, NOS Madeira and NOS Açores in the amount of 18.6 million euros, which were contested by NOS and for which a bail was presented by NOS SGPS (Note 37) to avoid Tax Execution Proceedings. The guarantees have been accepted by ANACOM.

- In 2014, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO, relative to the period from 2010 to 2011, in a total amount of 47.1 million euros, a decision

also contested by the NOS. In February 2016, ANACOM issued the settlement notes to NOS SA, NOS Madeira and NOS Açores, in the amount of 13 million euros, which were also contested and for which it was before also presented bail by NOS SGPS also to avoid Tax Execution proceedings. The guarantees have been accepted by ANACOM.

- In 2015, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO relative to the period from 2012 to 2013, in the amount of 26 million euros and 20 million euros, respectively, decision which was also contested by NOS. In December 2016, Anacom issued the settlement notes to NOS SA, NOS Madeira and NOS Açores in the amount of 13.6 million euros, which will be contested and for which it was presented bail by NOS SGPS to avoid Tax Execution proceedings. The guarantees have also been accepted by ANACOM.

- At October 2016, ANACOM approved the results of the audit to the CLSU presented by MEO relative to the period between January and June 2014, in the amount of 7.7 million euros, decision which NOS has contested in January 2017.

It is the opinion of the Board of Directors of NOS that these demanded extraordinary contributions to SU, for a period prior to the designation through a tender procedure, flagrantly violate the Directive of Universal Service. Moreover, considering the existing legal framework since NOS began its activity, the request of payment of the extraordinary contribution violates the principle of the protection of confidence, recognised on a legal and constitutional level in Portuguese domestic law. For these reasons, NOS will continue to judicially challenge the approvals of the final audited results of the CLSU from periods prior to the tender procedure and the liquidation of each extraordinary contribution demanded, once the Board of Directors is convinced it will be successful in all challenges, both future and already undertaken;

- b) Other tax proceedings: which the Board of Directors is convinced that there are strong arguments to obtain a favorable decision for NOS SA, but considers that they correspond to a contingent liability under the fair value allocation of assumed liabilities related to the merger operation;
- v) The amount under the caption "Contingencies - other" refers to provisions for risks related to miscellaneous events/disputes of various kinds, the settlement of which may result in outflows of cash, and other likely liabilities related to several transactions from previous periods, and whose outflow of cash is probable, namely, costs charged to the current period or previous years, for which it is not possible to estimate reliably the time of occurrence of the expense.

During the period ended on 30 September 2016, movements in provisions were as follows:

	31-12-2015	INCREASES	DECREASES	OTHER	30-09-2016
Litigation and other	61,042	1,502	(3,870)	-	58,674
Financial investments	-	609	-	-	609
Dismantling and removal of assets	24,204	273	(145)	4,835	29,167
Contingent liabilities	34,673	-	(1,502)	-	33,171
Contingencies - other	19,565	1,191	(11)	4,390	25,135
	<b>139,484</b>	<b>3,575</b>	<b>(5,528)</b>	<b>9,225</b>	<b>146,756</b>

During the period ended on 30 September 2016, increases of provisions mainly refer to the update of the value of contingencies and respective interest claims, processes for which there was already provision. Reductions of provisions correspond to reductions of contingencies due to finalized proceedings and revaluation of the amounts of the current contingencies.

The movement recorded in "Other" in the amount of 4.8 million euros under the heading Dismantling and removal of assets, was recorded by counterpart of "Tangible assets" and results mainly from the increase in



provisions for dismantling of assets due to the change of the rate used in the update for the present value of the liability.

In addition, the movements recorded in "Other" in the amount of 4.4 million euros refer mainly to the use of provisions set aside for compensation to employees, in the amount of 1.6 million euros, and the reclassification of cost estimates in relation to which the time of implementation of the expenditure can not be estimated with high reliability, in the amount of 6 million euros.

During the period ended on 30 September 2017, movements in provisions were as follows:

	31-12-2016	INCREASES	DECREASES	OTHER	30-09-2017
Litigation and other	57,697	6,566	(11,522)	(2,588)	50,153
Financial investments	825	-	(210)	-	615
Dismantling and removal of assets	29,694	582	(358)	1,512	31,430
Contingent liabilities	33,486	-	(996)	-	32,490
Contingencies - other	24,585	1,457	(168)	(4,083)	21,791
	<b>146,287</b>	<b>8,605</b>	<b>(13,254)</b>	<b>(5,159)</b>	<b>136,479</b>

During the period ended on 30 September 2017, increases mainly refer to provisions for tax proceedings plus interest and charges, namely, resulting from the unfavorable decision of a lawsuit relating to the year 2007. Nevertheless, an appeal against this decision was filed by the company.

During the period ended on 30 September 2017, decreases of provisions mainly refer to the reversal of provisions for litigation in result of favourable decisions and agreements achieved, namely, the process with Anacom mentioned above.

The movement recorded in "Others" of 2.6 million euros, under Litigation and others, was recorded by counterpart of the asset (Note 11). In addition, the movements recorded in "Other" in the amount of 4.1 million euros refers mainly to the use of provisions set aside for compensation to employees, in the amount of 2.4 million euros, and the reclassification of cost estimates in relation to which can not be estimated with high reliability the time of implementation of the expenditure in the amount of 1.6 million euros.

The net movements for the period ended on 30 September 2016 and 2017 reflected in the income statement under Provisions and adjustments were as follows:

	9M 16	9M 17
Provisions and adjustments (Note 32)	(4,431)	(3,191)
Financial investments (Note 9)	609	(210)
Other losses / (gains) non-recurrent	1,080	1,409
Interests - dismantling	128	225
Other interests	552	(1,701)
Income tax (Note 12)	109	(1,181)
<b>INCREASES AND DECREASES IN PROVISIONS</b>	<b>(1,953)</b>	<b>(4,649)</b>

## 23. Accrued expenses

At 31 December 2016 and 30 September 2017, these items were composed as follows:

	31-12-2016	30-09-2017
<b>NON CURRENT</b>		
Contractual obligations i)	8,776	8,457
Other	409	585
	<b>9,185</b>	<b>9,042</b>
<b>CURRENT</b>		
Invoices to be issued by operators ii)	43,630	71,762
Vacation pay and bonuses	25,006	23,193
Investments in tangible and intangible assets	17,272	14,121
Content and film rights	15,841	17,165
ANACOM taxes and Cinema Law iii)	66	7,196
Costs of litigation procedure activity	13,066	13,227
Advertising	12,670	13,976
Programming services	11,806	20,378
Comissions	8,380	5,690
Rentals	5,835	6,237
Energy and water	3,696	3,661
Maintenance and repair	2,007	1,415
Other accrued expenses	1,621	2,430
Professional services	13,618	11,802
	<b>174,514</b>	<b>212,253</b>

- i) Under the fair value allocation process of to the assets and liabilities of the Optimus Group, contractual obligations were identified relating to long-term contracts whose prices are different from market prices. This amount relates to the medium and long-term portion of the fair value adjustment of these contracts.
- ii) Invoices to be billed by operators, mainly international operators, regarding interconnection costs related with international traffic and roaming services.
- iii) Amounts related to ANACOM licences and other ICA fees, whose invoices will be issued in subsequent periods.

