



9M14

consolidated
**management
report**





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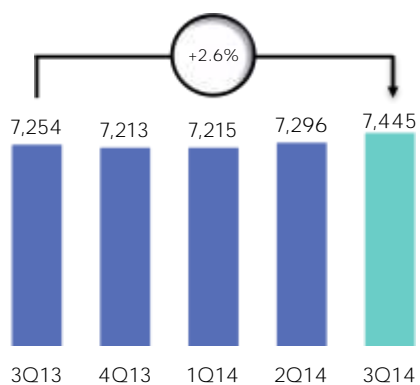


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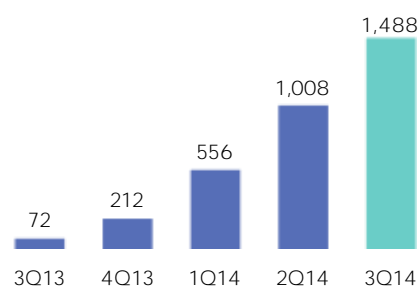
Key Performance Indicators

Business Indicators (in thousands):

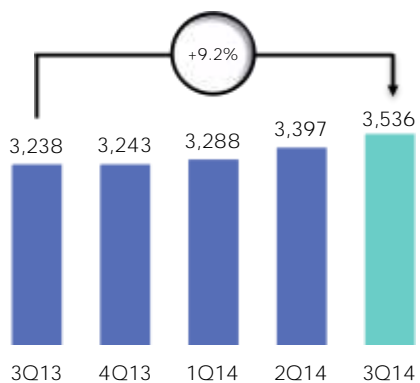
RGUs:



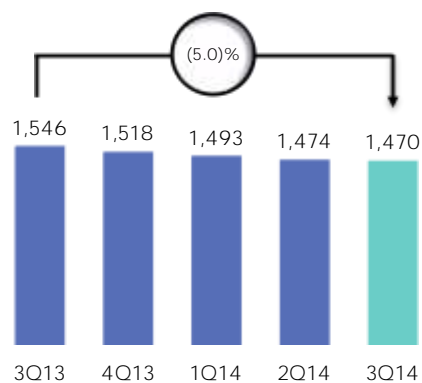
Convergent RGUs:



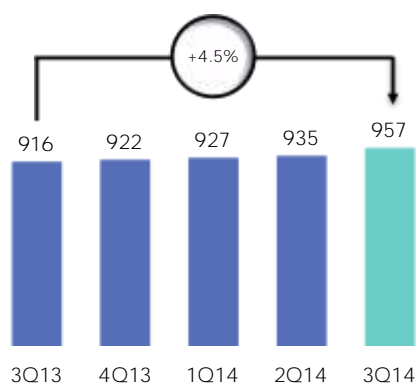
Mobile Subscribers:



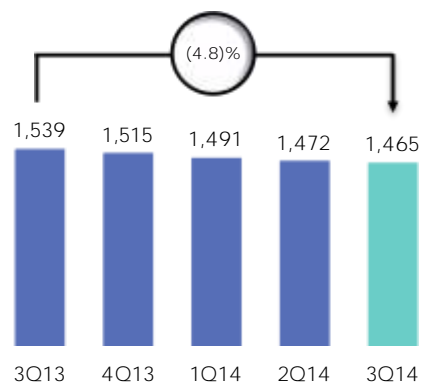
Pay TV:



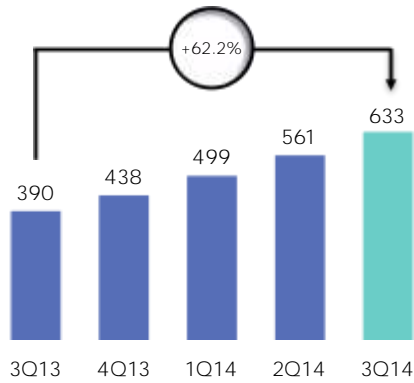
Fixed Broadband:



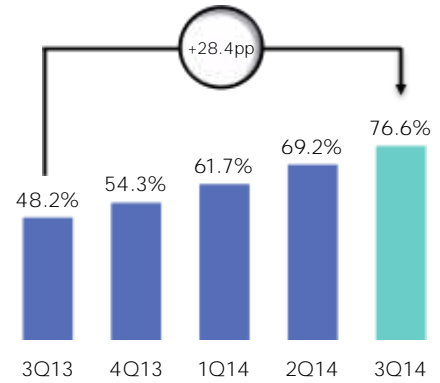
Fixed Voice:



IRIS Subscribers:



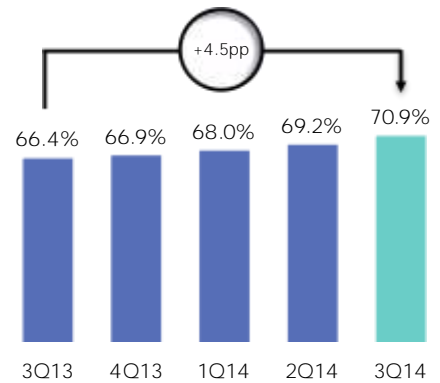
IRIS Subscribers as % of 3P&4P:



3P&4P Subscribers:



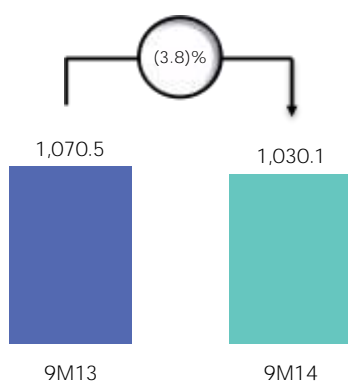
%3P&4P Subscribers:



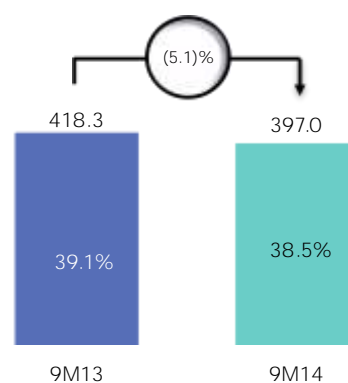


Financial Indicators (millions of euros):

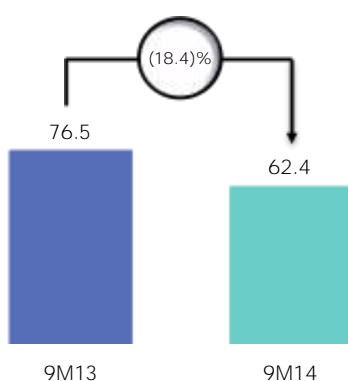
Operating Revenues:



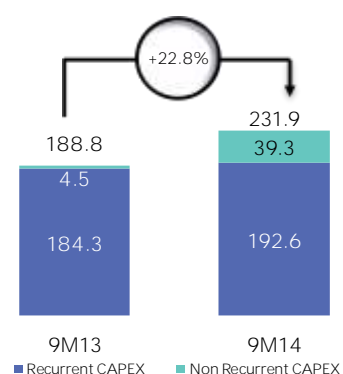
EBITDA (EBITDA Margin - % of revenues):



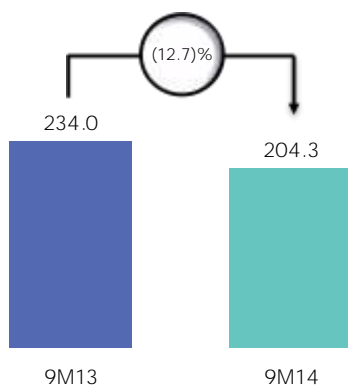
Net Income:



CAPEX:

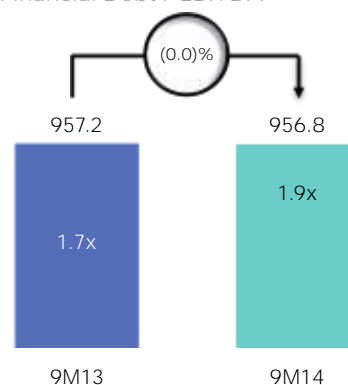


EBITDA - Recurrent CAPEX:



Net Financial Debt

Net Financial Debt / EBITDA



2

Highlights – First Nine Months 2014

9M14 Highlights	9M13	9M14	9M14 / 9M13
Operational Highlights			
Total RGUs (Net Adds)	(103.3)	232.2	n.a.
Convergent RGUs (Net Adds)	71.6	1,275.3	n.a.
Mobile (Net Adds)	(67.1)	292.4	n.a.
Pay TV (Net Adds)	(47.4)	(48.4)	2.0%
IRIS Subscribers (Net Adds)	155.5	195.6	25.8%
Convergent RGUs	71.6	1,487.7	n.a.
Convergent Customers	15.6	303.3	n.a.
Convergent Customers as % of Fixed Access Customers	1.3%	23.8%	22.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	37.3	37.7	1.1%
Financial Highlights			
Operating Revenues	1,070.5	1,030.1	(3.8%)
Telco Revenues	1,021.4	986.0	(3.5%)
EBITDA	418.3	397.0	(5.1%)
EBITDA Margin	39.1%	38.5%	(0.5pp)
Net Income	76.5	62.4	(18.4%)
Free Cash Flow Before Dividends & Financial Acquisitions	81.0	58.0	(28.4%)

- Very strong operational trends driving market share growth and sequential improvement in core telco financial performance;
- New record quarters of growth in RGUs with net adds of 149.6 thousand in 3Q14, up from 80.3 thousand in 2Q14;
- Acceleration in pace of growth of core convergent services reaching 1.488 million convergent RGUs at the end of 9M14, with 1.275 million net adds; Convergent customers increased to 23.8%, as a proportion of the fixed customer base;
- Significant quarterly improvement in Pay TV net losses to 4.7 thousand in 3Q13, with just 6.1 thousand negative net adds in the fixed access Pay TV base to 1.166 million, and with positive net adds of 1.4 thousand in the DTH base. Net losses of Pay TV customers in 9M14 were 48.4 thousand;



- Mobile net adds of 292.4 thousand in 9M14 driven by continued strong growth of 422.5 thousand post-paid services, primarily integrated in convergent residential offers;
- IRIS, **NOS' leading edge TV interface**, achieved record quarters of growth in all 3 quarters of 9M14, with additional 61.0 thousand, 62.7 thousand and 71.9 thousand subscribers , reaching 76.6% as a percentage of the 3&4P subscriber base;
- Strong growth in Corporate segment with major new accounts won in 9M14. Increased financial impact of commercial success to come through during 2015;
- Sequential quarterly improvement in yoy financial results throughout 9M14; Consolidated Revenues declined by 3.8% with a significantly lower quarterly decline in Telco Revenues of 3.1% to 332.3 million euros. In 9M14, Operating Revenues amounted to 1,030.1 million euros in 9M14, also posting a yoy decline of 3.8%;
- In 3Q14, Consolidated EBITDA posted a smaller sequential yoy decline of 4.6% and the yoy decline in Telco EBITDA reduced to 4.3%. In 9M14, Consolidated EBITDA declined 5.1% yoy to 397 million euros;
- Recurrent FCF grew by 16.0% when compared with 9M13 to 113.7 million euros.

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Governing Bodies

As at 30 September 2014, the Governing Bodies of NOS had the following composition:

Board of Directors

Chairman of the Board of Directors	Jorge de Brito Pereira
Chairman of the Executive Committee	Miguel Almeida
Members of the Executive Committee	José Pedro Pereira da Costa, Vice-President, CFO Miguel Veiga Martins, Vice-President, CTO Ana Paula Marques André Almeida Manuel Ramalho Eanes
Members	Ângelo Paupério António Lobo Xavier António Domingues Catarina Távira Cláudia Azevedo Fernando Martorell Isabel dos Santos Joaquim de Oliveira Lorena Fernandes Mário Leite da Silva Rodrigo Costa
Chairman of the Fiscal Board	Paulo Cardoso Correia da Mota Pinto
Members	Eugénio Ferreira Nuno Sousa Pereira
Alternate	Luís Filipe da Silva Ferreira

Officials of the General Meeting of Shareholders

Chairman	Pedro Canastra de Azevedo Maia
Secretary	Tiago Antunes da Cunha Ferreira de Lemos



Statutory Auditor

In Office	ERNST & YOUNG AUDIT & ASSOCIADOS, SROC, S.A., (ROC nr 178, CMVM registry nr 9011), represented by Ricardo Filipe de Frias Pinheiro (ROC nr 739)
Alternate	Paulo Jorge Luís da Silva (ROC n.º 1334)

4

Corporate Developments

In September 2014 NOS announced an agreement to acquire Mainroad - a leading IT and datacentre management company operating in Portugal since 2003, with a long history of relevant partnerships and common clients with NOS. Mainroad provides application, systems and networks support, design and technological infrastructure implementation and management for its clients. ICT is a key area of **NOS' strategy, essential to strengthen competitive position as a provider of integrated solutions** for the Corporate and SME segments whilst leveraging **NOS' strong convergent footprint** to grow, particularly in the fixed voice, data and services markets. The acquisition of Mainroad will enable NOS to secure a presence in this segment in a much shorter time to market by acquiring an operation that has a very complementary infrastructure and commercial profile. **Importantly, Mainroad's datacentres are co-located in two strategic hubs for NOS' Corporate operations, in Lisbon and Oporto and it already has significant experience with key corporate accounts.**

In 2013, Mainroad's IT and Data management services generated Operating Revenues of 15.4 million euros which would represent a contribution to NOS consolidated accounts of 10.6 million euros, and EBITDA of 1.96 million euros. Mainroad was acquired for a cash consideration of 14 million euros representing a post synergy EV/EBITDA multiple of 5.6x.



5

Management Report

5.1. Business Review

Convergent take up continues to be the strongest driver of operational success. With the launch of the new brand on 16 May, commercial momentum accelerated significantly with record growth in the number of households taking convergent solutions and in RGU growth, leading to market share growth.

All operational and commercial efforts are now able to be channelled into a single brand, and teams are able to focus on ramping up commercial deployment and restructuring operations in the merged entity. Results measured to date from the new brand launch are well ahead of expectations with total brand awareness of almost 100% and association of NOS' name with all core services of over 90%.

Almost 1.5 million convergent RGUs, 48% qoq growth in 3Q14

NOS has already reached 1.488 million convergent RGUs at the end of 9M14, representing an additional 1.275 million convergent RGUs in the period. With the brand launch in May, a number of additional convergent offers were launched to address a wider range of market segments using more flexible pricing points and value propositions.

At the end of 2Q14, NOS launched an entry level convergent offer for 49.99 euros, "NOS Quatro Light" including a lower end Pay TV solution (126 channels), 30 Mbps fixed internet, unlimited fixed voice and 1 mobile SIM card with unlimited voice and SMS.

Targeting the more premium end of the customer spectrum, "NOS Cinco", was later launched in July for a promotional price of 79.99 euros, adding a 5GB mobile broadband offer. Further tiering the market, NOS' family of convergent offers was joined in September by "NOS Très" (Pay TV, fixed voice and 1 mobile SIM card for 39.99 euros) and "NOS Dois", (Pay TV and 1 mobile SIM card for 29.99 euros) providing a convergent option for all market segments and pockets.

Led by the convergent DTH/4G offers as a means of providing integrated TV, fixed and mobile broadband and voice, the number of DTH convergent offers posted significant growth. With this offer, NOS has clearly become a much more competitive operator in regions where previously it was only able to provide satellite TV services and has subsequently been able to win back customers, stabilizing and even posting marginal growth in the DTH customer base.

In total, the number of mobile cards incorporated in convergent bundles grew by 509.5 thousand in 9M14. The average number of cards per convergent customer declined slightly to 1.9, compared with 2 in 1H14, reflecting an increase in the weight of convergent offers with just one SIM card, due to the launch of NOS Quatro Light, Très and Dois during 2Q14 and 3Q14.

IRIS as a core differentiator of NOS' TV service: TV of the Future

NOS' cloud based, multi-device TV interface IRIS is a key driver of our TV and entertainment strategy and is today the default interface for all NOS offers. All quarters of 9M14 represented record growth for IRIS, with a further 61.0 thousand, 62.7 thousand and 71.9 thousand IRIS net adds to 633 thousand, bringing penetration of the 3&4P fixed subscriber base to 76.6%, up from 48% in 9M13. IRIS has become the default TV service for all new NOS services and usage has become mainstream with over 100 million interactions per day, over 60 thousand streams at peak time and 125 thousand unique accesses to the Youtube player, amongst others.

At the end of June, NOS launched its **"TV of the Future" campaign, promoting** the main differentiating features of our award winning IRIS TV interface – providing the best and most innovative TV experience available with automatic recording capabilities, multiscreen and multidevice viewing and the most recent launch of the Youtube player over IRIS.

The automatic recording feature enables customers to catch up on their favourite content and return to the start of any programme - content is available for 7 days, with over 10 thousand titles automatically recorded, a feature also available over IRIS Online. The online platform also enables IRIS customers to programme recordings on the set top box, return to the start of a programme, see films in the videoclub and access automatic recordings.

NOS continued to improve the IRIS interface and integrate innovative new features and apps in 9M14. A new software release was launched, IRIS 3.2, enabling HTML5 based apps and improved navigation and the IRIS online platform became an integral part of the offer for DTH customers. Some of the most recent apps launched during 2Q14 were the World Cup 2014 with a complete interactive events timeline and a new games app for old favourites such as Pacman, Tron, and Sokoban, amongst others.

Already in 3Q14, NOS also introduced the Youtube player over the IRIS platform allowing the best internet content to be played directly over the TV interface, with full screen viewing, advanced search functionalities, related video access when watching TV or even to watch one of the Youtube channels **available accessing the "Internet Videos" page. Two additional features were also included in the** content line up during the quarter, an interactive app for the Portuguese Football League and the **"Secret Story" reality show.**

NOS leads in customer satisfaction in Portugal – ECSI Portugal Customer Satisfaction Survey 2013

NOS' Pay TV, mobile voice and fixed voice services have just been distinguished by the Portuguese public as the best in the country in the ECSI Portugal 2013 – National Customer Satisfaction Index. **NOS' services were recognised for the fourth year running in a customer satisfaction survey that** reveals each year what the favourite goods and services of the Portuguese consumer are in various business sectors. NOS ranks leader in overall customer satisfaction compared to the other pay TV



operators scoring 7.39 points on a scale from 1 to 10, 7.94 points for mobile voice services and 7.50 points in fixed voice.

Continued strong growth in mobile net adds driving gains in market share

The growth in convergent bundles continues to drive strong growth in the mobile customer base of 9.2% yoy to 3.536 million subscribers. In 3Q14, NOS mobile net adds accelerated to 139 thousand mobile net adds, which compares with 108.7 thousand in 2Q14 and 45 thousand in 1Q14, a total of 292.4 thousand net adds in 9M14, reflecting a net increase in the post-paid base of 422.5 thousand and a net decline in the pre-paid base of 130.1 thousand. The momentum behind convergent take up is leading to a structural shift in market shares in the mobile market and with consumers preferring post-paid all-you-can-eat contract bundles, associated typically with 24 month loyalty periods. At the end of 9M14 less than 60% of consumer mobile services were pre-paid, compared with 71% in 9M13, a reduction of 11 pp yoy. The attractiveness of including mobile services into convergent bundles derives primarily from the higher mobile usage plans available, with unlimited mobile calls and sms.

Smartphone penetration is posting significant growth, as is the case of mobile data. Smartphones are now approximately 30% of the handset base at NOS and this is supporting very significant growth in mobile data traffic, up by close to 80% year on year to 30 GB (70% over 4G).

Commercial success in Large Corporate segment with major new accounts won in 9M14 RGU growth in SoHo and SME market improving albeit repricing of backbook, particularly mobile, driving revenue erosion

RGUs in the business segment are showing good performance, up 6.3% yoy to 1.023 million, led by growth in Pay TV services of 13.8% to 72 thousand, of 12.5% in Fixed Broadband services to 96.6 thousand and of 6.8% in mobile services to 664.7 thousand. The underlying characteristics of the large Corporate, SME and SoHo segments are structurally different, with the latter being affected by the spill-over effect of convergent pricing trends in the residential market. The launch of the NOS brand in May made a significant contribution to the ramp-up of commercial momentum in the SME and SoHo sales channels enhancing the NOS value proposition and making relationships with customers much more streamlined.