## 24. Deferred income

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016		30-09-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Advanced billing i)	29,491	-	26,099	-
Investment subsidy ii)	632	4,138	632	3,847
	<b>30,123</b>	<b>4,138</b>	<b>26,731</b>	<b>3,847</b>

- i) This item relates mainly to the billing of Pay TV services regarding the following month to the report period and amounts received from NOS Comunicações' customers, related with the recharges of mobile phones and purchase of telecommunications minutes as of yet unused.
- ii) Deferred income related to the implicit subsidy when the EIB loans were obtained at interest rates below market value (Note 21).

## 25. Accounts payable - trade

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
Suppliers current account	232,305	220,465
Invoices in reception and conference	6,523	1,687
	<b>238,828</b>	<b>222,152</b>

## 26. Accounts payable - other

At 31 December 2016 and 30 September 2017, this item was composed as follows:

	31-12-2016	30-09-2017
<b>NON CURRENT</b>		
Assignment of receivables without resources i)	21,551	21,092
	<b>21,551</b>	<b>21,092</b>
<b>CURRENT</b>		
Fixed assets suppliers	34,772	27,273
Assignment of receivables without resources i)	18,624	17,583
Football games broadcasting rights	13,500	-
Advances from customers	152	213
Other	1,685	1,622
	<b>68,733</b>	<b>46,691</b>
	<b>90,284</b>	<b>67,783</b>

- i) NOS Comunicações, S.A. materialised a credit assignment transaction, that was coordinated by Banco Comercial Português and Caixa Geral de Depósitos, through which it ceded future credits to be generated by a portfolio of Corporate customers. In the period ended on 30 September 2017, the balance amounted to 38.7 million euros. This does not imply any change in the accounting treatment of the receivables or in the relationship with their customers.

## 27. Operating revenues

Consolidated operating revenues for the periods ended on 30 September 2016 and 2017 are distributed as follows:

	3º QUARTER 16	9M 16	3º QUARTER 17	9M 17
<b>SERVICES RENDERED:</b>				
Telco i)	337,434	1,005,688	351,363	1,044,219
Audiovisuals and cinema exhibition ii)	20,381	54,997	18,692	58,382
	<b>357,815</b>	<b>1,060,685</b>	<b>370,055</b>	<b>1,102,601</b>
<b>SALES:</b>				
Telco iii)	14,258	37,379	15,296	36,629
Audiovisuals and cinema exhibition iv)	4,891	12,856	4,896	13,433
	<b>19,149</b>	<b>50,235</b>	<b>20,192</b>	<b>50,062</b>
<b>OTHER OPERATING REVENUES:</b>				
Telco	3,660	12,351	2,720	9,205
Audiovisuals and cinema exhibition	356	823	130	599
	<b>4,016</b>	<b>13,174</b>	<b>2,850</b>	<b>9,804</b>
	<b>380,980</b>	<b>1,124,094</b>	<b>393,097</b>	<b>1,162,467</b>

These operating revenues are shown net of inter-company eliminations.

- i) This item mainly includes revenue relating to: (a) basic channel subscription packages that can be sold in a bundle with fixed broadband/ fixed voice services; (b) premium channel subscription packages and S-VOD; (c) terminal equipment rental; (d) consumption of content (VOD); (e) traffic and mobile and fixed voice termination; (f) service activation; (g) mobile broadband access and (h) other additional services (ex: firewall, antivirus) and services rendered related to datacenter management and consulting services in IT.
- ii) This item mainly includes (a) box office revenue and publicity at the cinemas of NOS Cinemas, and (b) revenue relating to film distribution to other cinema exhibitors in Portugal and the production and sale of audiovisual content.
- iii) Revenue relating to the sale of terminal equipment, telephones and mobile phones.
- iv) This item mainly includes sales of bar products by NOS Cinemas and DVD sales.

## 28. Wage and salaries

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3º QUARTER 16	9M 16	3º QUARTER 17	9M 17
Remuneration	17,877	53,071	17,711	50,270
Social taxes	4,385	12,957	4,235	12,630
Social benefits	312	961	515	1,471
Other	423	1,729	738	1,716
	<b>22,997</b>	<b>68,718</b>	<b>23,199</b>	<b>66,087</b>

In the periods ended on 30 September 2016 and 2017, the average number of employees of the companies included in the consolidation was 2,517 and 2,499, respectively. At 30 September 2017, the number of employees of the companies included in the consolidation was 2,483.

The costs of compensations paid to employees, since they are non-recurring costs, are recorded in the item Restructuring costs.

## 29. Direct costs

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3º QUARTER 16	9M 16	3º QUARTER 17	9M 17
Exhibition costs	50,403	134,868	50,423	154,329
Traffic costs	47,650	147,356	52,142	154,391
Capacity costs	12,322	36,952	11,363	34,890
Shared advertising revenues	3,389	10,471	3,557	11,128
Other	1,933	5,254	1,390	4,251
	<b>115,697</b>	<b>334,901</b>	<b>118,875</b>	<b>358,989</b>

The increase in Exhibition costs is justified, mainly, by the new contracts of sports content (Note 37.3) and the revision of Sport TV's distribution rights model.

## 30. Cost of products sold

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3° QUARTER 16	9M 16	3° QUARTER 17	9M 17
Costs of products sold	15,035	39,856	15,267	36,477
Inventories impairment	1,120	1,215	(509)	(253)
	<b>16,155</b>	<b>41,071</b>	<b>14,758</b>	<b>36,224</b>

## 31. Support services and supplies and external services

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3° QUARTER 16	9M 16	3° QUARTER 17	9M 17
<b>SUPPORT SERVICES:</b>				
Call centers and customer support	8,626	25,455	7,721	23,812
Information systems	3,995	13,846	4,041	12,821
Administrative support and other	9,324	28,306	10,139	31,723
	<b>21,945</b>	<b>67,607</b>	<b>21,901</b>	<b>68,356</b>
<b>SUPPLIES AND EXTERNAL SERVICES:</b>				
Maintenance and repair	11,517	33,331	11,313	34,282
Rentals	10,913	32,955	10,941	32,596
Electricity	5,689	16,174	5,777	16,448
Commissions	3,095	9,016	2,821	7,460
Professional services	3,466	9,353	3,370	9,597
Communications	2,043	6,034	2,016	5,663
Installation and removal of terminal equipment	2,762	6,682	3,583	9,082
Other supplies and external services	8,754	25,586	6,241	19,968
	<b>48,239</b>	<b>139,131</b>	<b>46,062</b>	<b>135,096</b>

## 32. Provisions and adjustments

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3° QUARTER 16	9M 16	3° QUARTER 17	9M 17
Provisions (Note 22)	(2,117)	(4,431)	257	(3,191)
Impairment of account receivables - trade (Note 14)	(4,619)	(285)	(198)	1,752
Impairment of account receivables - other (note 10)	3	10	(10)	(7)
Debts recovery	1	24	1	11
	<b>(6,732)</b>	<b>(4,682)</b>	<b>50</b>	<b>(1,435)</b>

### 33. Losses / (gains) of affiliated companies

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
<b>EQUITY METHOD (NOTE 9)</b>				
Sport TV	(1,184)	4,593	(362)	(2,836)
Dreamia	(184)	(692)	(126)	(630)
Finstar	(706)	3,334	(5,553)	(11,272)
Mstar	631	1,034	6	(250)
Upstar	5	(6)	(9)	(18)
Others	30	(18)	32	23
<b>EQUITY METHOD (NOTE 9)</b>	<b>(1,408)</b>	<b>8,245</b>	<b>(6,012)</b>	<b>(14,983)</b>

### 34. Depreciation, amortisation and impairment losses

In the periods ended on 30 September 2016 and 2017, this item was composed as follows:

	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
<b>TANGIBLE ASSETS</b>				
Buildings and other constructions	3,073	9,294	2,315	8,125
Basic equipment	44,709	131,615	53,649	154,075
Transportation equipment	391	1,294	377	1,248
Tools and dies	8	20	8	24
Administrative equipment	5,525	14,921	4,243	12,525
Other tangible assets	(455)	(588)	2	6
	<b>53,251</b>	<b>156,555</b>	<b>60,594</b>	<b>176,003</b>
<b>INTANGIBLE ASSETS</b>				
Industrial property and other rights	45,424	135,936	43,080	134,408
	<b>45,424</b>	<b>135,936</b>	<b>43,080</b>	<b>134,408</b>
<b>INVESTMENT PROPERTY</b>				
Investment property	-	13	1	2
	-	<b>13</b>	<b>1</b>	<b>2</b>
	<b>98,674</b>	<b>292,503</b>	<b>103,675</b>	<b>310,413</b>

### 35. Financing costs and other financial expenses / (income)

In the periods ended on 30 September 2016 and 2017, financing costs and other financial expenses / (income) were composed as follows:

	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
<b>FINANCING COSTS:</b>				
<b>INTEREST EXPENSE:</b>				
Borrowings	4,219	12,501	3,978	12,115
Finance leases	1,389	4,363	1,295	4,180
Derivatives	579	1,554	431	1,793
Other	250	986	351	1,685
	<b>6,437</b>	<b>19,404</b>	<b>6,056</b>	<b>19,773</b>
<b>INTEREST EARNED</b>	<b>(2,008)</b>	<b>(6,838)</b>	<b>(1,239)</b>	<b>(3,987)</b>
	<b>4,429</b>	<b>12,566</b>	<b>4,817</b>	<b>15,786</b>
<b>NET OTHER FINANCIAL EXPENSES /(INCOME):</b>				
Comissions and guarantees	1,354	3,934	1,268	3,721
Other	442	1,546	369	(1,330)
	<b>1,796</b>	<b>5,480</b>	<b>1,637</b>	<b>2,391</b>

Interest earned mainly corresponds to default interests charged to customers.

In the second quarter of 2017, in the sequence of agreements achieved regarding litigation, provisions for default interests were reversed in Others under Net other financial expenses /(income) (Note 22).

## 36. Net earnings per share

Earnings per share for the periods ended on 30 September 2016 and 2017, were calculated as follow:

	3 <sup>o</sup> QUARTER 16	9M 16	3 <sup>o</sup> QUARTER 17	9M 17
Consolidated net income attributable to shareholders	27,491	78,387	33,639	105,466
Number of ordinary shares outstanding during the period (weighted average)	512,117,078	512,824,415	513,116,080	512,848,192
Basic earnings per share - euros	0.05	0.15	0.07	0.21
Diluted earnings per share - euros	0.05	0.15	0.07	0.21

In the periods above there were no diluting effects on net earnings per share, so the diluted earnings per share are equal to the basic earnings per share.

## 37. Guarantees and financial undertakings

### 37.1. Guarantees

At 31 December 2016 and 30 September 2017, the Group had furnished sureties, guarantees and comfort letters in favor of third parties corresponding to the following situations:

	31-12-2016	30-09-2017
Financial institutions i)	110,264	91,843
Tax authorities ii)	14,850	13,288
Other iii)	12,288	11,362
	<b>137,402</b>	<b>116,493</b>

- i) At 31 December 2016 and 30 September 2017, this amount relates to guarantees issued by NOS in connection with the loans from EIB.
- ii) At 31 December 2016 and 30 September 2017, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 39.2).
- iii) At 31 December 2016 and 30 September 2017, this amount mainly relates to guarantees provided in connection with Municipal Wayleave Tax proceedings and guarantees provided to cinema owners, and bank guarantees given to providers of satellite capacity renting services.

In connection with the finance obtained by Upstar from Novo Banco, totaling 20 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan. At 30 September 2017 the debt amounted to 3.4 million euros.

In connection with the finance obtained by Upstar from Banco Comercial Português, totaling 10 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan.

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco in the amount of 30 million dollars, to pledge the fulfillment of the contract's obligations. At 30 September 2017, the active amount of the guarantee is nule, as a result of the supplier having partially activated the guarantee in January, May and August 2017, in the amount of 12.5, 10 and 7.5 millions dollars, respectively, payed afterwards with the company's own funds.

During 2015, NOS issued a comfort letter to Caixa Geral de Depósitos as part of an issue of a bank guarantee to Sport TV amounting to 23.1 million euros. At 30 September 2017, the active amount of bank guarantees ascends to 2 million euros. This guarantee ends in Januray 2018.

During the first periods of 2015, 2016 and 2017, and following the settlement note to CLSU 2007-2009, 2010-2011 and 2012-2013, NOS constituted guarantees in favor of the Universal Service Compensation Fund in the amount of 23.6 million euros, 16.7 million euros and 17.4 million euros, respectively, in order to prevent the introduction of tax enforcement proceedings in order to enforce recovery of the amounts paid.

On September 2016, NOS constituted guarantees on behalf of Sport TV, to the The Football Association League Limited in the amount of 29.1 million euros, which, at 30 June 2017, amounted to 19.9 million euros.

NOS provided a guarantee to Warner Brothers, under the cinema distribution contract renewal for national territory and African Portuguese speaking countries.

In addition to the guarantees required by the tax authorities, sureties were set up for the current fiscal processes. NOS was a surety for NOS SA up to the amount of 15.3 million euros.

### 37.2. Operating leases

The rentals due on operating leases have the following maturities:

	31-12-2016				30-09-2017			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	1,170	16,994	41,164	19,888	1,242	23,455	52,171	18,494
Telecommunication towers and rooftops	1,732	19,557	52,684	20,972	1,965	23,211	62,084	19,516
Equipment	-	1,338	2,848	-	-	3,875	8,258	-
Vehicles	-	3,828	5,044	-	-	2,020	2,098	4
	<b>2,902</b>	<b>41,717</b>	<b>101,740</b>	<b>40,860</b>	<b>3,207</b>	<b>52,561</b>	<b>124,611</b>	<b>38,014</b>

### 37.3. Other undertakings

#### Covenants

Of the loans obtained (excluding finance leases), in addition to being subject to the Group complying with its operating, legal and fiscal obligations, 100% are subject to cross-default clauses, Pari Passu clauses and negative pledge clauses and 85% to ownership clauses.

In addition, approximately 49% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, approximately 4% of the total loans obtained require that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA, and approximately 6% of the total loans obtained require that the consolidated net financial debt does not exceed 4 times consolidated EBITDA.