In the large Corporate segment, a number of very important accounts were won in the financial services and public administration sectors, amongst which it is worth highlighting Caixa Geral de Depósitos (the largest bank in Portugal, 100% state owned), Montepio Geral bank and the Ministry of Health. As from 2015, the impact of these accounts will start to be felt on Revenues and Service Margin, as and when these new customers are installed, a process that tends to take between 6-9 months.

Operating Indicators ('000)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
Telco ⁽¹⁾								
Aggregate Indicators								
Homes Passed	3,228.5	3,243.2	3,252.4	0.7%	0.3%	3,228.5	3,252.4	0.7%
Total RGUs	7,253.7	7,295.6	7,445.2	2.6%	2.1%	7,253.7	7,445.2	2.6%
Mobile	3,237.9	3,397.1	3,535.8	9.2%	4.1%	3,237.9	3,535.8	9.2%
Pre-Paid	2,304.0	2,127.1	2,120.9	(7.9%)	(0.3%)	2,304.0	2,120.9	(7.9%)
Post-Paid	934.0	1,270.0	1,414.9	51.5%	11.4%	934.0	1,414.9	51.5%
ARPU / Mobile Subscriber (Euros)	10.0	9.2	9.7	(2.9%)	5.1%	9.8	9.4	(4.3%)
Pay TV	1,546.2	1,474.3	1,469.6	(5.0%)	(0.3%)	1,546.2	1,469.6	(5.0%)
Fixed Access ⁽²⁾	1,219.8	1,172.3	1,166.1	(4.4%)	(0.5%)	1,219.8	1,166.1	(4.4%)
DTH	326.4	302.1	303.5	(7.0%)	0.5%	326.4	303.5	(7.0%)
Fixed Voice	1,539.0	1,472.5	1,464.6	(4.8%)	(0.5%)	1,539.0	1,464.6	(4.8%)
Broadband	916.3	934.5	957.3	4.5%	2.4%	916.3	957.3	4.5%
Others and Data	14.2	17.2	17.9	26.4%	4.4%	14.2	17.9	26.4%
3P&4P Subscribers	810.0	810.7	826.4	2.0%	1.9%	810.0	826.4	2.0%
% 3P&4P	66.4%	69.2%	70.9%	4.5pp	1.7pp	66.4%	70.9%	4.5pp
Convergent RGUs	71.6	1,007.7	1,487.7	n.a.	47.6%	71.6	1,487.7	n.a.
Convergent Customers	15.6	201.7	303.3	n.a.	50.4%	15.6	303.3	n.a.
Convergent Customers as % of Fixed Access Customers	1.3%	16.5%	23.8%	22.5pp	7.2pp	1.3%	23.8%	22.5pp
IRIS Subscribers	390.3	561.3	633.2	62.2%	12.8%	390.3	633.2	62.2%
IRIS as % of 3P&4P Subscribers	48.2%	69.2%	76.6%	28.4pp	7.4pp	48.2%	76.6%	28.4pp
Net Adds								
Homes Passed	15.2	(12.3)	9.1	(40.2%)	(174.4%)	42.9	10.5	(75.5%)
Total RGUs	12.7	80.3	149.6	n.a.	86.3%	(103.3)	232.2	n.a.
Mobile	34.4	108.7	138.7	n.a.	27.6%	(67.1)	292.4	n.a.
Pre-Paid	19.8	(34.4)	(6.2)	n.a.	(81.9%)	(104.4)	(130.1)	24.6%
Post-Paid	14.6	143.1	144.9	n.a.	1.2%	37.3	422.5	n.a.
Pay TV	(22.9)	(19.0)	(4.7)	(79.5%)	(75.2%)	(47.4)	(48.4)	2.0%
Fixed Access ⁽²⁾	(13.7)	(17.1)	(6.1)	(55.5%)	(64.3%)	(17.8)	(37.6)	112.1%
DTH	(9.2)	(1.9)	1.4	n.a.	n.a.	(29.7)	(10.8)	(63.8%)
Fixed Voice	(10.4)	(18.8)	(7.9)	(23.7%)	(57.8%)	(18.8)	(50.4)	167.9%
Broadband	11.1	7.5	22.8	105.8%	205.6%	28.6	35.2	23.2%
Others and Data	0.5	1.9	0.8	56.9%	(61.2%)	1.5	3.4	123.9%
3P&4P Subscribers	4.1	2.3	15.7	280.8%	n.a.	18.8	20.5	9.1%
Convergent RGUs	37.3	451.9	480.0	n.a.	6.2%	71.6	1,275.3	n.a.
Convergent Customers	7.7	86.3	101.6	n.a.	17.7%	15.6	258.0	n.a.
IRIS Subscribers	51.6	62.7	71.9	39.3%	14.7%	155.5	195.6	25.8%

⁽¹⁾ Portuguese Operations

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



Operating Indicators ('000)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
Telco ⁽¹⁾								
Indicators per Segment								
Consumer								
Total RGUs	6,290.6	6,279.4	6,421.8	2.1%	2.3%	6,290.6	6,421.8	2.1%
Unique Subscribers With Fixed Access ⁽²⁾	1,202.4	1,127.0	1,114.6	(7.3%)	(1.1%)	1,202.4	1,114.6	(7.3%)
Pay TV	1,483.0	1,406.5	1,397.6	(5.8%)	(0.6%)	1,483.0	1,397.6	(5.8%)
Fixed Access	1,169.9	1,118.4	1,109.7	(5.1%)	(0.8%)	1,169.9	1,109.7	(5.1%)
DTH	313.1	288.1	288.0	(8.0%)	(0.1%)	313.1	288.0	(8.0%)
IRIS Subscribers	380.4	544.4	615.3	61.7%	13.0%	380.4	615.3	61.7%
Broadband	844.7	858.9	878.7	4.0%	2.3%	844.7	878.7	4.0%
Fixed Voice	1,347.4	1,281.1	1,274.3	(5.4%)	(0.5%)	1,347.4	1,274.3	(5.4%)
Mobile	2,615.5	2,733.0	2,871.1	9.8%	5.1%	2,615.5	2,871.1	9.8%
% 1P	15.5%	14.0%	12.4%	(3.1pp)	(1.6pp)	15.5%	12.4%	(3.1pp)
% 2P	18.4%	18.5%	17.1%	(1.2pp)	(1.4pp)	18.4%	17.1%	(1.2pp)
% 3P&4P	66.1%	67.9%	70.5%	4.4pp	2.5pp	66.1%	70.5%	4.4pp
ARPU / Unique Subscriber With Fixed Access (Euros)	36.5	37.8	38.5	5.4%	1.8%	37.3	37.7	1.1%
Net Adds								
Total RGUs	8.2	64.7	142.3	n.a.	120.0%	(127.2)	186.0	n.a.
Unique Subscribers With Fixed Access	(16.5)	(32.1)	(12.4)	(24.9%)	(61.3%)	(27.0)	(68.7)	154.3%
Pay TV	(22.1)	(22.7)	(8.9)	(59.9%)	(61.0%)	(45.6)	(57.9)	27.1%
Fixed Access	(13.4)	(19.8)	(8.7)	(34.8%)	(56.1%)	(17.1)	(44.6)	160.6%
DTH	(8.7)	(2.9)	(0.1)	(98.3%)	(94.9%)	(28.5)	(13.3)	(53.2%)
IRIS Subscribers	50.9	59.6	70.9	39.4%	18.9%	152.2	189.1	24.2%
Broadband	11.4	5.1	19.8	74.2%	290.4%	28.8	28.8	(0.1%)
Fixed Voice	(9.4)	(18.2)	(6.7)	(28.3%)	(62.9%)	(21.2)	(49.9)	135.8%
Mobile	28.3	100.5	138.1	n.a.	37.4%	(89.2)	265.1	n.a.
Business								
Total RGUs	963.0	1,016.1	1,023.5	6.3%	0.7%	963.0	1,023.5	6.3%
Pay TV	63.2	67.8	72.0	13.8%	6.1%	63.2	72.0	13.8%
IRIS Subscribers	9.9	16.9	17.9	81.0%	5.9%	9.9	17.9	81.0%
Broadband	85.8	92.8	96.6	12.5%	4.1%	85.8	96.6	12.5%
Fixed Voice	191.5	191.4	190.2	(0.7%)	(0.6%)	191.5	190.2	(0.7%)
Mobile	622.5	664.1	664.7	6.8%	0.1%	622.5	664.7	6.8%
ARPU per RGU (Euros)	26.7	23.2	21.6	(19.1%)	(7.2%)	26.6	23.4	(12.3%)
Net Adds								
Total RGUs	4.5	15.6	7.3	62.4%	(53.1%)	23.9	46.2	93.3%
Pay TV	(0.8)	3.7	4.2	n.a.	11.1%	(1.8)	9.5	n.a.
IRIS Subscribers	0.8	3.1	1.0	27.0%	(67.6%)	3.2	6.5	99.9%
Broadband	0.2	4.3	3.8	n.a.	(12.6%)	1.3	9.8	n.a.
Fixed Voice	(1.0)	(0.6)	(1.2)	22.2%	90.7%	2.4	(0.5)	n.a.
Mobile	6.1	8.2	0.6	(90.7%)	(93.1%)	22.1	27.3	23.7%

(1) Portuguese Operations

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

Fixed access subscriber base showing positive inflection through the quarter

Pay TV subscribers posted a marked improvement in 3Q14 recording net losses of just 4.7 thousand compared with 19 thousand in 2Q14 and 24.7 thousand in 1Q14 (a total of 48.4 thousand in 9M14). Breaking out aggregate net-adds between fixed access and DTH, the latter posted positive net growth in the quarter of 1.4 thousand, despite still being negative in 9M14 with 10.8 thousand net losses. **The inflection in DTH performance breaks a negative trend of the past 4 years, and is the result of NOS' much reinforced competitive performance in these geographies due to the launch of convergent DTH/4G offers mid-2Q14.** The level of negative fixed access net adds posted a very significant improvement to 6.1 thousand from 17.1 thousand in 2Q14 and 14.4 thousand in 1Q14, reflecting the end of the impact of merger remedies as discussed in previous quarters and the build up in commercial momentum following the launch of the NOS brand and new convergent offers. In 9M14, Fixed Access Pay TV net losses were 37.6 thousand. Fixed Broadband services net-adds also grew to 35.2 thousand, an increase from 28.6 thousand in 9M13.

RGU growth driving residential ARPU increase

Fixed access residential ARPU increased 1.1% yoy to 37.7 euros as a result of the strong convergent RGU growth. This volume growth is helping to offset like for like price pressure being felt in the market due to aggressive competitor promotions in the stand alone triple play market.

Improvement in ARPU per mobile SIM card is also sufficing at the end of 9M14, with qoq growth of 5.1% in 3Q14 to 9.7 euros and with a clear improvement in yoy decline to just 2.9 % compared with 6% in 2Q14 and in 1Q14. These improving trends show that the substantial growth in convergent post-paid contract customers is helping to mitigate the underlying revenue pressure felt in stand-alone mobile consumption. In 9M14 ARPU per Mobile Subscriber declined by 4.3% to 9.4 euros.

ARPU per RGU in the business segment continues to post a negative trend due to the impact of backbook repricing in the SoHo and SME segment affected by the read across from prices in the residential segment and with the increasing shift to convergent solutions.

Network rollout

NOS' network rollout programme to reach an additional 550 thousand households, is on track, with the preparatory survey, licencing and infrastructure roll-out in progress. In 9M14, **NOS's increased the** number of households passed by 10.5 thousand with the pace of activation of new locations set to accelerate significantly in the coming months. Commercial success in new areas covered is proving very positive and ahead of initial expectations.



Cinemas and Audiovisuals

Operating Indicators ('000)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
Cinema ⁽¹⁾								
Revenue per Ticket (Euros)	4.7	4.7	4.7	(1.0%)	(0.4%)	4.7	4.7	0.4%
Tickets Sold	2,413.5	1,676.6	1,924.4	(20.3%)	14.8%	5,956.3	5,196.7	(12.8%)
Screens (units)	209	209	214	2.4%	2.4%	209	214	2.4%

(1) Portuguese Operations

In 9M14, NOS' Cinema ticket sales posted a decline of 12.8% to 5.197 million tickets, which compares with a decline in like-for-like, total market ticket sales of 15.5%¹, adjusted for the reopening of several screens by another operator. The ticket sales decline is explained mainly by the fact that 9M14 was less rich in terms of blockbusters than 9M13, when "The Gilded Cage" and "Fast & Furious 6" both accounted for more tickets sold of the top film of 9M14, "Lucy".

The most successful films shown in 9M14 were "Lucy", "Rio 2", "The Wolf of Wall Street", "Twelve Years a Slave" and "Maleficent".

NOS opened the first IMAX® DMR - Digital 3D screen in Lisbon in June 2013. This premium cinema experience continues to prove very successful, having already achieved a total of around 148 thousand spectators so far, in its first 15 months of operation.

During 3Q14, NOS has taken over the management, at the Forum Algarve shopping centre, of 5 new cinema screens, which have been equipped with digital technology, 3 of which 3D-enabled. As such, NOS Cinemas now has 214 screens in total.

Average revenue per ticket sold improved yoy by 0.4%, to 4.7 euros in 9M14.

Sales of 3D movie tickets were lower yoy in 9M14 as a proportion of NOS' ticket sales, representing close to 8%, whereas they had represented close to 11% in 9M13. This proportion is lower than in the past due primarily to the lower number of movies in 3D and to customers choosing more lower-cost 2D alternatives.

Despite the yoy 12.4% decrease in gross box-office revenues in 9M14, NOS continues to maintain its leading market position, with a market share of 61.5% in terms of gross revenues in 9M14. As a result of the abovementioned lower ticket sales, total Cinema Exhibition revenues decreased by 11.8% yoy in 9M14 to 35 million euros.

Revenues in the Audiovisuals division posted a slight decline of 2.1% to 42.4 million euros in 9M14. Revenues were impacted primarily by the decline of cinema tickets sold in the Portuguese market and also by a tough comparison with 9M13, when NOS Audiovisuais' cinema distribution revenues were supported by the strong performance of the main 3 cinema blockbusters of the quarter, "The Gilded

¹ Source ICA - Portuguese Institute for Cinema and Audiovisuals

Cage", "Fast & Furious 6" and "Despicable Me 2", which were distributed by NOS. Of the top 10 cinema box-office hits in 9M14, NOS distributed 6, "Lucy", "The Wolf of Wall Street", "Twelve Years a Slave", "Maleficent", "Noah" and "Transformers: Age of Extinction", therefore maintaining its strong leading position with a 60% market share in terms of gross revenues.

ZAP

ZAP has become a reference operator in Angola and Mozambique, in Africa and in the industry, as its operations continue to be very successful. ZAP maintains its focus on continuing to expand its sales channels, increasing its presence in these territories. Therefore, it has opened seven new stores in 9M14, three in Angola (Caxito-Bengo, Soyo-Zaire, and Dundo-Lunda Norte) and four in Mozambique (Tete, Beira, Nampula and Cabo Delgado - Pemba). ZAP now has 29 own stores in Angola and 9 in Mozambique.

ZAP also continues to differentiate from its competition in these countries by improving its products and services, in order to meet the highest expectations from its customers. During 9M14, ZAP added five new channels to its packages, CMTV, a generalist channel which broadcasts a wide range of television genres from sports to international economics, politics, celebrities and fashion and Sporting TV, a channel targeted to Sporting fans that broadcasts exclusive sports content **including Sporting's** Football Academy, reports, forums, and other formats; SIC Caras, which takes a specialised look at the world of national and international celebrities, with a programming offer covering several television genres: news, reports, analysis, interviews, debates, talent shows, fiction, documentaries, magazines, auditorium programmes, talk shows, major events and special broadcasts; STV Notícias, a Mozambican news channel produced by STV, one of the free access channels in Mozambique; and Cubavision.



5.2. Consolidated Financial Review

The following Consolidated Financial Statements have been subject to limited review. As standard practice, only the annual accounts are audited; the quarterly results are not audited separately.

Consolidated Income Statement

Pro-Forma Profit and Loss Statement* (Millions of Euros)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
Operating Revenues	361.6	345.0	347.8	(3.8%)	0.8%	1,070.5	1,030.1	(3.8%)
Telco	342.9	330.2	332.3	(3.1%)	0.6%	1,021.4	986.0	(3.5%)
Consumer Revenues	216.1	204.8	205.9	(4.7%)	0.5%	656.0	618.2	(5.8%)
Business Revenues	102.4	98.1	99.1	(3.2%)	1.1%	296.2	293.4	(0.9%)
Equipment Sales	9.4	8.9	12.3	31.4%	38.3%	24.5	29.4	20.1%
Others and Eliminations	15.0	18.4	15.0	0.2%	(18.6%)	44.8	45.1	0.6%
Audiovisuals	14.0	14.2	14.0	(0.1%)	(2.0%)	43.3	42.4	(2.1%)
Cinema ⁽¹⁾	15.8	11.4	12.8	(18.7%)	12.1%	39.6	35.0	(11.8%)
Others and Eliminations	(11.0)	(10.9)	(11.3)	2.8%	3.7%	(33.8)	(33.3)	(1.5%)
Operating Costs Excluding D&A	(221.7)	(211.3)	(214.4)	(3.3%)	1.4%	(652.3)	(633.2)	(2.9%)
W&S	(24.5)	(18.7)	(21.4)	(12.8%)	14.0%	(71.5)	(61.1)	(14.5%)
Direct Costs	(106.4)	(100.5)	(99.7)	(6.3%)	(0.8%)	(305.9)	(296.9)	(2.9%)
Commercial Costs ⁽²⁾	(24.0)	(21.8)	(31.7)	32.2%	45.6%	(66.2)	(76.2)	15.2%
Other Operating Costs	(66.8)	(70.4)	(61.6)	(7.8%)	(12.4%)	(208.7)	(199.0)	(4.7%)
EBITDA	139.9	133.6	133.4	(4.6%)	(0.1%)	418.3	397.0	(5.1%)
EBITDA Margin	38.7%	38.7%	38.4%	(0.3pp)	(0.4pp)	39.1%	38.5%	(0.5pp)
Telco	129.4	124.9	123.8	(4.3%)	(0.8%)	392.0	369.1	(5.8%)
EBITDA Margin	37.7%	37.8%	37.3%	(0.5pp)	(0.6pp)	38.4%	37.4%	(0.9pp)
Cinema Exhibition and Audiovisuals	10.5	8.8	9.6	(8.7%)	9.4%	26.3	27.9	5.9%
EBITDA Margin	39.0%	37.4%	39.5%	0.4pp	2.1pp	35.0%	39.7%	4.7pp
Share of results of associates and joint ventures	0.7	2.7	4.0	n.a.	48.7%	2.3	11.6	n.a.
EBITDA including results of associates and joint ventures	140.6	136.3	137.5	(2.2%)	0.8%	420.6	408.6	(2.9%)
Depreciation and Amortization	(83.5)	(86.2)	(81.5)	(2.3%)	(5.4%)	(252.6)	(251.6)	(0.4%)
(Other Expenses) / Income	(32.8)	(12.6)	(18.3)	(44.3%)	44.7%	(34.1)	(33.7)	(1.1%)
Operating Profit (EBIT) ⁽³⁾	24.3	37.5	37.6	54.8%	0.4%	134.0	123.2	(8.0%)
(Financial Expenses) / Income	(18.3)	(14.2)	(14.9)	(18.5%)	5.1%	(52.9)	(44.2)	(16.4%)
Income Before Income Taxes	6.1	23.3	22.8	275.2%	(2.4%)	81.1	79.0	(2.6%)
Income Taxes	12.5	(4.8)	(4.0)	n.a.	(16.5%)	(4.0)	(16.1)	n.a.
Income From Continued Operations	18.6	18.5	18.8	0.8%	1.3%	77.1	62.8	(18.5%)
o.w. Attributable to Non-Controlling Interests	(0.2)	(0.1)	0.0	n.a.	n.a.	(0.6)	(0.4)	(28.5%)
Net Income	18.4	18.4	18.8	2.0%	1.9%	76.5	62.4	(18.4%)

⁽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.