The EIB loan amounting to 110 million euros, maturing in 2022, is intended exclusively to finance the investment project to support the development of mobile broadband network in Portugal. This amount shall not, under any circumstances, exceed 50% of the project cost.

#### Assignment agreements football broadcast rights

In December 2015, NOS signed a contract with Sport Lisboa e Benfica - Futebol SAD and Benfica TV, SA of television rights of home matches of football NOS' league, broadcasting rights and distribution of Benfica TV Channel. The contract began in 2016/2017 sports season and has an initial duration of three years and may be renewed by decision of either party to a total of 10 sports seasons, with the overall financial consideration reaching the amount of 400 million euros, divided into progressive annual amounts.

Also in December 2015, NOS signed a contract with Sporting Clube de Portugal - Futebol SAD and Sporting and Communication Platforms, S.A. for the assignment of the following rights:

- 1) TV broadcasting rights and multimedia home games of Sporting SAD;
- 2) The right to explore the static and virtual advertising at Stadium José Alvalade;



3) The right of transmission and distribution of Sporting TV Channel;

4) The right to be its main sponsor.

The contract will last 10 seasons concerning the rights indicated in 1) and 2) above, starting in July 2018, 12 seasons in the case of the rights stated in 3) starting in July 2017 and 12 and a half seasons in the case of the rights mentioned in 4) beginning in January 2016, with the overall financial consideration amounting to 446 million euros, divided into progressive annual amounts.

Also in December 2015, NOS SA has signed contracts regarding the television rights of home senior team football games with the following sports clubs:

1) Associação Académica de Coimbra – Organismo Autónomo de Futebol, SDUQ, Lda

2) Os Belenenses Sociedade Desportiva Futebol, SAD

3) Clube Desportivo Nacional Futebol, SAD

4) Futebol Clube de Arouca – Futebol, SDUQ, Lda

5) Futebol Clube de Paços de Ferreira, SDUQ, Lda

6) Marítimo da Madeira Futebol, SAD

7) Sporting Clube de Braga – Futebol, SAD

8) Vitória Futebol Clube, SAD

The contracts will begin in the 2019/2020 sports season and last up to 7 seasons, with the exception of the contract with Sporting Clube de Braga - Futebol, SAD which lasts 9 seasons.

During the year of 2016, NOS SA has signed contracts regarding the television rights of home senior team football games with the following sports clubs:

1) C. D. Tondela – Futebol, SDUQ, Lda

2) Clube Futebol União da Madeira, Futebol, SAD

3) Grupo Desportivo de Chaves – Futebol, SAD

4) Sporting Clube da Covilhã – Futebol, SDUQ, Lda

5) Clube Desportivo Feirense – Futebol, SAD

6) Sport Clube de Freamunde – Futebol, SAD

7) Sporting Clube Olhanense – Futebol, SAD

8) Futebol Clube de Penafiel, SDUQ, Lda

9) Portimonense Futebol, SAD

The contracts will begin in the 2019/2020 sports season and last up to 3 seasons.

In May 2016, NOS and Vodafone have agreed on reciprocal availability, for several sports seasons, of sports content (national and international) owned by the companies, in order to assure to both companies, the availability of broadcasting rights of the sports clubs home football games, as well as the broadcasting and distribution rights of sports and sports clubs channels, whose rights are owned by each of the companies in each moment. The agreement came into force from the beginning of the sports season 16/17, assuring access to Benfica's channel and Benfica's home football games to NOS' and Vodafone's clients, independent from the channel where these football games are broadcast.

Considering that the contract signed allowed for the possibility of extending the agreement to the other operators, in July 2016 MEO and Cabovisão joined the agreement, ending the lack of availability of Porto Canal in the NOS's channel grid, assuring that every Pay TV client can have access to every relevant sports content, regardless of which operator they use.

Following the agreement signed with the remaining operators, as a counterpart of the reciprocal provision of rights, the global costs are shared according with retailer telecommunications revenues and Pay TV market shares.

The estimated cash flows are estimated as follows:

<b>Seasons</b>	<b>2017/18</b>	<b>Following</b>
Estimated cash-flows with the contract signed by NOS with the suport entities	50.1 M€	1,098 M€
NOS estimated cash-flows for the contracts signed by NOS (net amounts charged to the operators) and for the contracts signed by the remaining operators	22.5 M€	624 M€

\* Includes games and channels broadcasting rights, advertising and others.

### **Network sharing contract with Vodafone**

On 29 September 2017, NOS and Vodafone Portugal reached an agreement to develop and share infrastructure nationwide, enabling both operators to extend their commercial offers over the shared network as from the beginning of 2018.

The agreement encompasses reciprocal sharing of dark fibre in around 2.6 million homes, with each operator sharing an equivalent value in terms of investment. Both companies will retain the freedom to develop their respective commercial offers and technological solutions within the agreement, whilst guaranteeing complete independence and confidentiality of customer relationship and information management.

This partnership was also extended to the mobile infrastructure, with a minimum of 200 mobile towers to be shared.

## **38. Related parties**

### **38.1. Balances and transactions between related parties**

Transactions and balances between NOS and companies of the NOS Group were eliminated in the consolidation process and are not subject to disclosure in this note.

The balances at 31 December 2016 and 30 September 2017 and transactions in the periods ended on 30 September 2016 and 2017 between NOS Group and its associated companies, joint ventures and other related parties are as follows:

### Balances at 31 December 2016

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
<b>SHAREHOLDERS</b>					
BPI	1,614	(18)	-	-	-
<b>ASSOCIATED COMPANIES</b>					
Big Picture 2 Films	5	104	193	-	-
Sport TV	4,971	9,634	3,454	-	13,745
<b>JOINTLY CONTROLLED COMPANIES</b>					
Dreamia Holding BV	2,892	-	-	-	-
Dreamia SA	2,471	1,157	293	-	-
Finstar	9,550	-	-	2	-
Mstar	1	-	-	-	-
Upstar	17,880	25	-	-	-
ZAP Cinemas	419	-	-	-	-
ZAP Media	3,451	-	-	-	-
<b>OTHER RELATED PARTIES</b>					
Digitmarket	78	273	-	-	151
Itrust - Cyber Security and Intellig. , S.A.	50	931	(5)	-	-
Modelo Continente Hipermercados	1,233	114	142	-	4
MDS - Corretor de Seguros	83	-	-	-	143
SC-Consultadoria	131	-	-	4	-
Sonae Ind., Prod. e Com.Deriv.Madeira	106	-	-	-	-
Sierra Portugal	509	(19)	-	-	331
Sonae Center II	762	187	-	9	-
Sonaecom	107	-	270	-	-
UNITEL	1,824	1,229	1,441	-	-
We Do Consulting-Sist. de Informação	93	2,527	-	2	18
Worten - Equipamento para o Lar	2,773	-	703	-	4
Outras partes relacionadas	882	313	(12)	1	190
	<b>51,885</b>	<b>16,457</b>	<b>6,479</b>	<b>18</b>	<b>14,586</b>

## Transactions during the period ended on 30 September 2016

30-09-2016

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
<b>SHAREHOLDERS</b>									
Banco BPI	4,165	-	104	-	-	4	-	(268)	-
<b>ASSOCIATED COMPANIES</b>									
Big Picture 2 Films	45	-	4,048	-	-	44	-	-	-
Sport TV	183	-	42,281	-	-	-	-	-	-
<b>JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES</b>									
Dreamia Holding BV	207	-	-	-	-	-	-	184	-
Dreamia SA	1,976	(3)	(522)	33	-	(3)	8	-	-
Finstar	670	-	-	-	-	-	-	-	-
Mstar	27	-	-	-	-	-	-	-	-
Upstar	10,341	-	(356)	13	-	1	-	-	-
ZAP Cinemas	(19)	-	-	-	-	-	-	-	-
ZAP Media	94	-	-	-	-	-	-	-	-
<b>OTHER RELATED PARTIES</b>									
Cascaishopping	25	-	-	6	-	520	-	-	-
Continente Hipermercados	223	-	-	-	-	37	-	-	2
Digitalmarket	257	-	-	-	217	-	-	-	3,425
Trust - Cyber Security and Intellig	6	-	-	-	51	283	-	-	-
MDS - Corretor de Seguros	363	-	-	-	-	302	-	-	-
Modalfa	171	-	-	-	-	-	-	-	-
Modelo - Distribuição Materias Construção	152	-	-	-	-	-	-	-	-
Modelo Continente Hipermercados	3,519	-	(4)	373	-	(87)	-	-	-
Pharmacontinente	119	-	-	-	-	-	-	-	-
Público	151	-	-	26	-	-	-	-	147
Saphety Level - Trusted Services	88	-	-	-	364	2	-	-	36
SC-Consultadoria	902	-	-	-	-	-	-	-	-
SDSR - Sports Division SR	299	-	-	-	-	-	-	-	-
Sierra Portugal	2,659	-	-	226	-	3,694	-	-	-
Sistavac	103	-	-	-	-	5	-	-	49
Solinca - Health & Fitness, SA	121	-	-	-	-	-	-	-	-
Sonae Center II	1,708	-	-	-	1	(7)	-	-	-
Sonae Indústria PCDM	666	-	-	-	-	-	-	-	4
Sonaeacom - Serviços Partilhados	208	-	-	-	-	2	-	-	-
Spirveste - Promoção Imobiliária	-	-	-	-	-	213	-	-	-
UNITEL	1,761	-	1,017	-	-	-	-	-	-
We Do Consulting-Sist. de Informação	376	-	-	-	2,076	172	-	-	3,072
Worten - Equipamento para o Lar	4,428	-	-	447	-	981	-	-	1
Outras partes relacionadas	1,516	(52)	(1)	73	35	316	-	-	30
	<b>37,508</b>	<b>(55)</b>	<b>46,567</b>	<b>1,197</b>	<b>2,744</b>	<b>6,759</b>	<b>8</b>	<b>(84)</b>	<b>6,766</b>

## Balances at 30 September 2017

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
<b>SHAREHOLDERS</b>					
BPI	1,760	(24)	52	-	-
<b>ASSOCIATED COMPANIES</b>					
Big Picture 2 Films	5	130	179	-	-
Sport TV	281	340	6,667	-	7,893
<b>JOINTLY CONTROLLED COMPANIES</b>					
Dreamia Holding BV	2,662	-	-	-	-
Dreamia SA	2,856	1,089	425	-	-
Finstar	10,237	-	-	-	-
Mstar	1	-	-	-	-
Upstar	30,076	48	-	12	-
ZAP Cinemas	373	-	-	-	-
ZAP Media	3,678	-	-	-	-
<b>OTHER RELATED PARTIES</b>					
Centro Colombo	3	7	-	-	139
Digitmarket	43	48	-	3	303
Itrust - Cyber Security and Intellig. , S.A.	4	116	(3)	-	6
Modelo Continente Hipermercados	1,339	55	1	-	12
MDS - Corretor de Seguros	74	-	29	-	-
Norteshopping	39	24	-	-	146
Saphety Level - Trusted Services	36	123	-	-	-
SC-Consultadoria	153	-	-	-	-
Sierra Portugal	551	(36)	(2)	-	43
Sonae Center II	1,265	-	-	-	-
Sonaecom	83	-	367	-	-
UNITEL	4,121	2,665	1,420	-	-
We Do Consulting-Sist. de Informação	69	2,175	-	-	76
Worten - Equipamento para o Lar	2,204	23	197	-	-
Outras partes relacionadas	1,018	89	(2)	-	351
	<b>62,929</b>	<b>6,869</b>	<b>9,329</b>	<b>15</b>	<b>8,968</b>

## Transactions during the period ended on 30 September 2017

30-09-2017

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	OTHER NON-RECURRING LOSSES / (GAINS)	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
<b>SHAREHOLDERS</b>										
Banco BPI	3,802	-	314	-	-	-	4	-	(295)	-
<b>ASSOCIATED COMPANIES</b>										
Big Picture 2 Films	33	-	3,965	-	-	-	46	-	-	-
Sport TV	167	-	57,773	-	-	-	-	-	-	-
<b>JOINTLY CONTROLLED COMPANIES</b>										
Dreamia Holding BV	118	-	-	-	-	-	-	-	97	-
Dreamia SA	1,641	(3)	(39)	25	(1)	-	(9)	-	-	-
Finstar	670	-	-	-	-	-	-	-	-	-
Mstar	25	-	-	-	-	-	-	-	-	-
Upstar	11,841	-	(216)	17	-	-	-	-	-	-
ZAP Cinemas	7	-	-	-	-	-	-	-	-	-
ZAP Media	227	-	-	-	-	-	-	-	-	-
<b>OTHER RELATED PARTIES</b>										
CascaShopping	12	-	-	(3)	-	-	499	-	-	-
Centro Colombo	4	-	-	3	-	-	364	-	-	-
Continente Hipermercados	209	-	-	-	-	-	4	-	-	11
Digimarket	143	-	20	1	161	-	161	-	-	4,761
Efacec Energia	69	-	-	-	-	-	36	-	-	17
Maxmat	136	-	-	-	-	-	-	-	-	-
Modelo continente Hipermercados	3,889	-	6	112	-	-	(58)	-	-	-
MDS - Corretor de Seguros	377	-	-	-	-	-	129	-	-	-
Inus - Cyber Security and Intellig	14	-	(246)	-	57	-	166	-	-	152
Modafra	130	-	-	-	-	-	-	-	-	-
NortesShopping	5	-	-	5	-	-	476	-	-	-
Pharmacontinente	124	-	-	-	-	-	-	-	-	-
Publico	116	-	-	27	-	-	-	-	-	-
Saphety Level - Trusted Services	77	-	-	-	227	-	1	-	-	19
SC-Consultadoria	1,046	-	-	-	-	-	-	-	-	-
Sonae Industria PCDM	331	-	-	-	-	-	-	-	-	-
Sistavac	114	-	-	-	-	-	22	-	-	245
Siemra Portugal	2,576	-	-	217	-	-	1,695	-	-	-
Soluzia HF	192	-	-	-	-	-	-	-	-	-
Sonae Center II	2,054	-	-	-	-	-	-	-	-	-
Sonaeacom	25	-	-	-	-	-	17	97	-	-
Spinypi	-	-	-	-	-	-	174	-	-	-
SDSR	218	-	-	-	-	-	-	-	-	-
UNITEL	1,864	-	1,298	-	-	-	-	-	-	-
Vasco da Gama	11	-	-	-	-	-	555	-	-	-
We Do Consulting-Sist. de Informação	330	-	-	-	2,130	-	2	-	-	3,023
Worten - Equipamento para o Lar	4,146	-	-	76	-	-	468	-	-	-
Outras partes relacionadas	1,285	-	-	36	13	-	258	-	-	30
	<b>38,018</b>	<b>(3)</b>	<b>62,875</b>	<b>516</b>	<b>2,587</b>		<b>5,011</b>	<b>97</b>	<b>(198)</b>	<b>8,257</b>

The Company regularly performs transactions and signs contracts with several parties within the NOS Group. Such transactions were performed on normal market terms for similar transactions, as part of the contracting companies' current activity.