* The merger by incorporation of OPTIMUS into ZON that led to the creation of ZON OPTIMUS (now NOS) was completed on 27 August 2013. Resulting primarily from the merger, in 3Q13 a number of accounting policies, practices and estimates have had to be aligned. The primary changes to accounting policies, with the correspondent restatement of the prior period accounts were the capitalization of customer acquisition costs at ZON in order to align with OPTIMUS' policy also followed by other telecom operators and capitalization of certain movie rights in the audiovisuals division following IAS 38, which were restated since 1Q12 in the statutory accounts. In addition and in anticipation of the mandatory implementation of IFRS 11 as from 1Q14, whereby joint ventures may no longer be consolidated proportionately, NOS (formerly ZON OPTIMUS) has proceeded to deconsolidate the three joint ventures in which it holds stakes: ZAP (30%), Sport TV (50%) and Dreama (50%) and has restated prior period financial statements to reflect their recognition through the equity method. To facilitate comparison between current and prior period results for the new NOS (formerly ZON OPTIMUS), the current pro-forma consolidated financial statements have been prepared, reflecting not only the statutory accounts restatement due to the changes to accounting policies, but also the consolidation of 12 months of OPTIMUS' results in 2013 (9 months in 9M13). The financial statements reflect the impact, since September 2013, in depreciation and amortization of the provisional calculation of the fair value of OPTIMUS' assets and liabilities which was used for the purposes of purchase price allocation resulting from the consolidation of OPTIMUS. The present financial review is based on these pro-forma financial statements. Appendix III to this report includes the statutory income statement for NOS (formerly ZON OPTIMUS).

Operating Revenues

Consolidated Operating Revenues were 1,030.1 million euros in 9M14, representing a decline of 3.8%. Core Telco revenues posted a marked improvement in trend in 3Q14, with a decline of 3.1% to 332.3 million euros yoy, up from 3.4% in 2Q14 and 3.9% in 1Q14, supported by the positive operating momentum throughout 9M14.

Important progress was recorded in Consumer revenues in 3Q14 with yoy decline improving sequentially to 4.7% compared with 6% in 2Q14 and 6.5% in 1Q14. In 9M14, Consumer revenues declined by 5.8%. Drilling down into underlying trends, residential fixed revenues showed improvement throughout 9M14, having reduced by just 2% yoy in 3Q14 and remaining flat in comparison with the previous quarter. Behind this very marked improvement is the take-up of convergent offers together with residential ARPU growth and the fact that the pay TV base began to record a more positive quarterly performance. Wireless residential revenues (satellite base) also posted a marked improvement in trend. Overall, consumer revenues were still negatively impacted by a decline in personal revenues, explained primarily by the structural shift from stand alone mobile services into convergent offers.

Business revenues posted a 0.9% decline yoy in 9M14. The yoy decline results from a combination of positive RGU performance which was more than offset yoy by the already discussed negative pricing environment mainly felt in the SoHo and SME market influenced by convergent pricing trends in the residential market, a trend which is starting to show quarterly improvement.

Equipment sales also recorded a significant increase of 20.1% to 29.4 million euros, led by the effect of higher handset sales which was further boosted by the very proactive handset campaigns associated with convergent bundles launched in the past quarter.

Revenues from the Audiovisuals business decreased slightly by 2.1% yoy to 42.4 million euros however revenues generated by the Cinema business fell by 11.8%, a reflection of the period for movie exhibition worldwide. NOS Cinemas outperformed the Portuguese market in terms of audience and gross box office revenues as previously explained in the operating review, maintaining a strong lead in market share of revenues of both movie exhibition and distribution.

ZAP continues to post significant growth in revenues, on the back of the very strong operational **growth, with NOS' 30% stake in revenues increasing 34.6% yoy to 44.4 million euros.**

EBITDA

Consolidated EBITDA fell by 5.1% in 9M14 to 397 million euros generating a margin of 38.5%. Telco EBITDA fell by 5.8% in 9M14 to 369.1 million euros and EBITDA from the Audiovisuals and Cinema operations posted a yoy increase of 5.9% to 27.9 million euros. The EBITDA of **NOS' 30% stake in ZAP** grew by 64.4% yoy to 17 million euros.



Consolidated Operating Costs Excluding D&A

Consolidated Operating Costs fell by 2.9% yoy to 633.2 million euros.

Wages and Salaries fell by 14.5% to 61.1 million euros in 9M14 explained by headcount reduction since completion of the merger, primarily felt at the telecom operations.

Direct Costs recorded a 2.9% decline to 296.9 million euros, which reflects a combination of lower yoy capacity costs (-18%) and programming costs (-8%), both of which impacted by savings already achieved from merger integration projects and also the lower level of premium channels sales in comparison with 9M13.

Commercial Costs posted an increase yoy of 15.2% to 76.2 million euros. The main item driving the growth in this item was the cost of equipment sold due to the already discussed increase in handsets.

Other Operating Costs fell by 4.7% yoy to 199 million euros in 9M14, with savings achieved in maintenance and repair costs and supplies and external services, both of which driven mostly by integration led cost savings.

Net Income

Net Income reached 62.4 million euros in 9M14, compared with 76.5 million euros in 9M13, a decrease of 18.4% yoy.

Equity in affiliate companies recorded a material yoy improvement to 11.6 million euros in 9M14, compared with 2.3 million euros in 9M13. This increase is due to the yoy growth in financial contribution of the international JV, ZAP, which amounted to 12.2 million euros in 9M14 (compared with 4.9 million euros in 9M13) and which was marginally offset by a negative contribution from other JVs of 0.6 million euros.

Depreciation and Amortization posted a small yoy decline of 0.4% to 251.6 million euros.

Other Expenses* of 33.7 million euros in 9M14 relate to non-recurrent merger related costs and still include a very material contribution from the launch of the new brand, as well as other non-cash, non-recurrent provisions.

Net Financial Expenses fell by 16.4% to 44.2 million euros in 9M14 compared with 52.9 million euros in 9M13 as a result of the lower average level of gross debt and the lower average cost of the new debt contracted in 3Q14. Net interest charges in 3Q14 were 9.3 million euros compared with 12.4 million euros in 3Q13. Additional savings in net interest charges will materialize in coming months due to the

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

175 million euros floating rate note issued in 3Q14 at a significantly lower cost to replace existing facilities, as explained ahead in the section on capital structure.

Income Tax provision amounted to 16.1 million euros in 9M14 representing 20% of Income Before Income Taxes. Effective Tax rate is lower than statutory tax rate due to the impact of net contributions from equity consolidated Joint Ventures and to tax incentive programmes.

CAPEX

Pro-Forma CAPEX (Millions of Euros)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
Telco	53.2	63.4	59.8	12.4%	(5.8%)	162.4	168.3	3.6%
Infrastructure	22.6	27.8	20.2	(10.6%)	(27.4%)	67.5	60.6	(10.2%)
Customer Related CAPEX	28.7	34.8	35.1	22.1%	0.7%	89.2	99.0	11.0%
Other	1.9	0.8	4.5	138.2%	n.a.	5.7	8.7	51.6%
Audiovisuals and Cinema Exhibition	6.9	8.4	8.3	19.2%	(1.5%)	21.9	24.3	10.9%
Recurrent CAPEX	60.1	71.8	68.0	13.1%	(5.3%)	184.3	192.6	4.5%
Non-Recurrent CAPEX	1.5	16.8	18.6	n.a.	10.7%	4.5	39.3	n.a.
Total CAPEX	61.6	88.6	86.6	40.6%	(2.3%)	188.8	231.9	22.8%

Recurrent CAPEX amounted to 192.6 million euros in 9M14, an increase of 4.5% yoy. Non recurrent CAPEX continues to grow every quarter as a result of additional network rollout and associated commercial activity which is accelerating as the new households become available for sale and also due to merger related integration projects.

Audiovisuals and Cinema CAPEX of 24.3 million euros is related mostly with the capitalization of certain movie rights in the Audiovisuals division.

As a percentage of Telecom revenues, recurrent Telecom CAPEX amounted to 17.1% in 9M14 and total recurrent CAPEX represented 18.7% of Total Revenues.



Cash Flow

Pro-Forma Cash Flow (Millions of Euros)	3Q13	2Q14	3Q14	3Q14 / 3Q13	3Q14 / 2Q14	9M13	9M14	9M14 / 9M13
EBITDA	139.9	133.6	133.4	(4.6%)	(0.1%)	418.3	397.0	(5.1%)
Recurrent CAPEX	(60.1)	(71.8)	(68.0)	13.1%	(5.3%)	(184.3)	(192.6)	4.5%
EBITDA - Recurrent CAPEX	79.8	61.8	65.4	(18.1%)	5.8%	234.0	204.3	(12.7%)
Non-Cash Items Included in EBITDA - Recurrent CAPEX ⁽¹⁾ and Change in Working Capital	(4.9)	(10.1)	(7.6)	54.2%	(25.6%)	(66.1)	(53.4)	(19.3%)
Operating Cash Flow After Investment	74.9	51.7	57.9	(22.8%)	12.0%	167.8	151.0	(10.1%)
Long Term Contracts	(6.7)	(4.2)	(3.5)	(47.3%)	(15.4%)	(18.2)	(11.6)	(36.2%)
Net Interest Paid and Other Financial Charges	(17.0)	(15.4)	(6.7)	(60.6%)	(56.8%)	(41.2)	(35.9)	(12.8%)
Income Taxes Paid	(7.5)	(0.3)	10.8	n.a.	n.a.	(11.1)	9.3	n.a.
Other Cash Movements	1.3	0.5	0.3	(74.0%)	(38.2%)	0.7	0.9	40.6%
Recurrent Free Cash-Flow	45.1	32.3	58.8	30.4%	82.1%	98.0	113.7	16.0%
LTE Payments	0.0	0.0	0.0	n.a.	n.a.	(6.0)	0.0	(100.0%)
Non-Recurrent CAPEX	(1.5)	(16.8)	(18.6)	n.a.	10.6%	(4.5)	(35.7)	n.a.
Cash Restructuring Payments	(6.0)	(3.9)	(8.1)	35.8%	109.6%	(6.5)	(20.0)	206.7%
Free Cash Flow Before Dividends & Financial Acquisitions	37.6	11.6	32.1	(14.8%)	176.1%	81.0	58.0	(28.4%)
Foreign Currency Debt Exchange Effect	(0.0)	0.0	0.1	n.a.	n.a.	(0.0)	0.1	n.a.
Acquisitions of Financial Investments	0.0	0.0	(14.0)	n.a.	n.a.	0.0	(14.0)	n.a.
New Companies' Net Debt	0.0	0.0	0.6	n.a.	n.a.	0.0	0.6	n.a.
Dividends	0.0	(62.0)	0.0	n.a.	(100.0%)	(62.0)	(62.0)	0.1%
Total Free Cash Flow	37.6	(50.4)	18.7	(50.1%)	(137.2%)	19.0	(17.4)	n.a.
Debt Variation Through Accruals & Deferrals & Others ⁽²⁾	1.0	4.7	(6.3)	n.a.	n.a.	(5.5)	0.3	n.a.
Change in Net Financial Debt	38.6	(45.7)	12.4	67.9%	n.a.	13.5	(17.1)	n.a.

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

(2) Accruals of interest payments were reclassified to below Total Free Cash Flow in 4Q13 and prior period cash flow statements were restated to adjust for this reclassification.

Operating Cash Flow after Investment posted a yoy decline of 10.1% in 9M14 to 151 million euros. The yoy decline is due to the previously explained decline in EBITDA of 5.1% and the increase in Recurrent CAPEX of 4.5% to 192.6 million euros. Non-cash items included in EBITDA-CAPEX and Working Capital amounted to (53.4) million euros, an improvement in comparison with the (66.1) million euros posted in 9M13.

Recurrent FCF increased by 16.0% in 9M14 to 113.7 million euros despite the lower operating cash flow, due to seasonally lower interest payments and other financial charges, lower transponder payments yoy reflected in the LTC line due to the savings achieved with the renegotiation of transponder contract terms at the end of 2012, and a positive cash tax inflow due to recovery of **advance tax payments made in excess on the previous year's taxable income**.

Non-recurrent cash impacts on CAPEX and OPEX in 9M14 amounted to 35.7 million euros and 20 million euros, respectively, and were mainly related with cash payments within the context of additional customer driven and integration related CAPEX from the restructuring/merger process.

Free Cash Flow before Dividends and Financial Acquisitions was 58 million euros in 9M14. Adjusted for interest accruals and deferrals on debt variations, net financial debt posted an increase of 17.1 million euros in 9M14.

In 3Q14 NOS acquired Mainroad, a leading IT and datacenter management operator in Portugal for 14 million euros. The cash outflow relating to this transaction is reflected in acquisitions of financial investments.

Pro-Forma Consolidated Balance Sheet

Pro-Forma Balance Sheet (Millions of Euros)	2013 restated	9M14
Current Assets	454.8	471.5
Cash and Equivalents	74.4	40.9
Accounts Receivable, Net	309.6	342.9
Inventories, Net	32.6	34.7
Taxes Receivable	11.8	7.5
Prepaid Expenses and Other Current Assets	26.4	45.6
Non-current Assets	2,475.0	2,448.7
Investments in Group Companies	31.6	30.9
Intangible Assets, Net	1,160.6	1,158.3
Fixed Assets, Net	1,096.8	1,094.8
Deferred Taxes	156.5	138.4
Other Non-current Assets	29.5	26.4
Total Assets	2,929.9	2,920.2
Current Liabilities	762.2	880.2
Short Term Debt	213.4	303.2
Accounts Payable	367.6	376.7
Accrued Expenses	129.9	154.3
Deferred Income	25.5	28.1
Taxes Payable	23.0	17.8
Current Provisions and Other Liabilities	2.8	0.1
Non-current Liabilities	1,107.4	991.9
Medium and Long Term Debt	928.2	811.9
Non-current Provisions and Other Liabilities	179.2	180.0
Total Liabilities	1,869.7	1,872.1
Equity Before Non-Controlling Interests	1,050.6	1,038.3
Share Capital	5.2	5.2
Issue Premium	854.2	854.2
Own Shares	(2.0)	(9.4)
Reserves, Retained Earnings and Other	129.8	125.9
Net Income	63.4	62.4
Non-Controlling Interests	9.6	9.9
Total Shareholders' Equity	1,060.2	1,048.1
Total Liabilities and Shareholders' Equity	2,929.9	2,920.2



Capital Structure

At the end of 9M14, Net Financial Debt stood at 956.8 million euros, representing an increase of 1.8% in comparison with the end of 2013 and a decrease of 1.3% with the end of 1H14.

Total financial debt at the end of 9M14 amounted to 1,000.1 million euros, which was offset with a cash and short-term investment position on the balance sheet of 43.4 million euros. At the end of 9M14, NOS also had 310 million euros of non-issued commercial paper programs. The all-in average **cost of NOS' Net Financial Debt was 5.05%** at the end of 9M14.

Net Financial Gearing increased to 47.7% at the end of 9M14 compared with 47.0% at the end of 2013, and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.9x.

During 9M14 NOS completed a bond issue of 175 million euros, through a private offering, with a 6 year term. These new Notes were issued together with the early redemption, of an existing bond (issued originally by Sonaecom in September 2011, and transferred to NOS following the merger) in **the amount of €100,000,000 and the purchase, for the purpose of cancellation, of the existing ZON 2010-2014 Notes issued in November 2010 in the amount of €25,000,000. The new NOS 2014-2020 notes will be fully redeemed at the end of the term in September 2020, the interest rate is floating with a spread of 215 bps, and the first coupon will be due in March 2015.**

The financing deals completed in 9M14 will start to have a very favourable impact on the all-in average cost of debt going forward.

The average maturity of **NOS' Net Financial Debt** was significantly extended to 2.51 years.

The total interest rate hedging operations in place at the end of 9M14 amounted to 107 million euros. Taking into account the retail bonds issued in June 2012 and the EIB loan disbursed in June 2014, both issued at a fixed rate – for a total of 200 million euros and 110 million euros respectively – the **proportion of NOS' Net Financial Debt that is protected against variations in interest rates is 44%.**

Pro-Forma Net Financial Debt (Millions of Euros)	2013	9M14	9M14 / 2013
Short Term	196.0	283.2	44.5%
Bank and Other Loans	187.5	274.8	46.6%
Financial Leases	8.6	8.4	(1.5%)
Medium and Long Term	821.7	716.9	(12.7%)
Bank and Other Loans	811.5	705.2	(13.1%)
Financial Leases	10.1	11.8	16.3%
Total Debt	1,017.7	1,000.1	(1.7%)
Cash, Short Term Investments and Intercompany Loans	78.0	43.4	(44.4%)
Net Financial Debt	939.7	956.8	1.8%
Net Financial Gearing ⁽¹⁾	47.0%	47.7%	0.7pp
Net Financial Debt / EBITDA	1.8x	1.9x	n.a.

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

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Consolidated Financial Statements

Consolidated Statement of Comprehensive Income for the Three Months and Nine Months ended on 30 September 2013 and 2014 and 30 September 2013 Restated

(Amounts stated in thousands of euros)

	NOTES	3 rd QUARTER 13 REPORTED	9M 13 REPORTED	3 rd QUARTER 13 RESTATE	9M 13 RESTATE	3 rd QUARTER 14	9M 14
REVENUES:							
Services rendered		240,586	611,733	240,586	611,733	329,274	977,270
Sales		8,678	19,925	8,678	19,925	15,863	40,448
Other operating revenues		2,329	4,694	2,329	4,694	2,681	12,419
	6	251,594	636,351	251,594	636,351	347,818	1,030,137
COSTS, LOSSES AND GAINS:							
Wages and salaries	7	16,892	41,028	16,892	41,028	21,351	61,126
Direct costs	8	75,188	183,116	75,188	183,116	99,693	296,898
Costs of products sold	9	4,407	6,860	4,407	6,860	14,900	37,030
Marketing and advertising		4,125	13,614	4,125	13,614	11,471	23,485
Support services	10	15,522	42,138	15,522	42,138	21,707	65,824
Supplies and external services	10	31,644	79,291	31,644	79,291	43,522	136,816
Other operational losses / (gains)		338	422	338	422	130	882
Taxes		2,400	4,731	2,400	4,731	6,030	16,219
Provisions and adjustments	11	(198)	7,220	(198)	7,220	(4,427)	(5,100)
Net Losses / (gains) of affiliated companies	12	-	-	(681)	(2,335)	(4,024)	(11,633)
Depreciation, amortisation and impairment losses	13	59,845	159,445	59,845	159,445	81,539	251,642
Restructuring costs		15,926	16,133	15,926	16,133	12,445	25,492
Losses/(gains) on sale of assets, net		156	(667)	156	(667)	(1,330)	(1,304)
Other losses/(gains), net		16,193	16,275	16,193	16,275	7,163	9,551
		242,438	569,607	241,757	567,271	310,170	906,928
INCOME BEFORE FINANCIAL RESULTS AND TAXES							
		9,156	66,744	9,837	69,080	37,648	123,209
Financial costs	14	8,629	22,263	8,629	22,263	9,255	27,843
Net foreign exchange losses/(gains)		51	93	51	93	89	99
Net losses/(gains) on financial assets	15	805	1,330	805	1,330	11	940
Net Losses / (gains) of affiliated companies		(681)	(2,335)	-	-	-	-
Net other financial expenses/(income)	14	4,823	13,586	4,823	13,586	5,529	15,356
		13,627	34,936	14,308	37,272	14,884	44,238
INCOME BEFORE TAXES							
		(4,471)	31,808	(4,471)	31,808	22,764	78,971
Income taxes	16	(3,290)	7,335	(3,290)	7,335	4,005	16,126
NET CONSOLIDATED INCOME							
		(1,181)	24,474	(1,181)	24,474	18,759	62,845
ATTRIBUTABLE TO:							
Non-controlled interests		211	570	211	570	(3)	407
NOS GROUP SHAREHOLDERS		(1,393)	23,904	(1,393)	23,904	18,762	62,438
EARNINGS PER SHARE							
Basic - euros	17	(0.00)	0.07	(0.00)	0.07	0.04	0.12
Diluted - euros	17	(0.00)	0.07	(0.00)	0.07	0.04	0.12

As standard practice, only the annual accounts are audited; the quarterly results and the restated 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 2014.