The Company also regularly performs transactions and enters into financial contracts with various credit institutions which hold qualifying shareholdings in the Company. However, these are performed on normal market terms for similar transactions, as part of the contracting companies' current activity.

Due to the large number of low value related parties balances and transactions, it was grouped in the heading "Other related parties" the balances and transactions with entities whose amounts are less than 100 thousand euros.

## 39. Legal actions and contingent assets and liabilities

### 39.1. Legal actions with regulators

NOS SA (i), NOS Açores (ii) and NOS Madeira (iii) brought actions for judicial review of ANACOM's decisions in respect of the payment of the Annual Fee (for 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016) for carrying on the business of Electronic Communications Services Networks Supplier and seeking reimbursement of the amounts meanwhile paid in connection with the enforcement proceedings.

The amounts are respectively:

- NOS SA: 2009: 1,861 thousand euros, 2010: 3,808 thousand euros, 2011: 6,049 thousand euros, 2012: 6,283 thousand euros, 2013: 7,270 thousand euros, 2014: 7,426 thousand euros, 2015: 7,253 thousand euros and 2016: 8,242 thousand euros;
- NOS Açores: 2009: 29 thousand euros, 2010: 60 thousand euros, 2011: 95 thousand euros, 2012: 95 thousand euros, 2013: 104 thousand euros, 2014: 107 thousand euros, 2015: 98 thousand euros and 2016: 105 thousand euros;

- NOS Madeira: 2009: 40 thousand euros, 2010: 83 thousand euros, 2011: 130 thousand euros, 2012: 132 thousand euros, 2013: 149 thousand euros, 2014: 165 thousand euros, 2015: 161 thousand euros and 2016: 177 thousand euros.

This fee is a percentage decided annually by ANACOM (in 2009 it was 0.5826%) of operators' electronic communications revenues. NOS SA, NOS Açores and NOS Madeira claim, i) defects of unconstitutionality and illegality related with the inclusion, in the costs calculation, of the provisions constituted by Anacom related to litigation (including challenges in court to the charging of the fee) and ii) that only revenues from the electronic communications business per se, subject to regulation by ANACOM, should be considered for the purposes of the application of the percentage and the calculation of the fee payable, and that revenues from television content should be excluded.

On 18 December 2012 and 29 September 2017, two rulings were passed on the proceedings instigated by NOS SA for the annual rate of 2009 and the annual rate of 2012, respectively, for which the appeal was upheld, with no prior hearing, condemning ICP-ANACOM to pay the costs. ANACOM appealed and by decision of July 2013, this appeal was not upheld. This decision has not yet become final and may be subject to appeal.

The remaining proceedings are awaiting trial and/or decision.

During the first quarter of 2017, NOS was notified by ANACOM, of the opening of an administrative infraction proceeding related with price update announcements, at the end of 2016. At the date of approval of these financial statements, it is not possible to determine the scope of the proceeding and, therefore, its outcome. The group's Board of Directors considers it is not likely that the outcome of this proceeding will affect significantly the Group's financial statements.

### **39.2. Tax authorities**

During the course of the 2003 to 2017 financial years, some companies of the NOS Group were the subject of tax inspections for the 2001 to 2014 financial years. Following these inspections, NOS SGPS, as the controlling company of the Tax Group, and companies not covered by Tax Group, were notified of the corrections made to the Group's tax losses, to VAT and stamp tax and to make the payments related to the corrections made to the above exercises. The total amount of the notifications unpaid is about 20 million euros, added interest and charges. Note that the Group considered that the corrections were unfounded, and contested the amounts mentioned. The Group provided the bank guarantees demanded by the tax authorities in connection with these proceedings, as stated in Note 37.

At the end of year 2013 and taking advantage of the extraordinary settlement scheme of tax debts, the Group settled 7.7 million euros. This amount was recorded as "Taxes receivable" non-current net of the provision recorded (Note 11).

As belief of the Board of Directors of the Group, supported by our lawyers and tax advisors, the risk of loss of these proceedings is not likely and the outcome thereof will not affect materially the consolidated position.

### **39.3. Actions by MEO against NOS SA, NOS Madeira and NOS Açores and by NOS SA against MEO**

In 2011, MEO brought an action in Lisbon Judicial Court against NOS SA, claiming payment of 10.3 million euros, as compensation for alleged undue portability of NOS SA in the period between March 2009 and July 2011. NOS SA lodged a contest and reply, having started the expert evidence, that the Court however declared void. The hearing was held in late April and early May 2016, having a ruling been delivered last September, which judged the action partially founded, based not on the existence of undue portability, but on the mere delay of the documentation shipment. NOS was condemned to pay, approximately 5.3 million euros, a decision which NOS appealed and it's pending at the Lisbon Judicial Court.

MEO made three court notices to NOS SA (April 2013, July 2015 and March 2016), three to NOS Açores (March and June 2013 and May 2016) and three to NOS Madeira (March and June 2013 and May 2016), in order to

stop the prescription of alleged damages resulting from claims of undue portability, absence of response time to requests submitted to them by MEO and alleged illegal refusal of electronic portability requests.

MEO doesn't indicate in all notifications the amounts in which it wants to be financially compensated, realizing only part of these, in the case of NOS SA, in the amount of 26 million euros (from August 2011 to May 2014), in the case of NOS Açores, in the amount of 195 thousand euros and NOS Madeira, amounting to 817 thousand euros.

In 2011, NOS SA brought an action in Lisbon Judicial Court against MEO, claiming payment of 22.4 million euros, for damages suffered by NOS SA, arising from violations of the Portability Regulation by MEO, in particular, the large number of unjustified refusals of portability requests by MEO in the period between February 2008 and February 2011. The court declared the compulsory performance of expert evidence. At the same time, NOS requested, and it was accepted in court, the economic and financial expertise evaluation, which has already started.

It is the understanding of the Board of Directors, supported by lawyers who monitor the process, that there is, in substance, a good chance of NOS SA winning the action, due to the fact that MEO has already been convicted for the same offense, by ICP – ANACOM. Nevertheless, it is impossible to determine the outcome of the action. However, in the event of this instance being acquitted, trial costs, under NOS' responsibility, may amount to 1,150 thousand euros.

#### **39.4. Action against NOS SGPS**

In 2014, a NOS SGPS provider of marketing services has brought a civil lawsuit seeking a payment of about 1,243 thousand euros, by the alleged early termination of contract and for compensation.