Accountant

The Board of Directors



Consolidated Statement of Comprehensive Income for the Three Months and Nine Months ended on 30 September 2013 and 2014 and 30 September 2013 Restated

(Amounts stated in thousands of euros)

	NOTES	3 rd QUARTER 13 REPORTED	9M 13 REPORTED	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
NET INCOME FOR THE PERIOD		(1,181)	24,474	(1,181)	24,474	18,759	62,845
OTHER INCOME							
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:							
Accounting for equity method	23	-	-	542	350	(239)	(247)
Fair value of interest rate swap	31	(725)	1,336	(725)	1,336	1,383	915
Deferred income tax - interest rate swap	31	205	(354)	205	(354)	(80)	49
Fair value of exchange rate forward	31	(176)	(87)	(176)	(87)	348	488
Deferred income tax - exchange rate forward	31	38	25	38	25	(124)	(163)
Currency translation differences and others		103	84	(439)	(266)	22	-
OTHER COMPREHENSIVE INCOME		(556)	1,003	(556)	1,003	1,310	1,042
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(1,737)	25,477	(1,737)	25,477	20,069	63,887
ATTRIBUTABLE TO:							
NOS group shareholders		(1,949)	24,907	(1,949)	24,907	20,072	63,480
Non-controlling interests		211	570	211	570	(3)	407

As standard practice, only the annual accounts are audited; the quarterly results and the restated 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 2014.

Accountant

The Board of Directors

Consolidated Statement of Financial Position at 30 September 2013 and 2014 and 31 December 2013 and 30 September 2013 and 31 December 2013 Restated

(Amounts stated in thousands of euros)

	NOTES	30-09-2013 REPORTED UNAUDITED	31-12-2013 REPORTED	30-09-2013 RESTATED UNAUDITED	31-12-2013 RESTATED UNAUDITED	30-09-2014 UNAUDITED
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	20	57,586	74,380	57,586	74,380	40,862
Accounts receivable - trade	21	290,229	276,630	290,229	276,630	311,998
Accounts receivable - other		38,830	32,999	38,830	32,999	30,888
Inventories		33,913	32,579	33,913	32,579	34,727
Taxes receivable	22	7,576	11,830	7,576	11,830	7,477
Non-current assets held-for-sale		678	678	678	678	678
Prepaid expenses		30,618	25,546	30,618	25,546	44,520
Other current assets		129	199	129	199	-
Derivative financial instruments	31	-	-	-	-	356
TOTAL CURRENT ASSETS		459,560	454,840	459,560	454,840	471,506
NON - CURRENT ASSETS						
Accounts receivable - other		5,400	5,173	5,400	5,173	3,699
Tax receivable	22	-	4,226	-	4,226	4,232
Investments in jointly controlled companies and associated companies	23	32,489	31,614	32,489	31,614	30,868
Available-for-sale financial assets	24	19,329	19,329	19,329	19,329	18,423
Intangible assets	25	1,115,286	1,111,107	1,182,898	1,160,599	1,158,265
Tangible assets	26	1,108,653	1,096,823	1,083,147	1,096,823	1,094,066
Investment property		812	801	812	801	765
Deferred income tax assets	16	164,219	165,416	176,250	156,467	138,416
TOTAL NON - CURRENT ASSETS		2,446,187	2,434,489	2,500,324	2,475,032	2,448,735
TOTAL ASSETS		2,905,747	2,889,329	2,959,884	2,929,872	2,920,241
LIABILITIES						
CURRENT LIABILITIES:						
Borrowings	27	84,988	213,431	84,988	213,431	303,217
Accounts payable-trade	28	245,764	296,823	245,764	296,823	314,490
Accounts payable-other		67,273	70,748	67,273	70,748	62,182
Accrued expenses		183,882	129,901	183,882	129,901	154,295
Deferred income		27,909	25,518	27,909	25,518	28,098
Taxes payable	22	28,141	22,992	28,141	22,992	17,827
Provisions for other liabilities and charges	29	2,850	-	2,850	-	-
Derivative financial instruments	31	132	2,814	132	2,814	127
TOTAL CURRENT LIABILITIES		640,939	762,227	640,939	762,227	880,236
NON - CURRENT LIABILITIES						
Borrowings	27	1,064,350	928,239	1,064,350	928,239	811,867
Accounts payable-other		-	-	-	-	44
Accrued expenses		16,887	28,705	14,960	28,705	27,439
Deferred income		2,206	2,060	2,206	2,060	6,159
Provisions for other liabilities and charges	29	94,820	92,429	138,820	132,972	128,152
Deferred income tax liabilities	16	8,623	15,456	19,620	15,456	16,560
Derivative financial instruments	31	4,715	-	4,715	-	1,640
TOTAL NON - CURRENT LIABILITIES		1,191,602	1,066,889	1,244,672	1,107,432	991,861
TOTAL LIABILITIES		1,832,541	1,829,116	1,885,611	1,869,659	1,872,097
SHAREHOLDER'S EQUITY						
Share capital	30.1	5,152	5,152	5,152	5,152	5,152
Capital issued premium	30.2	854,219	854,219	854,219	854,219	854,219
Own shares	30.3	(896)	(2,003)	(896)	(2,003)	(9,416)
Legal reserve	30.4	3,556	3,556	3,556	3,556	3,556
Other reserves and accumulated earnings	30.4	177,536	178,864	178,603	178,864	122,339
Net income		23,904	10,810	23,904	10,810	62,438
EQUITY BEFORE NON - CONTROLLING INTERESTS		1,063,470	1,050,598	1,064,538	1,050,598	1,038,288
Non-controlling interests		9,736	9,615	9,736	9,615	9,856
TOTAL EQUITY		1,073,207	1,060,213	1,074,274	1,060,213	1,048,144
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,905,747	2,889,329	2,959,884	2,929,872	2,920,241

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 30 September 2014.

Accountant

The Board of Directors



Consolidated Statement of Changes in Shareholders' Equity

for the Nine Months ended on 30 September 2013 Restated and 30 September 2014

(Amounts stated in thousands of euros)

	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES, DISCOUNTS AND PREMIUMS	OWN SHARES	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	NON-CONTROLLED INTERESTS	TOTAL
BALANCE AS AT 1 JANUARY 2013 (REPORTED)		3,091	-	(910)	(4)	3,556	168,086	36,018	9,396	219,234
Effect of change in accounting policies	2	-	-	-	-	-	(3,301)	3,476	-	175
BALANCE AS AT 1 JANUARY 2013 (RESTATED)		3,091	-	(910)	(4)	3,556	164,785	39,494	9,396	219,409
Result appropriation										
Transferred to reserves		-	-	-	-	-	39,494	(39,494)	-	-
Dividends paid	18	-	-	-	-	-	(37,044)	-	(229)	(37,273)
Capital increase by incorporation of Optimus SGPS in ZON	30.2	2,061	854,344	-	-	-	-	-	-	856,404
Costs related to the capital increase	30.2	-	(125)	-	-	-	-	-	-	(125)
Acquisition of own shares	30.3	-	-	(1,486)	(4)	-	-	-	-	(1,490)
Distribution of own shares	30.3	-	-	1,502	6	-	(1,508)	-	-	-
Share Plan - Changes in the consolidation perimeter	5	-	-	-	-	-	9,613	-	-	9,613
Share Plan	35	-	-	-	-	-	1,223	-	-	1,223
Comprehensive income for the period		-	-	-	-	-	1,003	23,904	570	25,477
Others		-	-	-	-	-	1,037	-	-	1,037
BALANCE AS AT 30 SEPTEMBER 2013 (RESTATED)		5,152	854,219	(895)	(2)	3,556	178,603	23,904	9,736	1,074,274
BALANCE AS AT 1 JANUARY 2014		5,152	854,219	(1,999)	(4)	3,556	174,639	15,035	9,615	1,060,213
Result appropriation										
Transferred to reserves		-	-	-	-	-	15,035	(15,035)	-	-
Dividends paid	18	-	-	-	-	-	(61,818)	-	(194)	(62,012)
Acquisition of own shares	30.3	-	-	(25,970)	(51)	-	-	-	-	(26,021)
Loan of own shares	30.3	-	-	(4,859)	(10)	-	4,869	-	-	-
Reimbursement and payment of the loan of own shares	30.3	-	-	2,942	6	-	(4,838)	-	-	(1,890)
Distribution of own shares - share plan	30.3	-	-	10,933	21	-	(10,954)	-	-	-
Distribution of own shares - other remunerations	30.3	-	-	9,557	18	-	(223)	-	-	9,352
Share Plan	35	-	-	-	-	-	5,139	-	28	5,167
Comprehensive income for the period		-	-	-	-	-	1,042	62,438	407	63,887
Others		-	-	-	-	-	(552)	-	-	(552)
BALANCE AS AT 30 SEPTEMBER 2014		5,152	854,219	(9,396)	(20)	3,556	122,339	62,438	9,856	1,048,144

As standard practice, only the annual accounts are audited; the quarterly results and the restated 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 2014.

Accountant

The Board of Directors

Consolidated Statement of Cash Flows for the Nine Months ended on 30 September 2013 and 2014 and 30 September 2013 Restated

(Amounts stated in thousands of euros)

	NOTES	9M 13 REPORTED UNAUDITED	9M 13 RESTATED UNAUDITED	9M 14 UNAUDITED
OPERATING ACTIVITIES				
Collections from clients		766,709	766,709	1,205,594
Payments to suppliers		(453,795)	(453,795)	(671,007)
Payments to employees		(47,889)	(47,889)	(75,797)
Payments / receipts relating to income taxes		(8,560)	(8,560)	8,934
Other cash receipts / payments related with operating activities		(46,569)	(46,569)	(62,926)
CASH FLOW FROM OPERATING ACTIVITIES (1)		209,896	209,896	404,798
INVESTING ACTIVITIES				
CASH RECEIPTS RESULTING FROM				
Financial investments		35	35	100
Tangible fixed assets		2,222	2,222	524
Intangible assets		-	-	2
Loans granted		27,316	27,316	1,678
Interest and related income		24,343	24,343	5,688
Others		2,903	2,903	1
		56,821	56,821	7,993
PAYMENTS RESULTING FROM				
Financial investments	4	-	-	(14,000)
Tangible fixed assets		(68,001)	(68,001)	(167,684)
Intangible assets		(21,240)	(21,240)	(101,413)
Loans granted		(21)	(21)	-
		(89,262)	(89,262)	(283,097)
CASH FLOW FROM INVESTING ACTIVITIES (2)		(32,442)	(32,442)	(275,104)
FINANCING ACTIVITIES				
CASH RECEIPTS RESULTING FROM				
Loans obtained		1,157,525	1,157,525	1,951,934
Subsidies		47	47	-
		1,157,572	1,157,572	1,951,934
PAYMENTS RESULTING FROM				
Loans obtained		(1,481,050)	(1,481,050)	(1,962,600)
Lease rentals (principal)		(16,824)	(16,824)	(18,754)
Interest and related expenses		(31,258)	(31,258)	(41,659)
Dividends	18	(37,273)	(37,273)	(62,013)
Acquisition of own shares	30.3	(1,490)	(1,490)	(30,890)
Other financial activities		(692)	(692)	-
		(1,568,587)	(1,568,587)	(2,115,916)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(411,015)	(411,015)	(163,982)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(233,561)	(233,561)	(34,288)
Effect of exchange differences		(19)	(19)	26
Changes in the consolidated perimeter	4	17,987	17,987	646
Cash and cash equivalents at the beginning of the year		273,179	273,179	70,142
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		57,586	57,586	36,526
Cash and cash equivalents	20	57,586	57,586	40,862
Bank overdrafts	27	-	-	(4,336)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		57,586	57,586	36,526

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 2014.

Accountant

The Board of Directors



Notes to the Consolidated Financial Statements as at 30 September 2014

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

1. Introductory Note

NOS, SGPS, S.A. ("NOS" 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 Antonio Silva, 9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on July 15, 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 become 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 16 May 2014, ZON TV Cabo Portugal, S.A. ("ZON TV Cabo") was merged into Optimus – Comunicações, S.A. ("Optimus"). Thereafter, Optimus changed its designation to NOS Comunicações, S.A. ("NOS SA").

On 20 June 2014, as a result of ZON TV Cabo's merger into Optimus and 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., which was registered on 27 June 2014.

Similarly, several Group companies changed their designation. ZON Conteúdos – Atividade de Televisão e de Produção de Conteúdos, S.A., ZON Lusomundo Audiovisuais, S.A., ZON Lusomundo TV, S.A., ZON Lusomundo Cinemas, S.A., ZON TV Cabo Açoreana, S.A. and ZON TV Cabo Madeirense, S.A. changed their designation to NOSPUB, Publicidade e Conteúdos, S.A. ("NOSPUB"), NOS Lusomundo Audiovisuais, S.A. ("NOS Audiovisuais"), NOS Lusomundo TV, S.A. ("NOS Lusomundo TV"), NOS Lusomundo Cinemas, S.A. ("NOS Cinemas"), NOS Açores Comunicações, S.A. ("NOS Açores") and NOS Madeira Comunicações, S.A. ("NOS Madeira").

On 30 September 2014, NOS, SA acquired Mainroad's entire share capital (Note 4). Mainroad is a company dedicated to datacenter management and consulting services in IT.

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, and the production of channels for Pay TV.

NOS shares are listed on the Euronext Lisbon market. The Group's shareholder's structure as at 30 September 2014 is shown in Note 30.

Cable and satellite television in Portugal is mainly provided by NOS Comunicações, S.A, name adopted after the merger in 16 May 2014 between ZON TV Cabo Portugal, S.A. in Optimus – Comunicações, S.A., 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.

On 27 August 2013, the Company completed a merger operation by incorporation of Optimus SGPS into ZON. Optimus SGPS was a parent company of a group of companies which includes Optimus - Comunicações S.A. which operates the latest generation mobile communication network, GSM/UMTS/LTE, with extensive coverage in the national territory , as well as latest next generation wireline network, which includes a transmission component, a backbone component and local access fiber components. As a result of the merger, all Optimus SGPS subsidiaries were included in the consolidation scope: Be Artis – **Concepção, Construção e Gestão de Redes de Comunicação, S.A. ("Be Artis")**, which operates in the design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services; Be Towering – **Gestão de Torres de Telecomunicações, S.A. ("Be Towering")**, which operates in the implementation, installation and exploitation of towers and other sites for the installation of telecommunications equipment; Optimus - Communications , SA ("Optimus") , which operates in the implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialization of products and equipments of electronic communications; Per-mar – Sociedade de Construções, S.A. ("**Per-mar**"), which operates in the purchase, sale, renting and operation of property and commercial establishments, and Sontária – **Empreendimentos Imobiliários, S.A. ("Sontária")**, which operates in the undertaking of urbanization and building construction, planning, urban management, studies, construction and property management, purchase and sale of properties and resale of properties purchased for that purpose.



These Notes to the Consolidated Financial Statements follow the order in which the items are shown in the consolidated financial statements.

The consolidated financial statements for the nine months ended on 30 September 2014 were approved by the Board of Directors and their issue authorised on 5 November 2014.

The Board of Directors believes 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 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 2.20.

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 the previous Standing Interpretations Committee ("SIC"), adopted by the European Union, in force as at 1 January 2014.

These consolidated financial statements are presented in accordance with IAS 34 — Interim Financial Reporting ("IAS 34"). **Therefore, these financial statements do not include all the information required** by the IFRS and so they should be analysed together with the consolidated financial statements of the year ended at 31 December 2013.

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 applicable for the valuation of financial assets and liabilities (including derivatives) at their fair value.

In preparing the consolidated financial statements in accordance with IFRS, the Board used estimates, assumptions and critical judgements 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.

Changes in Accounting Policies and Disclosures

The standards and interpretations that became effective as of 1 January 2014 are as follows:

- **IFRS 10 (new), "Consolidated financial statements".** IFRS 10 replaces all the guidance on control and consolidation included in IAS 27 and SIC 12, amending the definition of control and the criteria for determining control. The basic principle that the consolidated financial statements present the parent company and subsidiaries as a single entity remains unchanged. This standard did not have **any significant impact on the Group's financial statements. The Group has early adopted this standard** in the year ended at 31 December 2013.
- **IFRS 11 (new), "Joint Agreements".** IFRS 11 focuses on the rights and obligations associated with the joint arrangements, rather than its legal form. Joint arrangements may be either joint operations (rights over assets and obligations) or joint ventures (rights to the net assets of the arrangement as measured by the equity method). Proportionate consolidation is no longer allowed when assessing jointly controlled Entities. The Group has early adopted this standard in the year ended at 31 December 2013, resulting in changing the accounting of jointly controlled entities, previously proportionately consolidated, being recorded according to the equity method. Jointly controlled entities are disclosed in the attached maps.
- **IFRS 12 (new) – "Disclosure of interests in other entities".** This reporting standard establishes disclosure requirements for all types of interests in other entities, including joint ventures, associates and special purpose entities, in order to assess the nature, risk and financial impacts **associated with the entity's interest. This standard resulted in additional disclosures about interests in other entities** (Map attached).
- **IAS 27 (2011 revision), "Separate financial statements".** IAS 27 was revised after the issue of IFRS 10 and contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates where an entity prepares separate financial statements. This standard did **not have any impact on the Group's financial statements.**
- **IAS 27 (amendments), "Equity Method in Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2016). 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. This amendment has **no impact on the Group's financial statements.**
- **IAS 28 (2011 revision), "Investments in associates and joint ventures".** IAS 28 was revised after the issue of IFRS 11 and prescribes the accounting treatment of investments in associates and joint ventures, establishing the requirements for applying the equity method. Early adoption of this



standard resulted in changing the accounting of jointly controlled entities, previously proportionately consolidated, being recorded according to the equity method. Jointly controlled entities are disclosed in the attached maps.

- Amendment to IFRS 10, IFRS 12 and IFRS 27 – **“Bodies Managing Financial Contributions”**. This amendment includes the definition of an Entity managing financial contributions and introduces the regime of exception to the obligation for Entities managing financial partnerships that qualify to provide funding, once all investments are measured against fair value. Specific disclosures are required for IFRS 12. This standard does not apply to the Group.
- IAS 32 (amendment), **“Disclosures – offsetting financial assets and financial liabilities”**. This amendment is part of the IASB’s **“assets and liabilities offsetting”** project and clarifies the meaning of **“currently has a legally enforceable right of set-off”** and clarifies that some gross settlement systems (clearing houses) may be considered equivalent to net settlement. This amendment does not have any impact on the Group’s consolidated financial statements.
- IAS 36 (amendment), **“Recoverable Amount Disclosures for Non-Financial Assets”**. This amendment eliminates the disclosure requirements of the recoverable amount of a cash-generating unit like goodwill or intangible assets with indefinite useful lives allocated to periods where it was not recorded any impairment loss or reversal of impairment. Introduces additional disclosure requirements for assets for which it was recorded an impairment loss or reversal of impairment and the recoverable amount of these has been determined based on fair value less costs to sell. This amendment does not have any impact on the Group’s consolidated financial statements.
- IAS 39 (amendment), **“Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)”**. This amendment permits, the continuation of hedge accounting when a derivative designated as a hedging instrument is legally imposed, subject to the contract counterparty novation to a clearing house. This amendment does not have any impact on the Group’s consolidated financial statements.
- IFRIC 21 (new), **“Levies”** (effective for annual periods beginning on or after 1 January 2014). This amendment establishes the conditions regarding the timing of recognition of a liability related to pay a levy by an entity as a result of a particular event (eg, participation in a particular market), without having goods and specified services associated.

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 9 (new), **“Financial instruments – classification and measurement”** (effective date to be designated). 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 represent principal and interest. Otherwise, financial instruments are measured at fair value through profit and loss.

- IFRS 7 and 9 (Amendment), "Financial Instruments" (effective date to be designated). The amendment to IFRS 9 is part of the draft revision of IAS 39 and establishes the requirements for the application of hedge accounting. IFRS 7 was also revised as a result of this amendment.
- IFRS 10 and IAS 28 (amendments), **"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** (effective for annual periods beginning on or after 1 January 2016). 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 11 (amendment), **"Accounting for acquisitions of interest in Joint Operations"** (effective for annual periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. **This amendment has no impact on the Group's 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, do not have the need to eliminate those assets and liabilities in the first time adoption of the IFRS. This standard will **have no impact on the Group's consolidated financial statements.**
- IFRS 15 (new), **"Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017). 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.
- IAS 16 and 38 (amendment), **"Clarification of acceptable methods of depreciation and amortization"** (effective for annual periods beginning on or after 1 January 2016). This amendment has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.



- **IAS 16 and 41 (amendment), "Agriculture: Bearer Plants"** (effective for annual periods beginning on or after 1 January 2016). IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell. This amendment decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16, because their operation is similar to that of manufacturing. This standard is not applicable to the Group.
- **IAS 19 (Amendment), "Employee benefits"** (effective for annual periods beginning on or after 1 July 2014). This amendment clarifies the circumstances in which employee contribution plans for post-employment benefits are a reduction in the cost of short-term benefits. This standard is not applicable to the Group.
- Improvements to Financial Reporting Standards (2010-2012 cycle and 2011-2013 effective for annual periods beginning on or after 1 July 2014 and 2012-2014 cycle effective for annual periods beginning on or after 1 January 2016). These improvements involve the review of several standards.

The Group is calculating the impact of this alteration and will apply this standard as soon as it becomes effective.

Voluntary Changes in Accounting Policies

During the third quarter of the year ended at 31 December 2013, the Group, in addition to the early adoption of IFRS 10, IFRS 11, IFRS 12, and the amendments of IAS 27 and IAS 28, in line with in the sector and, particularly, considering the necessary standardization of policies with Optimus SGPS subsidiaries, changed its accounting criteria **for costs related to customers' loyalty contracts**. To date, these were recorded as an expense in the year they occurred.

From 1 January 2013, **the costs incurred for customers' loyalty contracts, which include compensation clauses in the event of early termination, are capitalised as "Intangible assets"** and amortised over the period of their contracts, since it is possible to apply a reliable cost allocation to the respective contracts, as well as the revenue generated by each contract, thus fulfilling the criteria for capitalisation required by IAS 38 - Intangible Assets . When a contract is terminated, the net value of intangible assets associated with that contract is immediately recognised as an expense in the consolidated statement of comprehensive income. This accounting policy allows a more true, fair and reliable presentation of the financial position and the financial performance of the Group, as it allows **the alignment between costs incurred with customer's loyalty contracts and the revenue generated**. Additionally, at the date of each statement of financial position and whenever an event or change of circumstances indicates that the recorded amount of an asset may not be recoverable, impairment tests are carried out to ensure that the current value of the estimated revenues associated with each contract is greater than the amount that is capitalised.

Also, during the third quarter of the year ended at 31 December 2013, the Group changed the accounting policy regarding the future rights of use of movies and series. To date, these were

recorded as an expense in the year they occurred. The costs are capitalised as "Intangible assets" once it is possible to measure, reliably, the costs incurred with each contract as well as the revenue generated, meeting the criteria for capitalisation as required by IAS 38 - Intangible assets. Additionally, the model of amortisation and impairment of those rights has been adjusted, reflecting the business and how the rights are used more reliably. Additionally, at the date of each statement of financial position and whenever an event or change of circumstances indicates that the recorded amount of an asset may not be recoverable, impairment tests are carried out to ensure that the current value of the estimated revenues associated with each right is greater than the amount that is capitalised.

As provided under IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors , these policy changes were applied retrospectively. Therefore changes were made to the consolidated statement of financial position of 1 January.

The effects of these changes in the consolidated statement of financial position are presented in the table below.

Impact of Changes in Accounting Policies at 1 January 2013

	1 JANUARY 2013				
	REPORTED	JOINT ARRANGEMENTS	SUBSCRIBER ACQUISITION COSTS	RIGHTS ON MOVIES AND SERIES	RESTATED
ASSETS					
Cash and cash equivalents	308,251	(35,072)	-	-	273,179
Inventories	44,317	(10,154)	-	(2,582)	31,581
Accounts receivable and other assets	258,815	(7,807)	-	(34,315)	216,693
Investments in participated companies	222	34,857	-	-	35,079
Intangible assets	319,155	(32,564)	16,249	20,781	323,621
Tangible assets	632,047	(13,809)	-	-	618,238
Deferred income tax assets	48,146	(706)	-	4,753	52,193
TOTAL ASSETS	1,610,953	(65,256)	16,249	(11,363)	1,550,584
LIABILITIES					
Borrowings	1,084,473	(77,151)	-	-	1,007,322
Accounts payable and other liabilities	295,639	(9,645)	-	-	285,994
Provisions	8,831	21,540	-	-	30,371
Deferred income tax liabilities	2,776	-	4,712	-	7,488
TOTAL LIABILITIES	1,391,719	(65,256)	4,712	-	1,331,175
SHAREHOLDER'S EQUITY					
Equity before non-controlled interests	209,838	-	11,537	(11,363)	210,013
Non-controlled interests	9,396	-	-	-	9,396
TOTAL EQUITY	219,234	-	11,537	(11,363)	219,409
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,610,953	(65,256)	16,249	(11,363)	1,550,584

During 2014, the Group changed the presentation of "Net Losses / (gains) of affiliated companies" from financial results and started presenting them in "Income before financial results and taxes", reflecting the operational nature of investments accounted for using the equity method. The prior period's financial statements were restated.

As provided under IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors , these policy changes were applied retrospectively. Therefore changes were made to the consolidated statements of comprehensive income for the nine months ended 30 September 2013.



The effects of early adoption of new standards and amendments, and changes in accounting policies in the consolidated statements of comprehensive income are presented in the table below.

Impact of Changes in Accounting Policies
during the Nine Months ended 30 September 2013

	30 SEPTEMBER 2013		
	REPORTED	NET LOSSES / (GAINS) OF AFFILIATED COMPANIES	RESTATED
REVENUES:			
Sales and services rendered	631,658	-	631,658
Other operating revenues	4,694	-	4,694
	636,351	-	636,351
COSTS, LOSSES AND GAINS:			
Wages and salaries	41,028	-	41,028
Direct costs	183,116	-	183,116
Supplies and external services	79,291	-	79,291
Provisions and adjustments	7,220	-	7,220
Depreciation, amortisation and impairment losses	159,445	-	159,445
Net Losses / (gains) of affiliated companies	-	(2,335)	(2,335)
Other loss / (gains), net	99,507	-	99,506
	569,607	(2,335)	567,271
INCOME BEFORE FINANCIAL RESULTS AND TAXES	66,744	2,335	69,080
Net Losses / (gains) of affiliated companies	(2,335)	2,335	-
Net other financial expenses / (income)	37,272	-	37,272
INCOME BEFORE TAXES	31,808	-	31,808
Income taxes	7,335	-	7,335
NET CONSOLIDATED INCOME	24,474	-	24,474
ATTRIBUTABLE TO:			
Non-controlled interests	570	-	570
NOS GROUP SHAREHOLDERS	23,904	-	23,904

These changes did not have any impact in the consolidated statements of financial position, consolidated statements of changes in shareholders' equity, consolidated statement of cash flows and on "Other comprehensive income" recognised directly in equity in the consolidated statement of comprehensive income.

As mentioned in the 2013 financial statements, following the preliminary fair value allocation of the acquired assets and assumed liabilities related to the merger between ZON and Optimus SGPS, the price allocation of this business combination was subject to alterations during one year since the acquisition date, as established by IFRS 3 – Business Combinations.

During the one year period, ended on 26 August 2014, the Company changed the fair value allocation of the acquired assets and assumed liabilities. This change was applied retrospectively, as allowed by IFRS 3 - Business Combinations.

The effects resulting of changes in the fair value of the acquired assets and the liabilities assumed in the consolidated statement of financial position are presented in the tables below.

Impact of Changes in Fair Value at 30 September 2013

30 SEPTEMBER 2013			
	REPORTED	CHANGES IN THE FAIR VALUE	RESTATED
ASSETS			
Cash and cash equivalents	57,586	-	57,586
Inventories	33,913	-	33,913
Accounts receivable and other assets	393,601	-	393,601
Investments in participated companies	32,489	-	32,489
Intangible assets	1,115,286	67,612	1,182,898
Tangible assets	1,108,653	(25,506)	1,083,147
Deferred income tax assets	164,219	12,031	176,250
TOTAL ASSETS	2,905,747	54,137	2,959,884
LIABILITIES			
Borrowings	1,149,338	-	1,149,338
Accounts payable and other liabilities	576,910	(1,927)	574,983
Provisions	97,670	44,000	141,670
Deferred income tax liabilities	8,623	10,997	19,620
TOTAL LIABILITIES	1,832,541	53,070	1,885,611
SHAREHOLDER'S EQUITY			
Equity before non-controlled interests	1,063,470	1,067	1,064,538
Non-controlled interests	9,736	-	9,736
TOTAL EQUITY	1,073,207	1,067	1,074,274
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,905,747	54,137	2,959,884

Impact of Changes in Fair Value at 31 December 2013

31 DECEMBER 2013			
	REPORTED	CHANGES IN THE FAIR VALUE	RESTATED
ASSETS			
Intangible assets	1,111,107	49,492	1,160,599
Deferred income tax assets	165,416	(8,949)	156,467
Other assets	1,612,806	-	1,612,806
TOTAL ASSETS	2,889,329	40,543	2,929,872
LIABILITIES			
Provisions	92,429	40,543	132,972
Other liabilities	1,736,687	-	1,736,687
TOTAL LIABILITIES	1,829,116	40,543	1,869,659
TOTAL EQUITY	1,060,213	-	1,060,213
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,889,329	40,543	2,929,872

These changes did not have any impact in the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statement of cash flows.



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 is presented separately in the consolidated statement of financial position and in the consolidated statement of comprehensive income, respectively, **under the item "Non-controlled Interests"**.

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 statement of comprehensive income in the period in which the acquisition occurs.

The interests of minority shareholders are initially recognised as 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 stated 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 "Net Losses / (gains) of affiliated companies" in the statement of comprehensive income**. 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.

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 statement of comprehensive income 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 in the majority 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 “Net Losses / (gains) of affiliated companies” in the statement of comprehensive income**. 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.

Conversion to Euros of Financial Statements Expressed in Foreign Currencies

See accounting policy 2.20.

Balances and Transactions between Group Companies

Balances and transactions and unrealised gains between Group companies, and between them and the parent company, are eliminated in the consolidation. The part of unrealised gains arising from transactions with associated companies or jointly controlled companies attributable to the Group are eliminated in the consolidation. Unrealised losses are similarly eliminated except where they show evidence of impairment of the transferred asset.

2.3 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.

2.4 Classification of the Statement of Financial Position and Statement of Comprehensive Income

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.

2.5 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 2.14 and 29).

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:

Depreciation Rates Estimated Useful Lives

	2013 (YEARS)	2014 (YEARS)
Buildings and other constructions	2 - 50	2 - 50
Technical equipment:		
Network installations and equipment	7 - 40	7 - 40
Terminal equipment	3 - 8	3 - 8
Other telecommunication equipment	3 - 10	3 - 10
Other technical equipment	1 - 16	1 - 16
Transportation equipment	3 - 4	3 - 4
Administrative equipment	3 - 10	3 - 10
Other tangible assets	4 - 8	4 - 8

2.6 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 25) in the case of a controlled company, and in "Investments in jointly controlled companies and associated companies" (Note 23) in the case of 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 statement of comprehensive income for the year 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 25), 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;
- Content utilisation rights;
- Other contractual rights.

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:

Depreciation Rates Estimated Useful Lives

	2013 (YEARS)	2014 (YEARS)
Rights of using capacities	Period of the contract	Period of the contract
Telecom Licenses	30	30
Software Licenses	1 - 8	1 - 8
Customer portfolios	5 - 6	5 - 6
Costs incurred in raising customers loyalty contracts	Loyalty contract period	Loyalty contract period
Content utilisation rights	Period of the contract	Period of the contract
Other intangible assets	1 - 8	1 - 8

2.7 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.

2.8 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 statement of comprehensive income for the year. 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.

Borrowing 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 statement of **comprehensive income 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).

2.9 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.

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 2.11.

2.10 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:

- a) default analysis;
- b) default for more than 6 months;
- c) financial difficulties of the debtor;
- d) 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.

2.11 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 cashflow 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.

2.12 Inventories

Inventories, which mainly include mobile phones, customer terminal equipment and DVDs, 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 statement of comprehensive income for the year.

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.

2.13 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.

2.14 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 decommissioning 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 (Note 29).

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.

2.15 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 fixed assets are recognised in the statement of comprehensive income for the period to which they relate.

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

2.16 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.

2.17 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, the benefits granted to be paid on the basis of own shares (equity instruments), are recognised at fair value at the date of allocation.

Since it is not possible to estimate reliably 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 fair value determined at the date of allocation of the benefit is recognised as a linear cost over the period in which it is acquired by the beneficiaries as a result of their services, with the corresponding increase in equity.



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.

2.18 Revenue

The main types of revenue of NOS's 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.

Revenue from telecommunications services is counted from the time at which those services are provided. 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 small, are recorded in the next financial year.

Discounts granted to clients within fidelization programs are allocated to the entire contract for which the client is fidelized. Therefore, the discount is recognised as the goods and services are made available to the client.

Profits made 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 penalties, due to the inherent uncertainties, only counts from when it is received, and the amount is disclosed as a contingent asset (Note 34).

- 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.

2.19 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", "Prepaid expenses", "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's 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 2.14).

2.20 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 statement of comprehensive income for the year in which they were calculated. 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 obtaining 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 statement of comprehensive income;
- 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 2013 and 30 September 2014, 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:

Exchange Rates Final Rate

	31-12-2013	30-09-2014
US Dollar	1.3791	1.2583
British Pound	0.8337	0.7773
Mozambique Metical	41.2000	39.6200
Canadian Dollar	1.4671	1.4058
Swiss Franc	1.2276	1.2063
Real	3.2576	3.0821

In the nine months ended at 30 September 2013 and 2014, 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:

Exchange Rates Average Rate

	9M13	9M14
Mozambique Metical	39.6825	41.2729
US Dollar	1.3167	1.3555

2.21 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.

2.22 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.

2.23 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, investment and financing activities.

Operating activities include cash received from customers and payments to suppliers, staff and others related to operating activities.

The cash flows included in investment 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.

2.24 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 period.



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:

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 24. 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 statement of comprehensive income for each year.

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 on 30 September 2013 and 30 September 2014, no material errors relating to previous years were recognised. During the year ended 31 December 2013 occurred changes of accounting policies, whose impacts have resulted in a restatement of the financial statements for the nine months ended on 30 September 2013. These changes are described in Note 2.1..

Additionally, in result of the merger completed on 27 August 2013 (Note 4), the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows, for the the nine months ended on 30 September 2013, are not comparable with the ones for the nine months ended on 30 September 2014. A consolidated pro-forma statement of comprehensive income is presented in Note 4 assuming that all the companies merged on 27 August 2013 were consolidated at 1 January 2013.

4. Changes in the Consolidation Perimeter

On 27 August 2013, the merger operation by incorporation of Optimus SGPS into ZON occurred, through the transfer of all assets of the company Optimus SGPS to ZON, under the terms of the subparagraph a) of paragraph 4 of the Article 97 of the CSC, with effect from the date of the merger.

Following the merger, the Company performed an assessment of the fair value of assets acquired and assumed liabilities through this operation. In accordance with IFRS 3 - Business Combinations, the preliminary assessment of the fair value of assets acquired and assumed liabilities through this operation was subject to changes during the period of one year from the date of acquisition, which ended on 26 August 2014 (Note 2).

The detail of Optimus Group's net assets and Goodwill identified under this transaction, updated at 30 September 2014, is as follows:

Fair Value Allocation

	BOOK VALUE	ADJUSTMENTS TO FAIR VALUE	FAIR VALUE
ACQUIRED ASSETS			
Cash and cash equivalents	17,987	-	17,987
Inventories	19,125	(1,384)	17,741
Accounts receivable and other assets	224,165	-	224,165
Intangible assets	353,331	45,480	398,811
Tangible assets	569,441	(62,616)	506,825
Deferred income tax assets	100,976	25,258	126,234
	1,285,025	6,738	1,291,763
ACQUIRED LIABILITIES			
Borrowings	452,362	-	452,362
Accounts payable and other liabilities	287,368	15,326	302,694
Provisions	35,224	77,215	112,439
Deferred income tax liabilities	1,142	10,997	12,139
Share plan	6,469	3,144	9,613
	782,565	106,682	889,247
TOTAL NET ASSETS ACQUIRED	502,460	(99,944)	402,516
GOODWILL (NOTE 25)			453,888
ACQUISITION PRICE (NOTE 30)			856,404

The fair value of net assets acquired was determined through several valuation methodologies for each type of asset or liability, based on the best information available. The main fair value adjustments made in this process were: (i) customer portfolio (23.4 million euros), which will be amortised linearly based on the estimated average time of customer retention; (ii) telecom licenses (12.7 million euros), which will be amortised over their the estimated useful life; (iii) infrastructure reconstruction and replacement equipment costs and other adjustments on basic equipment in the amount of 22.7 million euros; (iv) adjustment of 27.7 million euros to carrying amount of the assets falling within by the commitments made to the Competition Authority, under the merger operation, in particular, the agreement on an option to acquire the fiber network of Optimus; (v) contingent liabilities related to present obligations in the amount of 80.9 million euros, as permitted by IFRS 3, of which a portion, corresponding to tax contingencies, was recorded as a reduction of deferred tax assets (tax losses carried forward), and (vi) contractual obligations in the amount of 15.3 million euros related to long-term contracts whose prices are different from market prices.



The methodologies used in the main fair value adjustments were:

Valuation Methodologies and Fair Value Hierarchy

VALUATION METHODOLOGIES		FAIR VALUE HIERARCHY
Customer portfolios	Discounted cash flows	Level 3
Telecom licenses	Discounted cash flows	Level 3
Buildings	Discounted cash flows	Level 3
Rooftops and towers	Rebuilding costs	Level 2
Basic equipment	Replacement costs	Level 2
Contractual obligations	Comparison with today fees charged	Level 2

When identifying the fair value of acquired assets and liabilities the Group's management made estimates, assumptions and judgments such as: (i) the average period of retention of Optimus' customers used in the valuation of the customer portfolio; (ii) the average time of use of existing 2G/3G and LTE technologies and revenue growth as a result of the emergence of other new technologies, used in the valuation of the telecom licenses, among others. 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.

Several scenarios have been considered in the valuations and the sensitivity analyzes performed have not led to significant changes in the allocation of the fair value of assets and liabilities.

For the remaining assets and liabilities were not identified significant differences between the fair value and their book value.

As usual on mergers and acquisitions, also in this operation, there was a part of the acquisition price which was not possible to allocate to the fair value of some identified assets and liabilities, that was **considered as Goodwill and recorded in "Intangible Assets"**. This Goodwill is related to a number of different elements, which cannot be individually quantified and isolated in a viable way and include, for example, synergies, qualified workforce and technical skills.

The contribution of Optimus group companies to the consolidated income for the period ended 30 September 2013, was positive, of 2,486 thousand euros, corresponding to the period of one month (since the control acquisition date on 27 August 2013). This contribution differs from the net income in the financial statements prepared by these entities, mainly because of the impacts in amortisation related to fair value adjustments and the standardization of certain accounting policies.