This instance was acquitted due to passive illegitimacy of NOS SGPS, decision confirmed by superior Courts and that, meanwhile, was concluded.

Afterwards, the same company brought a new civil lawsuit based on the same facts, but this time, against NOS Comunicações. NOS appealed in September 2016 and had a prior hearing in May 2017, where two exceptions defended by NOS were rejected and newly appealed by NOS. The company is waiting for the final hearing.

About the major issue, it is the understanding of the Board of Directors that the arguments used by the author are not upheld, reason why it is the belief of the Board that the outcome thereof will not affect materially the consolidated position.

#### **39.5. Action against Sport TV**

Action brought by Cogeco Cable INC., former shareholder of Cabovisão, against Sport TV, NOS SGPS and a third party, requesting, among others: (i) joint condemnation of the three institutions to pay compensation for damages caused by anti-competitive conduct, guilty and illegal, between 3 August 2006 and 30 March 2011, specifically for the excess price paid for Sport TV channels by Cabovisão, in the amount of 9.1 million euros; (ii) condemnation for damages corresponding to the remuneration of capital unavailable, in the amount 2.4 million euros; and (iii) condemnation for damages corresponding to the loss of business from anti-competitive practices of Sport TV, in connection with the enforcement proceedings. NOS contested the action and a preliminary hearing took place in the beginning of June. Currently the parts are preparing the questions to submit to the European Court of Justice

It is the understanding of the Board of Directors, corroborated by the lawyers overseeing the case, that, for reasons of formal nature, it is not likely that NOS will be directly responsible in this case.

Cabovisão brought an action against Sport TV, in which it requests compensation from the latter for alleged losses resulting from abuse of a dominant position, amounting to 18 million euros, added capital and interests that will be due as of 31 December 2014, and lost profits. The Board of Directors of Sport TV and lawyers, who



monitor the process, predict a favorable outcome, not estimating impacts in the accounts, in addition to those already registered.

### **39.6. Contractual Penalties**

The general conditions that affect the agreement and termination of this contract between NOS and its clients, establish that if the products and services provided by the client can no longer be used prior to the end of the binding period, the client is obliged to immediately pay damages.

Until 31 December 2014, revenue from penalties, due to inherent uncertainties was recorded only at the moment when it was received, so at 30 September 2017, the receivables by NOS SA, NOS Madeira and NOS Açores amount to a total of 71,799 thousand euros. During the period ended on 30 September 2017, 1,540 thousand euros related to 2014 receivables were received and recorded in the income statement.

From 1 January 2015, revenue from penalties is recognised taking into account an estimated collectability rate taking into account the Group's collection history. The penalties invoiced are recorded as accounts receivable and amounts determined as uncollectible are recorded as impairment by deducting revenue recognised upon invoicing (Note 14).

### **39.7. Interconnection tariffs**

At 30 September 2017, accounts receivable and accounts payable include 37,139,253 euros and 29,913,608 euros, respectively, resulting from a dispute between the subsidiary NOS SA and, essentially, the operator MEO – Serviços de Comunicação e Multimédia, S.A. (previously named TMN – Telecomunicações Móveis Nacionais, S.A.), in relation to the indefiniteness of interconnection tariffs, recorded in 2001. In the lower court, the decision was favorable to NOS SA. The Court of Appeal, on appeal, rejected the intentions of MEO. However, MEO again appealed to the Supreme Court, for final and permanent decision, who upheld the decision of the "Tribunal da Relação" (Court of Appeal), thus concluding that the interconnection prices for 2001 were not defined. MEO lodged two appeals to the Constitutional Court, which are still pendent.

## **40. Share incentive scheme**

On 23 April 2014, the General Meeting approved the Regulation on Short and Medium Term Variable Remuneration, which establishes the terms of the Share Incentive Scheme ("NOS Plan"). This plan aimed at more senior employees with the vesting taking place three years after the shares being awarded, assuming that the employee is still with the company during that period.

In addition to the NOS Plan above mentioned, at 30 September 2017, are still unvested:

- i) The Share Incentive Scheme approved by the General Meetings of Shareholders on 27 April 2008 ("Standard Plan"). The Standard Plan is aimed at eligible members selected by the responsible bodies, regardless of the roles they perform. In this plan the vesting period for the assigned shares is five years, starting twelve months after the period to which the respective assignment relates, at a rate of 20% a year, as long as the employee stays in the company during each of these five periods.

As at 30 September 2017, the unvested plans are:

	NUMBER OF SHARES
<b>STANDARD PLAN</b>	
Plan 2013	60,035
<b>NOS PLAN</b>	
Plan 2015	685,244
Plan 2016	759,820
Plan 2017	839,435

During the period ended on 30 September 2017, the movements that occurred in the plans, are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
<b>BALANCE AS AT 31 DECEMBER 2016:</b>	-	180,067	-	41,958	2,303,014
<b>MOVEMENTS IN THE PERIOD:</b>					
Vested		(117,296)		(41,958)	(772,217)
Cancelled / elapsed / corrected <sup>(1)</sup>		(2,736)		-	(80,509)
<b>BALANCE AS AT 30 SEPTEMBER 2017:</b>	-	60,035	-	-	2,284,499

(1) Refers mainly to correction made for dividends paid, exit of employees not entitled to the vesting of shares and other adjustments resulting from the way the shares are vested.

The share plans costs are recognised over the year between the awarding and vesting date of those shares. The responsibility is calculated taking into consideration the share price at award date of each plan, however for the Mainroad plan, the award date is the date of the acquisition (the time of conversion of Sonacem shares plans into NOS shares plans). As at 30 September 2017, the outstanding responsibility related to these plans is 5,712 thousand euros and is recorded in Reserves, in the amount of 4,777 thousand euros, for plans liquidated in shares and in Accrued expenses, in the amount of 935 thousand euros, for plans liquidated in cash.

The costs recognised in previous years and in the period, and its liabilities are as follows:

	ACCRUED EXPENSES	RESERVES	TOTAL
Costs recognised in previous years related to plans as at 31 December 2015	1,199	6,317	7,516
Costs of plans vested in the period	(781)	(3,802)	(4,583)
Costs recognised in the period and others	517	2,262	2,779
<b>TOTAL COST OF THE PLANS</b>	<b>935</b>	<b>4,777</b>	<b>5,712</b>

## 41. Subsequent events

Until the date of the approval of this document, there were no other significant subsequent events that merit disclosure in this report.