The detail of the referred contribution, after the elimination of NOS group intercompany transactions, is as follows:

1 Month Contribution – Optimus Group
for the Nine Months ended 30 September 2013

	AMOUNT
REVENUES:	
Sales and services rendered	54,826
Other operating revenues	1,168
	55,994
COSTS, LOSSES AND GAINS:	
Wages and salaries	7,491
Direct costs	17,601
Supplies and external services	7,223
Provisions and adjustments	(3,507)
Depreciation, amortisation and impairment losses	9,920
Other loss / (gains), net	6,183
	44,910
INCOME BEFORE FINANCIAL RESULTS AND TAXES	11,084
Net other financial expenses / (income)	1,688
INCOME BEFORE TAXES	9,396
Income taxes	6,910
NET CONSOLIDATED INCOME	2,486

If the merged companies had been consolidated from 1 January 2013, the amounts of consolidated operating revenues and net income before non-controlling interests, after elimination of the transactions with the Group's related parties, for the nine months ended 30 September 2013, would be as follows:

9 Months Pro-Forma – NOS Group
for the Nine Months ended 30 September 2013

	AMOUNT
REVENUES:	
Sales and services rendered	1,058,158
Other operating revenues	12,387
	1,070,545
COSTS, LOSSES AND GAINS:	
Wages and salaries	71,458
Direct costs	305,902
Supplies and external services	143,001
Provisions and adjustments	1,302
Depreciation, amortisation and impairment losses	252,561
Other loss / (gains), net	162,361
	936,585
INCOME BEFORE FINANCIAL RESULTS AND TAXES	133,960
Net other financial expenses / (income)	52,907
INCOME BEFORE TAXES	81,053
Income taxes	3,980
NET CONSOLIDATED INCOME	77,074



The main variations occurred in the several NOS consolidated financial statements items, result mainly from the entry in the consolidation perimeter of the companies merged in 27 August 2013 (Note 1). **Therefore, those companies' contribution for the group's results at 30 September 2013 correspond to 1 month of operations.**

During the nine months ended on 30 September 2014, the changes in the consolidated perimeter were as follows:

- i) on 15 May 2014 it was constituted NOS Communications S.à.r.l (Annexe A));
- ii) on 16 May 2014 the Company completed a merger operation by incorporation of ZON TV Cabo Portugal, S.A. in Optimus - Comunicações, S.A., thereafter named NOS Comunicações, S.A.. **This merger didn't have any impacts in the Group's consolidated financial statements;**
- iii) on 24 September 2014, ZON TV Cabo, SGPS, S.A. and ZON Audiovisual, SGPS S.A. merged into **NOS SA and NOS Audiovisual, respectively. The mergers didn't have any impact on the consolidated financial statements;**
- iv) on 30 September 2014 NOS SA acquired Mainroad's entire share capital for the amount of 12,620 thousand euros (which includes 1,295 thousand euros of supplementary capital) and Mainroad's debt to the previous shareholder's in the amount of 1,380 thousand euros (Annexe A)). **The amount paid may be reduced, until a maximum amount of 5,416 thousand euros, as a result of the gap between the present value of the revenues agreed in the contract and the present value of the revenues that will be obtained until 31 December 2022.**

Following the acquisition, the Company performed a preliminary assessment of the fair value of assets acquired and assumed liabilities through this operation. In accordance with IFRS 3 - Business Combinations, the preliminary assessment of the fair value of assets acquired and assumed liabilities through this operation may be subject to changes during the period of one year from the date of acquisition. Nevertheless, the Company does not expect significant changes in its financial position as a result from any changes to the allocation made.

The detail of Mainroad's net assets and Goodwill identified under this transaction, is as follows:

Fair Value Allocation

	BOOK VALUE	ADJUSTMENTS TO FAIR VALUE	FAIR VALUE
ACQUIRED ASSETS			
Cash and cash equivalents	646	-	646
Accounts receivable and other assets	3,897	-	3,897
Intangible assets	171	910	1,081
Tangible assets	2,438	(70)	2,368
Deferred income tax assets	170	107	277
	7,321	947	8,268
ACQUIRED LIABILITIES			
Borrowings	1,447	-	1,447
Accounts payable and other liabilities	5,630	-	5,630
Provisions	316	421	737
Deferred income tax liabilities	-	250	250
	7,393	671	8,064
TOTAL NET ASSETS ACQUIRED	(72)	276	204
GOODWILL (NOTE 25)			12,416
ACQUISITION PRICE (NOTE 30)			12,620
ACQUISITION OF MAINROAD'S DEBT			1,380
TOTAL PAID			14,000

The fair value of net assets acquired was determined through several valuation methodologies for each type of asset or liability, based on the best information available. The main fair value adjustments made in this process were: (i) customer portfolio (1.1 million euros), which will be amortised linearly during 5 years; and (ii) contingent liabilities related to present obligations in the amount of 0.4 million euros, as permitted by IFRS 3.

The methodology used in the customers portfolio's fair value adjustment was the discounted cash flows model (Level 3 in fair value hierarchy).

For the remaining assets and liabilities there were not identified significant differences between the fair value and their book value.

As usual on mergers and acquisitions, also in this operation, there was a part of the acquisition price which was not possible to allocate to the fair value of some identified assets and liabilities, that was **considered as Goodwill and recorded in "Intangible Assets"**. This Goodwill is related to a number of different elements, which cannot be individually quantified and isolated in a viable way and include, for example, synergies, qualified workforce and technical skills.

The contribution of Mainroad to the consolidated income for the period ended 30 September 2014 is null. If the company had been consolidated from 1 January 2014, the amounts of consolidated operating revenues and net income before non-controlling interests, after elimination of the **transactions with the Group's related parties, would be as follows:**

9 Months Pro-Forma – NOS Group
for the Nine Months ended 30 September 2014

	AMOUNT
REVENUES:	
Sales and services rendered	1,025,536
Other operating revenues	12,046
	1,037,582
COSTS, LOSSES AND GAINS:	
Wages and salaries	64,557
Direct costs	296,693
Support services	67,909
Supplies and external services	137,721
Provisions and adjustments	(5,058)
Depreciation, amortisation and impairment losses	252,158
Other loss / (gains), net	99,756
	913,736
INCOME BEFORE FINANCIAL RESULTS AND TAXES	123,846
Net other financial expenses / (income)	44,336
INCOME BEFORE TAXES	79,510
Income taxes	16,243
NET CONSOLIDATED INCOME	63,267

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: Be Artis, Be Towering, Per-mar, Sontária, NOS, NOS Açores, NOS Communications S.à.r.l., NOS Madeira, NOSPUB, NOS SA, NOS Lusomundo TV, ZON Finance B.V., Teliz Holding B.V., Mainroad.
- 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: ZON Cinemas, SGPS, S.A., NOS Audiovisual, NOS Cinemas, Lusomundo Moçambique, Lda ("Lusomundo Moçambique"), Lusomundo España, SL ("Lusomundo España"), 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").

The results by segment for the nine months ended at 30 September 2013 and 2014 are shown below:

Results by Segment for the Three Months and Nine Months ended on 30 September 2013

	TELCO		AUDIOVISUALS		GROUP	
	3 rd QUARTER 13	9M 13	3 rd QUARTER 13	9M 13	3 rd QUARTER 13	9M 13
Total segment revenue	233,874	588,961	26,915	74,824	260,789	663,785
Inter-segment revenue	(5,044)	(14,161)	(4,152)	(13,272)	(9,197)	(27,433)
SALES AND SERVICES RENDERED	228,830	574,800	22,763	61,552	251,594	636,351
OPERATIONAL INCOME BY SEGMENT	8,977	66,627	860	2,453	9,837	69,080
Net interest expense and other	12,450	33,789	1,053	2,153	13,503	35,941
Loss / (Gains) in financial assets	800	1,300	5	30	805	1,330
INCOME BEFORE TAXES	(4,273)	31,538	(198)	270	(4,471)	31,808
Income tax expense	(3,339)	6,741	49	593	(3,290)	7,335
NET INCOME	(934)	24,797	(247)	(323)	(1,181)	24,474
OTHER COSTS:						
Depreciation, amortisation and impairment	52,683	137,934	7,162	21,511	59,845	159,445
Provisions and adjustments	(217)	4,346	18	2,874	(198)	7,220
Costs / (revenues) non-recurrent	31,338	30,933	938	809	32,276	31,741

Results by Segment for the Three Months and Nine Months ended on 30 September 2014

	TELCO		AUDIOVISUALS		GROUP	
	3 rd QUARTER 14	9M 14	3 rd QUARTER 14	9M 14	3 rd QUARTER 14	9M 14
Total segment revenue	333,321	988,432	24,326	70,251	357,647	1,058,683
Inter-segment revenue	(5,310)	(14,665)	(4,519)	(13,881)	(9,829)	(28,546)
SALES AND SERVICES RENDERED	328,011	973,767	19,807	56,370	347,818	1,030,137
OPERATIONAL INCOME BY SEGMENT	36,202	122,887	1,446	322	37,648	123,209
Net interest expense and other	14,188	41,163	685	2,135	14,873	43,298
Loss / (Gains) in financial assets	(1)	905	12	35	11	940
INCOME BEFORE TAXES	22,015	80,819	749	(1,848)	22,764	78,971
Income tax expense	3,860	17,433	145	(1,307)	4,005	16,126
NET INCOME	18,155	63,386	604	(541)	18,759	62,845
OTHER COSTS:						
Depreciation, amortisation and impairment	73,095	224,749	8,444	26,893	81,539	251,642
Provisions and adjustments	(4,379)	(5,009)	(48)	(91)	(4,427)	(5,100)
Costs / (revenues) non-recurrent	19,317	34,599	(1,039)	(860)	18,278	33,739

Inter-segment transactions are performed on market terms and conditions in a comparable way to transactions performed with third parties.

Assets and liabilities by segment, as well as investments in tangible fixed assets and intangible assets at 31 December 2013, as a result of the policies changes mentioned on Note 1, are shown below:

Assets and Liabilities by Segment at 31 December 2013

	TELCO	AUDIO VISUALS	ELIMINATIONS	NOT ALLOCATED	GROUP
Assets	2,729,833	126,137	(144,051)	186,340	2,898,258
Investment in associated companies	29,927	1,687	-	-	31,614
TOTAL ASSETS	2,759,760	127,824	(144,051)	186,340	2,929,872
LIABILITIES	735,903	120,682	(144,051)	1,157,126	1,869,659
INVESTMENT IN TANGIBLE ASSETS	143,684	3,067	-	-	146,751
INVESTMENT IN INTANGIBLE ASSETS	38,955	26,617	-	-	65,572



At 31 December 2013, restated assets and liabilities not allocated to segments are reconciled with total assets and liabilities as follows:

Assets and Liabilities not allocated to Segments
at 31 December 2013

	ASSETS	LIABILITIES
NOT ALLOCATED:		
Deferred tax (Note 16)	156,467	15,456
Income tax expense (Note 22)	9,065	-
Borrowings - current (Note 27)	-	213,431
Borrowings - non current (Note 27)	-	928,239
Available-for-sale financial assets (Note 24)	19,329	-
Non-current assets held-for-sale	678	-
Investment property	801	-
	186,340	1,157,126

Assets and liabilities by segment, and investments in tangible fixed assets and intangible assets at 30 September 2014, are shown below:

Assets and Liabilities by Segment
at 30 September 2014

	TELCO	AUDIO VISUALS	ELIMINATIONS	NOT ALLOCATED	GROUP
Assets	2,713,290	77,063	(64,909)	163,928	2,889,372
Investment in associated companies	28,212	2,656	-	-	30,868
TOTAL ASSETS	2,741,502	79,719	(64,909)	163,928	2,920,241
LIABILITIES	727,478	77,884	(64,909)	1,131,644	1,872,097
INVESTMENT IN TANGIBLE ASSETS	143,754	5,654	-	-	149,408
INVESTMENT IN INTANGIBLE ASSETS	62,634	19,829	-	-	82,463

At 30 September 2014, assets and liabilities not allocated to segments are reconciled with total assets and liabilities as follows:

Assets and Liabilities not allocated to Segments
at 30 September 2014

	ASSETS	LIABILITIES
NOT ALLOCATED:		
Deferred tax (Note 16)	138,416	16,560
Income tax expense (Note 22)	5,646	-
Borrowings - current (Note 27)	-	303,217
Borrowings - non current (Note 27)	-	811,867
Available-for-sale financial assets (Note 24)	18,423	-
Non-current assets held-for-sale	678	-
Investment property	765	-
	163,928	1,131,644

The changes in Telco's segment income, result mainly from the entrance in this segment of the contributions of the companies merged on 27 August 2013 (Note 4).

6. Operating Revenues

Consolidated operating revenues for the three months and nine months ended on 30 September 2013 and 2014 are distributed as follows:

Consolidated Operating Revenues

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
SERVICES RENDERED				
Telco i)	222,854	564,730	313,627	933,860
Audiovisuals and cinema exhibition ii)	17,733	47,003	15,647	43,410
	240,586	611,733	329,274	977,270
SALES:				
Telco iii)	3,749	5,903	12,007	28,527
Audiovisuals and cinema exhibition iv)	4,930	14,022	3,856	11,921
	8,678	19,925	15,863	40,448
OTHER OPERATING REVENUES:				
Telco	2,228	4,167	2,377	11,380
Audiovisuals and cinema exhibition	100	527	304	1,039
	2,329	4,694	2,681	12,419
	251,594	636,351	347,818	1,030,137

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).

ii) This item mainly includes:

- a. Box office revenue and publicity at the cinemas of NOS Cinemas.
- 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.

The main changes in the item operating revenues result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, the operating revenue in the nine months period ended on 30 September 2013 includes only one month of revenues from the merged companies.



7. Wages and Salaries

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Wages and Salaries

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Remuneration	13,664	33,221	16,486	46,705
Social taxes	2,751	6,768	4,125	12,221
Social benefits	287	659	331	1,219
Other	190	380	409	981
	16,892	41,028	21,351	61,126

In the nine months ended at 30 September 2013 and 2014, the average number of employees of the companies included in the consolidation was 1,442 and 2,366, respectively. At the end of the nine months ended at 30 September 2014, the number of employees of the companies included in the consolidation was 2,384.

The main changes in the item wages and salaries result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, the wages and salaries in the nine months period ended on 30 September 2013 includes only one month of costs from the merged companies.

8. Direct Costs

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Direct Costs

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Exhibition costs	39,446	118,334	37,228	114,066
Traffic costs	23,774	34,877	47,301	135,122
Capacity costs	8,281	19,659	11,448	35,323
Shared advertising revenues	2,263	7,016	2,732	9,332
Others	1,424	3,230	984	3,055
	75,188	183,116	99,693	296,898

The main changes in the item direct costs result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, the direct costs in the nine months' period ended on 30 September 2013 includes only one month of costs from the merged companies.

9. Cost of Products Sold

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Cost of Products Sold

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Costs of products sold	4,673	7,444	14,628	34,693
Inventories impairment	(266)	(584)	272	2,337
	4,407	6,860	14,900	37,030

The main changes in the item cost of products sold result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, the cost of **products sold in the nine months' period ended on 30 September 2013 includes only one month of costs from the merged companies.**

10. Support Services and Supplies and External Services

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Support Services and Supplies and External Services

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
SUPPORT SERVICES:				
Call centers and customer support	5,430	15,256	8,861	25,194
Commercial and technical support	4,679	13,837	1,762	10,497
Information systems	2,409	6,603	3,273	10,920
Administrative support and other	3,004	6,442	7,811	19,213
	15,522	42,138	21,707	65,824
SUPPLIES AND EXTERNAL SERVICES:				
Maintenance and repair	11,987	24,929	8,370	31,478
Rentals	7,175	17,671	10,432	31,401
Commissions	2,395	4,115	5,329	15,687
Professional services	271	7,253	3,550	12,369
Electricity	2,844	6,478	3,623	12,675
Installation and removal of terminal equipment	1,256	3,444	1,812	5,023
Communications	1,814	4,823	2,234	5,883
Fees	405	963	2,551	5,245
Travel and accommodation	506	1,181	997	2,686
Other supplies and external services	2,990	8,434	4,624	14,369
	31,644	79,291	43,522	136,816

The changes in the items support services and supplies and external services result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, **support services and supplies and external services in the nine months' period ended on 30 September 2013 include only one month of costs from the merged companies.**



11. Provisions and Adjustments

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Provisions and Adjustments

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Provisions (Note 29)	(3,807)	(4,177)	(4,249)	(4,936)
Impairment of account receivables - trade (Note 21)	3,490	11,313	(301)	(568)
Impairment of account receivables - other	122	89	124	407
Debts recovery	(2)	(6)	(1)	(3)
	(198)	7,220	(4,427)	(5,100)

12. Losses/(Gains) of Affiliated Companies

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Losses/(Gains) of Affiliated Companies

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
EQUITY ACCOUNTING (NOTE 23)				
Sport TV	710	2,627	1,045	1,790
Dreamia	858	(254)	(236)	(868)
Finstar	(2,145)	(4,609)	(4,730)	(12,179)
Mstar	(166)	(311)	(83)	(333)
Upstar	(3)	(12)	(8)	(15)
Other	66	224	(12)	(28)
	(681)	(2,335)	(4,024)	(11,633)

13. Depreciation, Amortisation and Impairment Losses

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Depreciation, Amortisation and Impairment Losses

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
INTANGIBLE ASSETS:				
Industrial property and other rights	19,054	50,631	31,541	95,107
Other intangible assets	415	1,229	579	1,485
	19,469	51,860	32,120	96,592
TANGIBLE ASSETS:				
Buildings and other constructions	1,437	2,999	2,288	8,085
Basic equipment	34,338	90,971	42,606	131,359
Transportation equipment	276	957	358	781
Administrative equipment	3,757	11,052	3,584	13,167
Other tangible assets	568	1,605	585	1,658
	40,376	107,585	49,420	155,050
	59,845	159,445	81,539	251,642

The variations occurred in the items above result from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4). Therefore, depreciation, amortisation and impairment losses in the nine months' period ended on 30 September 2013 include only one month of costs from the merged companies.

14. Financing Costs and Net Other Financial Expenses / (Income)

In the three months and nine months ended on 30 September 2013 and 2014, finance costs and other net financial costs were composed as follows:

Financing Costs and Net Other Financial Expenses / (Income)

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	7,990	21,595	7,688	24,390
Derivatives	901	2,655	1,248	3,075
Finance leases	1,565	4,502	1,490	4,537
Other	48	98	908	1,553
	10,505	28,850	11,334	33,555
INTEREST EARNED:				
	(1,877)	(6,587)	(2,079)	(5,712)
	8,629	22,263	9,255	27,843
NET OTHER FINANCIAL EXPENSES / (INCOME)				
Comissions and guarantees	3,708	11,135	3,902	11,492
Other	1,115	2,451	1,627	3,864
	4,823	13,586	5,529	15,356

The reduction of the interest earned with deposits results mainly from the decrease of the average amount of deposits.



15. Losses/(Gains) in Financial Assets

In the three months and nine months ended on 30 September 2013 and 2014, this item was composed as follows:

Losses/(Gains) in Financial Assets

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Impairment losses of FICA Fund (Note 24)	800	1,300	-	900
Other	5	30	11	41
	805	1,330	11	940

16. Income Tax Expenses

During the nine months ended at 30 September 2014, NOS and its associated companies are subject to IRC - Corporate Income Tax - at the rate of 23% (18.4% in the case of NOS Açores), plus IRC surcharge at the maximum rate of 1.5% on taxable profit, giving an aggregate rate of approximately 24.5%. Following the introduction of the austerity measures approved by Law 66-B/2012 of 31 December which set out the 2013 State Budget, this rate was raised in 3% on the amount of a **company's taxable profit between 1.5 million euros and 7.5 million euros**, and in 5% on the amount of a **company's taxable profit exceeding 7.5 million euros**. Additionally, in the measures approving the IRC restructuring, published by Law 2/2014 of 16 January, was added a new level to the IRC surcharge **where the rate is raised in 7% over the company's taxable profit over 35 million euros**.

The current income tax provision for the mid-term periods, in accordance with IAS 34, was determined using the estimated income tax rate, according with the annual estimated results.

In the calculation of taxable income, to which the above tax rates apply, amounts which are not fiscally allowable are added to and 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 fulfil the requirements of Article 69 of the IRC Code.

The companies covered by the RETGS in 2014 are:

- NOS (parent company)
- Be Artis (included in the RETGS during 2014)
- Be Towering (included in the RETGS during 2014)
- Empracine
- Lusomundo Imobiliária 2

- Lusomundo SII
- NOS Audiovisuais
- NOS Cinemas
- NOS Lusomundo TV
- NOS Madeira (included in the RETGS during 2014)
- NOSPUB
- NOS SA (ncluded in the RETGS during 2014)
- Per-mar (included in the RETGS during 2014)
- Sontária (included in the RETGS during 2014)

Under current legislation, tax declarations are subject to review and correction by the tax authorities for a period of four years (five years in the case of Social Security), except where tax losses have occurred (where the period is five or six years) or tax benefits have been obtained or inspections, appeals or disputes are in progress, in which case, depending on the circumstances, the periods are extended or 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 2014.