## 42. Annexes

### A) Companies included in the consolidation by the full consolidation method

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE	DIRECT	EFFECTIVE
				31-12-2016	30-09-2017	30-09-2017
NOS, SGPS, S.A. (Holding)	Lisbon	Management of investments	-	-	-	
Empracine - Empresa Promotora de Atividades Cinematográficas, Lda.	Lisbon	Movies exhibition	Lusomundo SII	100%	100%	100%
Lusomundo - Sociedade de investimentos imobiliários SGPS, SA	Lisbon	Management of Real Estate	NOS	100%	100%	100%
Lusomundo Imobiliária 2, S.A.	Lisbon	Management of Real Estate	Lusomundo SII	100%	100%	100%
Lusomundo Moçambique, Lda.	Maputo	Movies exhibition and commercialization of other public events	NOS Cinemas	100%	100%	100%
NOS Sistemas, S.A. ('NOS Sistemas')	Lisbon	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Sistemas España, S.L.	Madrid	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Açores Comunicações, S.A.	Ponta Delgada	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Audiovisuais, SGPS, S.A. (a)	Lisbon	Management of social participations in other companies as an indirect form of economic activity	NOS	100%	100%	100%
NOS Communications S.à r.l	Luxembourg	Management of investments	NOS	100%	100%	100%
NOS Comunicações, S.A.	Lisbon	Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialisation of products and equipments of electronic communications	NOS	100%	100%	100%
NOS Inovação, S.A.	Matosinhos	Achievement and promotion of scientific activities and research and development as well as the demonstration, dissemination, technology transfer and formation in the fields of services and information systems and fixed solutions and last generation mobile, television, internet, voice and data, and licensing and engineering services and consultancy	NOS	100%	100%	100%
NOS Internacional, SGPS, S.A. (a)	Lisbon	Management of social participations in other companies as an indirect form of economic activity	NOS	100%	100%	100%
NOS Lusomundo Audiovisuais, S.A.	Lisbon	Import, distribution, commercialization and production of audiovisual products	NOS	100%	100%	100%
NOS Lusomundo Cinemas, S.A.	Lisbon	Movies exhibition and commercialization of other public events	NOS	100%	100%	100%
NOS Lusomundo TV, Lda.	Lisbon	Movies distribution, editing, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	100%	100%	100%
NOS Madeira Comunicações, S.A.	Funchal	Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area	NOS SA	78%	78%	78%
NO SPUB, Publicidade e Conteúdos, S.A.	Lisbon	Commercialization of cable tv contents	NOS SA	100%	100%	100%
NOS TECHNOLOGY – Conceção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Matosinhos	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
NOS TOWERING – Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Lisbon	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Per-Mar – Sociedade de Construções, S.A. ('Per-Mar')	Lisbon	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Lisbon	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Amsterdam	Management of group financing activities	NOS	100%	100%	100%

(a) Company established on March 2017.

### B) Associated Companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE	DIRECT	EFFECTIVE
				31-12-2016	30-09-2017	30-09-2017
Big Picture 2 Films, S.A.	Oeiras	Import, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	20.00%	20.00%	20.00%
Canal 20 TV, S.A.	Madrid	Production and distribution of TV products rights	NOS	50.00%	50.00%	50.00%
Sport TV Portugal, S.A.	Lisbon	Conception, production, realization and commercialization of sports programs for telebroadcasting, purchase and resale of the rights to broadcast sports programs for television and provision of publicity services	NOS	33.33%	25.00%	25.00%

## C) Jointly controlled companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE	DIRECT	EFFECTIVE
				31-12-2016	30-09-2017	30-09-2017
Dreamia Holding B.V.	Amsterdam	Management of investments	NOS Audiovisuais	50.00%	50.00%	50.00%
Dreamia - Serviços de Televisão, S.A.	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	Dreamia Holding BV	50.00%	100.00%	50.00%
East Star Ltd	Port Louis	Management of investments involved in the development, operation and marketing, through any technological means, of telecommunications, television and audiovisual products and services	Teliz Holding B.V.	30.00%	30.00%	30.00%
FINSTAR - Sociedade de Investimentos e Participações, S.A.	Luanda	Distribution of television by satellite, operation of telecommunications services	Teliz Holding B.V.	30.00%	30.00%	30.00%
MSTAR, SA	Maputo	Distribution of television by satellite, operation of telecommunications services	NOS	30.00%	30.00%	30.00%
Upstar Comunicações S.A.	Vendas Novas	Electronic communications services provider, production, commercialization, broadcasting and distribution of audiovisual contents	NOS	30.00%	30.00%	30.00%
ZAP Media S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30.00%	100.00%	30.00%
ZAP Cinemas, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30.00%	100.00%	30.00%
ZAP Publishing, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	ZAP Media	30.00%	100.00%	30.00%

Financial investments whose participation is less than 50% were considered as joint arrangements due to shareholder agreements that confer joint control.

## D) Companies recorded at cost

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE	DIRECT	EFFECTIVE
				31-12-2016	30-09-2017	30-09-2017
Turismo da Samba (Tusal), SARL (a)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundáfrica, SARL (a)	Luanda	Movies exhibition	NOS	23.91%	23.91%	23.91%
Companhia de Pesca e Comércio de Angola (Cosal), SARL (a)	Luanda	n.a.	NOS	15.76%	15.76%	15.76%
Caixanet – Telecomunicações e Telemática, S.A.	Lisbon	Telecommunication services	NOS	5.00%	5.00%	5.00%
Apor - Agência para a Modernização do Porto	Oporto	Development of modernizing projects in Oporto	NOS	3.98%	3.98%	3.98%
Lusitânia Vida - Companhia de Seguros, S.A ("Lusitânia Vida")	Lisbon	Insurance services	NOS	0.03%	0.03%	0.03%
Lusitânia - Companhia de Seguros, S.A ("Lusitânia Seguros")	Lisbon	Insurance services	NOS	0.04%	0.02%	0.02%

a) The financial investments in these companies are fully provisioned.

# Limited review Report prepared by Auditor registered in CMVM



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*(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)*

## **Limited review report on the consolidated condensed financial statements**

### **Introduction**

We have performed a limited review on the consolidated condensed financial statements of NDS, S.G.P.S., S.A., which comprise the Consolidated Condensed Statement of Financial Position as at 30 September 2017 (which shows a total of 2,945,031 thousand Euros and a shareholders' equity total of 1,060,178 thousand Euros, including a consolidated net profit attributable to equity holders of the parent of 105,466 thousand Euros), the Consolidated Condensed Statement of Income by Nature, the Consolidated Condensed Statement of the Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the nine month period then ended, and the related notes to the consolidated condensed financial statements, including a summary of significant accounting policies.

### **Management responsibilities**

Management is responsible for the preparation of the consolidated condensed financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for the interim financial reporting (IAS 34), and for the design and maintenance of an appropriate system of internal control to enable the preparation of condensed consolidated financial statements which are free from material misstatement due to fraud or error.

### **Auditor's responsibilities**

Our responsibility is to express a conclusion on these consolidated condensed financial statements based on our review. We conducted our review in accordance with the International Standard on Review Engagements 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and other rules and technical and ethical requirements issued by the Institute of Statutory Auditors. Those standards require that our work is performed in order to conclude that nothing has come to our attention that causes us to believe that the condensed consolidated financial statements have not been prepared in all material respects in accordance with International Financial Reporting Standards as endorsed by the European Union, for the interim financial reporting (IAS 34).

A review of financial statements is a limited assurance engagement. The procedures performed consisted primarily of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated condensed financial statements.

### **Conclusion**

Based on our review procedures, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of NDS S.G.P.S., S.A., as at 30 September 2017, have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for the interim financial reporting (IAS 34).

Porto, 8 November 2017

Ernst & Young Audit & Associados - SROC, S.A.  
Sociedade de Revisores Oficiais de Contas (n.º 178)  
Represented by:

(Signed)

Sandra e Sousa Amorim - ROC nr. 1213  
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