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 nine months ended on 30 September 2013 and 2014 were as follows:

Movements in Deferred Tax Assets and Liabilities for the Nine Months ended on 30 September 2013

	31-12-2012 RESTATED	CHANGES IN THE CONSOLIDATED SCOPE (NOTE 4)	DEFERRED TAXES OF THE PERIOD		30-09-2013 RESTATED
			INCOME (NOTE B)	EQUITY (NOTE 31)	
DEFERRED INCOME TAX ASSETS:					
Doubtful accounts receivable	5,342	11,163	511	-	17,016
Inventories	1,490	678	(436)	-	1,732
Other provision and adjustments	27,864	68,625	327	-	96,816
Intragroup gains	15,881	18,241	(2,136)	-	31,986
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	-	15,700	(115)	-	15,585
Derivatives	1,616	-	-	(329)	1,288
Fiscal incentives	-	11,827	-	-	11,827
	52,193	126,234	(1,849)	(329)	176,250
DEFERRED INCOME TAX LIABILITIES:					
Revaluation of fixed assets	2,776	-	-	-	2,776
Capitalization of subscriber acquisition costs	4,712	-	(667)	-	4,045
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	-	10,997	660	-	11,657
Other provisions and adjustments	-	1,142	-	-	1,142
	7,488	12,139	(7)	-	19,620
NET DEFERRED TAX	44,705	114,095	(1,842)	(329)	156,630

Movements in Deferred Tax Assets and Liabilities for the Nine Months ended on 30 September 2014

	31-12-2013 RESTATED	CHANGES IN THE CONSOLIDATED SCOPE (NOTE 4)	DEFERRED TAXES OF THE PERIOD		30-09-2014
			INCOME (NOTE B)	EQUITY (NOTE 31)	
DEFERRED INCOME TAX ASSETS:					
Doubtful accounts receivable	16,073	-	(8,013)	-	8,060
Inventories	3,216		910	-	4,126
Other provision and adjustments	81,869	149	(6,818)	-	75,200
Intragroup gains	27,876	-	(2,077)	-	25,799
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	12,347	63	(1,816)	-	10,594
Derivatives	693	-	-	(27)	666
Incentives	14,393	65	(487)	-	13,971
	156,467	277	(18,301)	(27)	138,416
DEFERRED INCOME TAX LIABILITIES:					
Revaluation of fixed assets	1,415	-	(1,341)	-	74
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	13,134	250	789	-	14,173
Derivatives	-			87	87
Other provision and adjustments	907	-	1,319	-	2,226
	15,456	250	767	87	16,560
NET DEFERRED TAX	141,011	27	(19,068)	(114)	121,856

At 30 September 2014, the deferred tax assets related to the other provisions and adjustments are mainly due: i) impairments and acceleration of amortisations beyond the acceptable fiscally and other adjustments in tangible and intangible assets, amounted to 57.5 million euros; ii) temporary

differences generated with adjustments of conversion to IAS/IFRS at 31 December 2009, amounted to 1.7 million euros; and iii) other provisions amounted to 15.9 million euros.

At 30 September 2014, the deferred tax liability related to the revaluation of assets related to the allocation of fair value of the assets acquired in the merger is related to the appreciation of **customers'** portfolio, telecommunications licenses and other assets of Optimus Group companies.

At 30 September 2014 were not recognized deferred tax assets in the amount of 14 million euros related to: i) tax losses of 9.9 million euros, originated in the years 2009 and 2013, not recorded due to the deduction of tax provisions (Note 29), ii) tax incentives amounting to 3.7 million euros, and iii) temporary differences in the amount of 0.3 million euros.

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 2014, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 23%. In the case of temporary differences, the rate used was 24.5% increased to a maximum of 2.95% of state surcharge when understood as likely the taxation of temporary differences in the estimated period of application of the state surcharge. 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 current legislation in Portugal, tax losses generated up to 2009, or in 2010 and 2011, and from 2012 onwards may be carried forward for a period of six years, four years and five 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 2013 and 70% of taxable profit in the following years.



B) Effective Tax Rate Reconciliation

In the three months and nine months ended on 30 September 2013 and 2014, the reconciliation between the nominal and effective rates of tax was as follows:

Reconciliation between the Nominal and Effective Tax Rates

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Income before taxes	(4,472)	31,808	22,765	78,971
Statutory tax rate	26.5%	26.5%	24.5%	24.5%
ESTIMATED TAX	(1,185)	8,429	5,578	19,348
Permanent differences i)	(180)	(619)	(538)	(2,369)
Underestimated/ (Overestimated) corporate tax	-	537	(16)	(2,760)
Fiscal benefits ii)	(2,083)	(2,733)	(1,575)	(2,513)
State surcharge	(111)	795	733	3,157
Autonomous taxation	217	651	344	1,031
Provisions (Note 29)	-	-	92	944
Others	53	275	(612)	(712)
INCOME TAX	(3,290)	7,335	4,005	16,126
Effective Income tax rate for the period	73.6%	23.1%	17.6%	20.4%
Income tax	(4,273)	5,493	(8,471)	(2,942)
Deferred tax	983	1,842	12,476	19,068
	(3,290)	7,335	4,005	16,126

i) At 30 September 2013 and 2014 the permanent differences were composed as follows:

Permanent Differences

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Equity method (Note 12)	(681)	(2,335)	(4,024)	(11,633)
Other	-	-	1,828	1,962
	(681)	(2,335)	(2,196)	(9,671)
	26.5%	26.5%	24.5%	24.5%
	(180)	(619)	(538)	(2,369)

ii) The application by Group companies of the 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.

17. Earnings per Share

Earnings per share for the three months and nine months ended on 30 September 2013 and 2014 were calculated as follow:

Net Earnings Per Share

	3 rd QUARTER 13 RESTATED	9M 13 RESTATED	3 rd QUARTER 14	9M 14
Net income attributable to equity holders of the parent	(1,393)	23,904	18,762	62,438
Number of ordinary shares outstanding during the period (weighted average)	384,975,709	334,425,187	513,882,998	514,214,240
Basic earnings per share - euros	(0.00)	0.07	0.04	0.12
Diluted earnings per share - euros	(0.00)	0.07	0.04	0.12

In the presented three months and nine months ended on 30 September 2013 and 2014 there were no diluting effects on net earnings per share, so the diluted earnings per share are equal to the basic earnings per share.

18. Dividends

The General Meeting of Shareholders held on 23 April 2014 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.12 euros, totaling 61,819 thousand euros. The dividend attributable to own shares amounted to about one thousand euros.

Dividends 2014

	DIVIDENDS
Dividends	61,819
Dividends of own shares	(1)
	61,818

In the first half of 2014, dividends totaling 194 thousand euros were paid to the minority shareholders of NOS Madeira.

The General Meeting of Shareholders held on 24 April 2013 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.12 euros, totaling 37,092 thousand euros. The dividend attributable to own shares amounted to about 48 thousand euros.

Dividends 2013

	DIVIDENDS
Dividends	37,092
Dividends of own shares	(48)
	37,044

In the first half of 2013, dividends totaling 229 thousand euros were paid to the minority shareholders of NOS Madeira.



19. 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:

Financial Assets and Liabilities Classified in accordance with the IAS 39 Categories at 31 December 2013

	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
ASSETS				
Cash and cash equivalents (Note 20)	74,380	-	-	-
Accounts receivable - trade (Note 21)	276,630	-	-	-
Accounts receivable - other	33,235	-	-	-
Available-for-sale financial assets (Note 24)	-	19,329	-	-
TOTAL FINANCIAL ASSETS	384,245	19,329	-	-
LIABILITIES				
Borrowings (Note 27)	-	-	-	-
Accounts payable - trade (Note 28)	-	-	-	-
Accounts payable - other	-	-	-	-
Accrued expenses	-	-	-	-
Derivatives financial instruments (Note 31)	-	-	-	2,814
TOTAL FINANCIAL LIABILITIES	-	-	-	2,814
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Cash and cash equivalents (Note 20)	-	74,380	-	74,380
Accounts receivable - trade (Note 21)	-	276,630	-	276,630
Accounts receivable - other	-	33,235	4,937	38,172
Available-for-sale financial assets (Note 24)	-	19,329	-	19,329
TOTAL FINANCIAL ASSETS	-	403,574	4,937	408,511
LIABILITIES				
Borrowings (Note 27)	1,141,670	1,141,670	-	1,141,670
Accounts payable - trade (Note 28)	296,715	296,715	108	296,823
Accounts payable - other	70,748	70,748	-	70,748
Accrued expenses	129,901	129,901	-	129,901
Derivatives financial instruments (Note 31)	-	2,814	-	2,814
TOTAL FINANCIAL LIABILITIES	1,639,034	1,641,848	108	1,641,956

Financial Assets and Liabilities classified in accordance
with the IAS 39 Categories at 30 September 2014

	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
ASSETS				
Cash and cash equivalents (Note 20)	40,862	-	-	-
Accounts receivable - trade (Note 21)	311,998	-	-	-
Accounts receivable - other	24,390	-	-	-
Available-for-sale financial assets (Note 24)	-	18,423	-	-
Derivatives financial instruments (Note 31)	-	-	-	356
TOTAL FINANCIAL ASSETS	377,250	18,423	-	356
LIABILITIES				
Borrowings (Note 27)	-	-	-	-
Accounts payable - trade (Note 28)	-	-	-	-
Accounts payable - other	-	-	-	-
Accrued expenses	-	-	-	-
Derivatives financial instruments (Note 31)	-	-	-	1,767
TOTAL FINANCIAL LIABILITIES	-	-	-	1,767

	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Cash and cash equivalents (Note 20)	-	40,862	-	40,862
Accounts receivable - trade (Note 21)	-	311,998	-	311,998
Accounts receivable - other	-	24,390	10,197	34,587
Available-for-sale financial assets (Note 24)	-	18,423	-	18,423
Derivatives financial instruments (Note 31)	-	356	-	356
TOTAL FINANCIAL ASSETS	-	396,029	10,197	406,226
LIABILITIES				
Borrowings (Note 27)	1,115,084	1,115,084	-	1,115,084
Accounts payable - trade (Note 28)	314,347	314,347	143	314,490
Accounts payable - other	62,226	62,226	-	62,226
Accrued expenses	154,295	154,295	-	154,295
Derivatives financial instruments (Note 31)	-	1,767	-	1,767
TOTAL FINANCIAL LIABILITIES	1,645,952	1,647,719	143	1,647,862

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 "Prepaid expenses" 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 in the contractual terms of each financial instrument.

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



20. Cash and Cash Equivalents

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Cash and Cash Equivalents

	31-12-2013 RESTATED	30-09-2014
Cash	1,085	527
Deposits	13,093	39,348
Other deposits i)	60,202	987
	74,380	40,862

- i) At 30 September 2014, other deposits have short-term maturities and bear interest at normal market rates.

21. Accounts Receivable - Trade

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Accounts Receivable - Trade

	31-12-2013 RESTATED	30-09-2014
Trade receivables	216,374	247,193
Doubtful accounts for trade receivables	180,609	179,965
Unbilled revenues	60,030	64,805
	457,013	491,963
Impairment of trade receivable	(180,383)	(179,965)
	276,630	311,998

Impairment of Accounts Receivable

The summary of movements in impairment adjustments is as follows:

Impairment of Accounts Receivable

	9M 13 RESTATED	9M 14
AS AT JANUARY 1	131,763	180,383
Change in the consolidation scope (Note 4)	28,468	137
Increases and decreases (Note 11)	11,313	(568)
Receivables written off and other	1,823	13
AS AT SEPTEMBER 30	173,367	179,965

22. Taxes Payable and Receivable

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Tax Payable and Receivable

	31-12-2013 RESTATED		30-09-2014	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
CURRENT				
Value-added tax	2,337	17,954	1,401	13,677
Income taxes	9,065	-	5,646	-
Social Security contributions	-	1,957	-	1,876
Personnel income tax withholdings	-	2,107	-	1,846
Other	428	974	430	428
	11,830	22,992	7,477	17,827
NON CURRENT				
Tax authorities (Note 34.3)	7,705	-	7,640	-
Provision	(3,479)	-	(3,408)	-
	4,226	-	4,232	-
	16,056	22,992	11,709	17,827

At 31 December 2013 and 30 September 2014 the amounts of IRC (Corporate Income Tax) receivable and payable were composed as follows:

IRC (Corporate Income Tax) Receivable and Payable

	31-12-2013 RESTATED	30-09-2014
Estimated current tax on income i)	(7,365)	1,156
Payments on account	12,838	3,286
Withholding income taxes	2,856	692
Other	736	512
	9,065	5,646

i) the amount relating to the estimated current tax on income was recorded in the following items:

Estimated Current Tax on Income

	31-12-2013 RESTATED	30-09-2014
Income taxes	(6,148)	1,491
Change in the consolidation scope (Note 4)	(1,500)	(157)
Other	283	(178)
	(7,365)	1,156



23. Investments in Jointly Controlled Companies and Associated Companies

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Investments in Jointly Controlled Companies and Associated Companies

	31-12-2013 RESTATED	30-09-2014
INVESTMENTS - EQUITY ACCOUNTING		
Sport TV	29,769	28,101
Dreamia	1,687	2,631
Finstar	(13,466)	(1,617)
Mstar	(321)	(104)
Upstar	53	75
Distodo	(125)	(122)
Canal 20 TV, S.A.	5	(1)
ZON II	50	-
ZON III	50	-
East Star	-	36
Big Picture 2 Films	-	25
	17,702	29,024
ASSETS	31,614	30,868
LIABILITIES (NOTE 29)	(13,912)	(1,844)

Movements in "Investments in jointly controlled companies and associated companies" in the nine months ended as at 30 September 2013 and 2014 were as follows:

Investments in Jointly Controlled Companies and Associated Companies Movements

	9M 13 RESTATED	9M 14
AS AT JANUARY 1	13,539	17,702
Gain / (loss) for the year (Note 12)	2,335	11,633
Dissolutions	-	(100)
Entry of companies	-	36
Changes in equity i)	350	(247)
AS AT SEPTEMBER 30	16,224	29,024

i) Amounts related to changes in equity of the companies registered by the equity method of consolidation is 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 year ended at 31 December 2013 and in the nine months ended at 30 September 2014 is as follows:

Investments in Jointly Controlled Companies and Associated Companies – December 2013
Amounts stated in Thousands of Euros

ENTITY	ASSETS	LIABILITIES	REVENUE	NET INCOME	% OWNED	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV	119,279	59,496	123,967	(5,807)	50.00%	(2,904)
Dreamia	10,743	7,215	2,083	(103)	50.00%	(52)
Finstar	46,070	90,749	143,896	22,436	30.00%	6,731
Mstar	4,721	5,865	9,960	1,091	30.00%	327
Upstar	42,861	42,684	50,149	51	30.00%	15
Distodo	283	532	742	(455)	50.00%	(227)
Canal 20 TV, S.A.	66	57	-	-	50.00%	-
ZON II	50	-	-	-	100.00%	-
ZON III	50	-	-	-	100.00%	-
Big Picture 2 Films	681	683	3,874	(76)	20.00%	(15)

Investments in Jointly Controlled Companies and associated companies – September 2014
Amounts stated in Thousands of Euros

ENTITY	ASSETS	LIABILITIES	REVENUE	NET INCOME	% OWNED	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV	130,750	74,547	82,221	(3,580)	50.00%	(1,790)
Dreamia	14,541	9,279	3,403	1,737	50.00%	868
Finstar	63,841	69,228	136,894	40,598	30.00%	12,179
Mstar	10,765	11,111	11,127	1,111	30.00%	333
Upstar	42,143	41,893	40,503	50	30.00%	15
Distodo	72	317	213	4	50.00%	2
Canal 20 TV, S.A.	55	57	-	-	50.00%	-
East Star	137	17	-	-	30.00%	-
Big Picture 2 Films	1,600	1,476	5,125	126	20.00%	25

24. Available for Sale Financial Assets

At 31 December 2013 and 30 September 2014, the item "Financial assets available for sale" was composed as follows:

Available for Sale Financial Assets

	31-12-2013 RESTATED	30-09-2014
Investment fund for cinema and audiovisuals ("FICA")	19,246	18,346
Other	83	77
	19,329	18,423

The balance stated in this item relates mainly to the Cinema and Audiovisual Investment Fund set up in 2007, in compliance with Article 67 of Decree-Law 227/2006 of 15 November. The fund was



established to invest in cinematographic, audiovisual and multiplatform works, with the aim of increasing and improving the supply and potential value of these productions. NOS subscribed for **30.12% of the units in this fund jointly with other audiovisual companies. The item "Accounts Payable - others" includes the value of the contribution obligation to the fund, totalling 17,500 thousand euros, corresponding to the current value of the instalments due.**

Based on the last published accounts and the estimates of the recovery of assets (Note 15), it was recorded an impairment loss in the amount of 900 thousand euros during the nine months ended at 30 September 2014.

25. Intangible Assets

During the year ended on 31 December 2013 and the nine months ended on 30 September 2014, this item was composed as follows:

Intangible Assets

	31-12-2013 RESTATED	30-09-2014
ACQUISITION COST		
Industrial property and other rights	1,346,936	1,405,248
Goodwill	629,386	641,802
Other intangible assets	11,942	15,875
Intangible assets in-progress	24,011	29,741
	2,012,275	2,092,666
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES		
Industrial property and other rights	841,751	923,049
Other intangible assets	9,925	11,352
	851,676	934,401
	1,160,599	1,158,265

At 30 September 2014, the item "Industrial property and other rights" includes mainly:

- (1) A net amount of 67,915 thousand euros (2013: 73,552 thousand 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;
- (2) A net amount of 162,773 thousand euros, mainly related to the investment, net of depreciation, made in the development of the UMTS network by NOS SA, including: (i) 48,755 thousand euros related to the license, (ii) 16,219 thousand euros related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) **5,003 thousand euros related to the "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; and (iv) 80,251 thousand euros related with the programme "Initiatives E"; and the net amount of 8,307 thousand euros corresponding to the valuation of the license in the fair value allocation process resulting from the merger (Note 4);

- (3) A net amount of 102,158 thousand 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 3,558 thousand euros corresponding to the valuation of the license in the fair value allocation process resulting from the merger (Note 4). At 30 September 2014 and considering the availability of LTE technology, although subject to restrictions in some areas of the country, a fraction of the present value of future payments related to the acquisition of rights of use for 4th generation frequencies service 4th generation (LTE - Long Term Evolution), in the amount of 16,550 thousand euros, is still recorded in intangible assets in-progress;
- (4) A net amount of approximately 38,618 thousand euros corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger (Note 4);
- (5) Net amounts of approximately 24,428 thousand euros and 19,080 thousand euros corresponding to the capitalised costs related to customers' loyalty contracts and future rights to use movies and series, respectively (Note 1).

Impairment Tests on Goodwill

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

Goodwill by Reportable Segment

	31-12-2013 RESTATED	30-09-2014
Telco	552,785	565,201
Audiovisuals	76,601	76,601
	629,386	641,802

In 2013 impairment tests were performed based on assessments of the current use value and 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:

Goodwill Impairment Tests – Assumptions

	TELCO SEGMENT	AUDIOVISUALS SEGMENT	
		NOS AUDIOVISUALS	NOS CINEMAS
Discount rate (before taxes)	9.0%	9.0%	9.0%
Assessment period	5 years	5 years	3 years
EBITDA* Growth	5.2%	-3.7%	1.8%
Perpetuity growth rate	2.0%	2.0%	2.0%

* EBITDA = Operational result + Depreciation and amortization

The negative growth rate, in the period of 5 years, used for NOS Audiovisuals is due to the expected fall in prices for the year 2014, with significant impact on EBITDA, not totally offset by the estimated EBITDA growth in the subsequent years.

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

Sensitivity analyses were performed on variations in discount rates 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 2014, even with the increase of goodwill of Telco's segment, it was considered that does not exist signs of impairment to lead to a revision of the impairment tests performed.

26. Tangible Assets

During the year ended on 31 December 2013 and the nine months ended at 30 September 2014, this item was composed as follows:

Tangible Assets

	31-12-2013 RESTATED	30-09-2014
ACQUISITION COST		
Land	1,244	1,244
Buildings and other constructions	289,570	297,114
Basic equipment	2,145,368	2,220,013
Transportation equipment	10,848	11,031
Tools and dies	1,226	1,235
Administrative equipment	289,813	304,760
Other tangible assets	39,886	41,305
Tangible assets in-progress	29,193	68,607
	2,807,148	2,945,309
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Buildings and other constructions	130,827	149,599
Basic equipment	1,271,571	1,376,742
Transportation equipment	4,228	5,008
Tools and dies	1,204	1,210
Administrative equipment	264,817	279,308
Other tangible assets	37,678	39,377
	1,710,325	1,851,244
	1,096,823	1,094,066

The Tangible Assets' net value is composed mainly by basic equipment, namely:

- i) Buildings and all the structural component of towers and rooftops where telecommunications antennas are installed, recorded in the caption "Buildings and other constructions" amounting to 166.8 million euros; and
- ii) The entire network and telecommunications infrastructure (fiber optic network and cabling, network equipment, and other equipment), included in the caption of "Basic equipment" amounting to 676 million euros.

The acquisition cost of the "Tangible Assets" and "Intangible Assets" held by the Group under finance lease contracts at 31 December 2013 and 30 September 2014, amounted to 167.3 million euros and 175 million euros, and their net book value as of those dates amounted to 113.4 million euros and 109.4 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 2014, total net value of these costs amounted to 13.1 million euros. The amount capitalised in the nine months ended on 30 September 2014 amounted to 1.7 million euros.

27. Borrowings

At 31 December 2013 and 30 September 2014, the composition of borrowings was as follows:

Borrowings

	31-12-2013 RESTATED		30-09-2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
LOANS - NOMINAL VALUE	184,969	813,945	277,770	703,990
Debenture loan	157,100	340,000	272,000	275,000
Commercial paper	20,000	375,000	-	225,000
Foreign loans	-	98,945	-	203,990
National loans	3,609	-	1,434	-
Bank overdrafts	4,260	-	4,336	-
LOANS - ACCRUALS AND DEFERRALS	2,484	(2,406)	(2,991)	1,160
FINANCIAL LEASES	25,978	116,700	28,438	106,716
Long Term Contracts	17,426	106,559	20,015	94,925
Other	8,552	10,141	8,423	11,791
	213,431	928,239	303,217	811,867

During the nine months ended at 30 September 2014, the average cost of debt of the used lines was approximately 4.77% (5.07% in 2013).

27.1. Debenture Loans

The Company has bonds issued via three banks totaling 157.1 million euros maturing in 2014, with half-yearly payments of interest and repayment at par at the end of the contract. In May 2014, the Company paid in advance 100 million of the debenture loan and simultaneously negotiated a new debenture loan with BPI, in the amount of 100 million euros maturing in November 2019.

Additionally, in 30 September 2014, the Company repurchased and repaid in advance 25 million euros, with debt amounting, in the period ended in 30 September 2014, to 32 million euros.

In June 2012, NOS launched a Public Offer for Subscription of Bonds for the general public, called "ZON Multimédia Bonds 2012-2015", under which it issued 200 million euros with a maturity of three years and half yearly payment at a fixed rate.

During the year ended 31 December 2013, and following the merger (Note 4), a bond loan of 40 million euros hired by Sonaecom in March 2010 was transferred to NOS. The loan bears interest at variable rates, indexed to Euribor and paid semiannually. This issue was organised and mounted, respectively, by Banco Espírito Santo de Investimento and Caixa - Banco de Investimento.

After the merger a bond loan of 100 million euros hired by Sonaecom in September 2011 was also transferred to NOS. The loan bears interest at variable rates, indexed to Euribor and paid semiannually. This issue was organized and mounted by BNP Paribas, ING Belgium SA/NV and Portigon AG (formerly known as WestLB AG). During the year ended 31 December 2013, Portigon AG transferred its entire stake of 33.3 million euros in bonds to Erste Abwicklungsanstalt ("EAA"), a German state entity. During the nine months ended 30 September 2014, the loan was reimbursed entirely in advance.

On 22 September 2014, NOS issued a new bond loan organized by four financial institutions, amounting to 175 million euros, maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor 6M with a spread of 2.15% and paid semiannually.

27.2. Commercial Paper

The Company has borrowings of 225 million euros, in the form of commercial paper contracted with two banks, corresponding to five programs, earning interest at market rates. Grouped commercial paper programmes with maturities over 1 year totaling 225 million euros are classified as non-current, since the Company has the ability to unilaterally renew the current issues on or before the **programmes' maturity dates and because they are underwritten by the organizer. This amount,** although it has current maturity, was classified as non-current for purposes of presentation in the statement of financial position. The remaining programmes, given the schedule settlement dates, are classified as current.

An amount of 3,374 thousand euros, corresponding to interest and commissions, was deducted from this amount.

27.3. Foreign Loans

In September 2009, NOS and NOS SA signed a Next Generation Network Project Finance Contract with the European Investment Bank in the amount of 100 million euros. This contract matures in September 2015 and is intended for investments relating to the implementation of the next generation network. An amount of 716 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidized rate.

Additionally, 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. An amount of 5,294 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidized rate.

27.4. Financial Leases

On 31 December 2013 and 30 September 2014, 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 Be Artis 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

	31-12-2013 RESTATED	30-09-2014
Until 1 year	28,123	33,806
Between 1 and 5 years	67,506	67,514
Over 5 years	78,907	62,815
	174,536	164,135
Future financial costs	(31,858)	(28,982)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	142,678	135,154

Financial Leases – Present Value

	31-12-2013 RESTATED	30-09-2014
Until 1 year	25,978	28,438
Between 1 and 5 years	50,322	51,909
Over 5 years	66,378	54,807
	142,678	135,154

All bank borrowings (with the exception of ZON Multimédia bonds 2012-2015 and the new EIB loan of 110 million euros) and finance leases contracted 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:

Maturity of Loans

	31-12-2013 RESTATED			30-09-2014		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	155,052	338,928	-	271,189	-	277,150
Commercial paper	16,159	373,678	-	(2,291)	223,917	-
Foreign loans	(220)	98,932	-	-	149,872	54,118
Internal loans	12,202	-	-	1,539	-	-
Bank overdrafts	4,260	-	-	4,336	-	-
Others	-	-	-	6	93	-
Financial Leases	25,978	50,322	66,378	28,438	51,909	54,807
	213,431	861,861	66,378	303,217	425,792	386,074

28. Accounts Payable - Trade

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Accounts Payable - Trade

	31-12-2013 RESTATED	30-09-2014
Suppliers current account	296,715	314,347
Advances from customers	108	143
	296,823	314,490

29. Provisions and Adjustments

At 31 December 2013 and 30 September 2014, this item was composed as follows:

Provisions

	31-12-2013 RESTATED	30-09-2014
Litigation and other - i)	16,530	52,150
Financial investments - ii)	13,912	1,844
Dismantling and removal of assets - iii)	14,509	15,189
Contingent liabilities - iv)	66,133	36,681
Contingencies - other - v)	21,887	22,288
	132,972	128,152

- i) The amount under the item "Litigation and other" corresponds to provisions to cover the legal and tax claims of which stand out:



- a. 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 for the years 2009 (Report of the Tax Inspection and tax settlement notice received in December 2011 and January 2012, respectively), 2010 (Report of the Tax Inspection and the tax settlement notice received in January and May 2013, respectively) and 2011 (Report of the Tax Inspection and tax settlement notice received in January 2014 and October 2014, respectively). 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 2008, 2009 and 2010 fiscal years and will challenge, in time, the decision regarding 2011 fiscal year. Regarding the year 2008, the Administrative and Fiscal Court of Porto has already decided unfavourably, in March 2014, and the company has initiated the corresponding appeal;
- b. 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 applied for the judicial review of the decision and the **court has declared the process's nullity (violation of NOS, SA's right of defense)**. ANACOM has notified NOS SA of a new judicial process.
- 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), by granting supplementary capital to its subsidiary Be 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 2007, the Fiscal and Administrative Court of Oporto has already decided unfavourably. The company has contested this decision.
- d. Action brought by PT against NOS Madeira, claiming the payment of 1.6 million euros, for the alleged use of ducts, supply of the MID service, supply of video and audio channels, operating, maintenance and management costs of the Madeira/Porto Santo undersea cable and the use of two fiber optic circuits (Note 34.4).
- e. Infringement proceedings in the amount of approximately 4.5 million euros, established by the **National Commission for Data Protection ("CNDP")** against NOS SA subsidiary, for alleged violations of rules relating to legal protection of data. During the project phase of decision, NOS SA argued, firstly, a set of procedural irregularities and, secondly, a set of fact and law arguments

that the Board understood to impose a final decision to dismiss the case. However, on 16 January 2014, NOS SA received a settlement notice regarding the fine imposed by the CNPD, against which appealed to the courts. On 8 September 2014, the Court for Competition, Regulation and Supervision ("Tribunal da Concorrência, Regulação e Supervisão") **reduced the value of the fine to 600 thousand euros**. NOS SA appealed against this decision. As a consequence of this decision, the provision was reduced by 3.9 million euros.

- 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 23);
- 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 (Note 4), namely:
 - a. Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CSLU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CSLU) is legislated in Articles 17 to 22 of Law nr 35/2012, of 23 August. From 1995 until June 2014, PT Comunicações, SA (PTC) was the sole provider for the universal service of electronic communications, having been designated illegally without a tender procedure, as acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the **Portuguese State to pay a fine of 3M € for illegally designating Portugal Telecom. In accordance** with Article 18 of the abovementioned Law 35, the net costs of the operator responsible for providing the universal service, approved by IPC-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 PTC has requested the payment of CLSU to the compensation fund. 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 ICP-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 requester the Government compensation for the net costs approved under the terms previously mentioned. In September 2013, ICP-ANACOM delibered to approve the final results of the CLSU audit presented by PTC, relative to the period from 2007 to 2009, in a total amount of 66.8 million euros, a decision which was contested by NOS and about which NOS was, in June 2014, notified of the argument provided by ICP-ANACOM. Also in June 2014, ICP-ANACOM requested NOS to send the information regarding the revenue eligible, for the purpose of the contribution toward the compensation fund. This information was sent with the reservation that it



did not signal NOS' acceptance or agreement as to the existence of any obligation to pay the extraordinary contribution. An audit to the amount of revenues eligible is underway and in its closing stages. It is expected that PTC submits to ICP-ANACOM the CLSU calculations incurred in the period from 2012 to June 2014. It is estimated that the contribution of Optimus, SA, up until the date of the merger, amounts to 22 million euros.

It is the opinion of the Board of Directors of NOS that this extraordinary contribution violates the Directive of Universal Service, given that PTC was not designated the universal service provider through a tender procedure. 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, recognized on a legal and constitutional level in Portuguese domestic law. For these reasons, NOS will judicially challenge the liquidation of each and all extraordinary contributions. Following these facts, which took place especially in June 2014, and after reassessing the process with its attorneys, this contribution is classified as a contingent liability. However, 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 nine months ended on 30 September 2013 and 2014, movements in provisions were as follows:

Provisions - Movements 2013

	31-12-2012 RESTATED	INCREASES	DECREASES	OTHER	30-09-2013 RESTATED
Litigation and other	3,920	-	(362)	-	9,938
Financial investments	21,540	-	(5,275)	-	16,265
Dismantling and removal of assets	4,910	64	-	(2,500)	16,735
Contingent liabilities	-	-	-	-	77,215
Contingencies - other	-	10,888	(3,531)	(423)	21,517
	30,371	10,951	(9,168)	(2,923)	141,670

Provisions - Movements 2014

	31-12-2013 RESTATED	INCREASES	DECREASES	OTHER	30-09-2014
Litigation and other	16,530	10,578	(5,936)	30,908	52,150
Financial investments	13,912	-	(12,068)	-	1,844
Dismantling and removal of assets	14,509	514	-	(50)	15,189
Contingent liabilities	66,133	-	-	(29,873)	36,681
Contingencies - other	21,887	1,721	(852)	(498)	22,288
	132,972	12,813	(18,856)	487	128,152

At 30 September 2014, the amount recorded under the heading "Other" in the amount of 487 thousand euros corresponds mainly to the utilization of provisions made for indemnizations to **workers of 3 million euros and reclassifications of accrued costs in relation to which can't be estimated** with certainty when will the expense occur, in the amount of 1.4 million euros.

Also during the nine months ended at 30 September 2014, with the submission of the income tax return, an amount of 2.3 million euros related to tax contingencies previously deducted to the deferred tax assets was reclassified to provisions.

Additionally, during the nine months ended at 30 September 2014, there were recorded provisions for litigations which risk assessment has been changed to likely, in the sequence of recent unfavorable **decisions, which led to the reclassification from "Contingent liabilities" to "Litigation and other"** in the amount of 31 million euros.

The net movements for the nine months ended on 30 September 2013 and 2014, reflected in the **statement of comprehensive income under "Provisions and adjustments"** are composed as follows:

Provisions and Adjustments - Net Movements

	9M 13 RESTATED	9M 14
Provisions and adjustments (Note 11)	(4,177)	(4,936)
Interests - dismantling	64	514
Restructuring costs	2,830	964
Other non-recurrent costs / (gains)	8,057	7,693
Income tax (Note 16)	-	944
Financial investments (Note 12)	(5,275)	(12,068)
Others	284	846
PROVISIONS AND ADJUSTMENTS	1,783	(6,043)



30. Shareholder's Equity

30.1. Share Capital

At 31 December 2013 and 30 September 2014 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 2013 and 30 September 2014 are:

Principal Shareholders

	31-12-2013		30-09-2014	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA ⁽¹⁾	257,632,005	50.01%	257,632,005	50.01%
Banco BPI, SA ⁽²⁾	23,344,798	4.53%	23,287,499	4.52%
Joaquim Alves Ferreira de Oliveira ⁽³⁾	14,955,684	2.90%	14,955,684	2.90%
Sonaecom, SGPS, SA ⁽⁴⁾	37,489,324	7.28%	11,012,532	2.14%
Fundação José Berardo e Metalgest - Sociedade de Gestão, SGPS, SA	17,999,249	3.49%	-	-
Espírito Santo Irmãos, SGPS, SA	15,455,000	3.00%	-	-
TOTAL	366,876,060	71.22%	306,887,720	59.57%

- (1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Security Code, a qualified shareholding of 52.15% of the share capital and voting rights of the Company, calculated in accordance with Article 20. of the Securities Code, 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 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;
 - b. Entities in a control relationship with Sonaecom, namely, Sontel B.V., Sonae Investments B.V., 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) In accordance with paragraph 1 of Article 20 of the Security Code, a shareholding of 4.52% of the share capital and voting rights of the Company held by **Banco BPI's Pension Fund** are attributable to Banco BPI.
- (3) The voting rights corresponding to 2.90% of the share capital are attributed to Joaquim Francisco Alves Ferreira de Oliveira, as he controls GRIPCOM, SGPS, SA, and Controlinveste International S.à.r.l, which holds, respectively, 1.36% and 1.55% of the share capital of NOS.

- (4) **Qualified shareholding in accordance with the Public Offer's results disclosed by Sonaecom, SGPS, SA at 20 February 2014.**

30.2. 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 August 27. 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.

30.3. 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 2014 there were 1,997,552 own shares, representing 0.3878% of the share capital (31 December 2013: 403,382 own shares, representing 0.0783% of the share capital).



Movements in the nine months ended on 30 September 2013 and 2014 were as follows:

Own Shares

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2013	401,523	914
Acquisition of own shares	420,973	1,490
Distribution of own shares	(571,800)	(1,508)
BALANCE AS AT 30 SEPTEMBER 2013	250,696	896
BALANCE AS AT 1 JANUARY 2014	403,382	2,003
Acquisition of own shares	5,162,564	26,021
Loan of own shares	950,000	4,869
Reimbursement of the loan of own shares	(576,100)	(2,948)
Distribution of own shares - share incentive scheme	(2,107,202)	(10,954)
Distribution of own shares - share Public Offering	(1,706,761)	(8,915)
Distribution of own shares - other remunerations	(128,331)	(660)
BALANCE AS AT 30 SEPTEMBER 2014	1,997,552	9,416

During the first semester of 2014, NOS received, reimbursed and paid the totality of the 950,000 own shares loan with Sonaecom, SGPS, S.A. ("Sonaecom").

NOS made a Public Offering in a maximum of 1,750,000 ordinary, registered and nominative shares, with a value of 0.01 euros each, representative of 0.340% of NOS's share capital, destined to the Group's employees. The Offer was made under the NOS's Short and Mid Term Variable Remuneration Regulation and relates to the employees' short term variable remuneration. Relating to that Offer, purchase orders in an amount of 1,706,761 shares representative of NOS's share capital were received and processed and therefore the same amount of 1,706,761 shares was acquired by the employees that presented the related purchase order, at the acquisition price corresponding to the NOS' shares' closing price as at 12 May 2013 (5.125 euros), with a discount of 90% over that price (price of 0.5125 euros per share).

The Offer's main goals were: (i) to align the interest of those to whom the Offer was addressed with the goals and interest of NOS' shareholders, (ii) to promote their loyalty to the Group, and also, consequently, (iii) to foster the Group's corporate results.

30.4. 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 2014, NOS had reserves which by their nature are considered distributable in the amount of approximately 187 million euros.

31. Derivative Financial Instruments

31.1. Exchange Rate Derivatives

Exchange rate risk is mainly related to exposure resulting from payments made to certain producers of audiovisual content and equipment for the Pay TV, broadband and voice business. Business transactions between the Group and these suppliers are mainly denominated in US dollars.

Depending on the balance of accounts payable resulting from transactions denominated in a currency **different from the Group's operating currency**, the NOS Group may contract financial instruments, namely short-term foreign currency forwards, in order to hedge the risk associated with these balances. At the date of the statement of financial position there were foreign currency forwards open for 7,644 thousand Dollars (31 December 2013: 7,550 thousand Dollars), the fair value amounts to about 356 thousand euros (31 December 2013: a negative amount of 132 thousand euros) which is stated in assets and liabilities, respectively, as a contra entry in **shareholder's equity**.

31.2. Interest Rate Derivatives

At 30 September 2014, NOS had contracted two interest rate swaps totaling 107 million euros (31 December 2013: 257.5 million euros), which maturities expire in 2014 (one swap in the amount of 32.05 million euros) and 2017 (one swap in the amount of 75 million euros). The fair value of interest rate swaps, in the negative amount of 1.8 million euros (31 December 2013: negative amount of 2.7 million euros) is stated in liabilities, with a contra entry for this amount **stated in shareholder's equity**.

Derivative Financial Instruments at 31 December 2013

31-12-2013					
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	257,500	-	-	2,682	-
Exchange rate forward	5,474	-	-	132	-
	262,974	-	-	2,814	-

Derivative Financial Instruments at 30 September 2014

	NOTIONAL	30-09-2014			
		ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	107,050	-	-	127	1,640
Exchange rate forward	6,075	356	-	-	-
	113,125	356	-	127	1,640

Movements during the nine months ended on 30 September 2013 and 2014 were as follows:

Derivative Financial Instruments – Movements 2013

	31-12-2012	RESULT	EQUITY	30-09-2013
Fair value interest rate swaps	(6,051)	-	1,335	(4,715)
Fair value exchange rate forward	(45)	-	(87)	(132)
CASH FLOW HEDGE DERIVATIVES	(6,095)	-	1,248	(4,847)
Deferred income tax liabilities	-	-	-	-
Deferred income tax assets	1,616	-	(329)	1,288
DEFERRED INCOME TAX	1,616	-	(329)	1,288
	(4,479)	-	920	(3,559)

Derivative Financial Instruments – Movements 2014

	31-12-2013	RESULT	EQUITY	30-09-2014
Fair value interest rate swaps	(2,682)	-	915	(1,767)
Fair value exchange rate forward	(132)	-	488	356
CASH FLOW HEDGE DERIVATIVES	(2,814)	-	1,403	(1,411)
Deferred income tax liabilities	-	-	(87)	(87)
Deferred income tax assets	693	-	(27)	666
DEFERRED INCOME TAX	693	-	(114)	579
	(2,121)	-	1,289	(832)

32. Guarantees and Financial Undertakings

32.1. Guarantees

At 31 December 2013 and 30 September 2014, the Group had furnished sureties, guarantees and comfort letters in favour of third parties corresponding to the following situations:

Guarantees

	31-12-2013 RESTATED	30-09-2014
Financial institutions i)	100,193	210,425
Tax authorities ii)	31,219	24,856
Anacom iii)	24,000	-
Other iv)	19,660	15,652
	175,072	250,932

i) At 31 December 2013 and 30 September 2014, this amount relates to guarantees issued by NOS in connection with the loans from EIB (Note 27). The increase relates to the new 110 million EIB loan.

ii) At 31 December 2013 and 30 September 2014, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 34).

iii) At 31 December 2013, this amount relates to guarantees issued by NOS SA on the acquisition of spectrum for the 4th generation. This guarantee was canceled on 10 January 2014 following the anticipation of the payment related to the acquisition of spectrum for the 4th generation.

iv) At 31 December 2013 and 30 September 2014, 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 (Note 34).

At 30 September 2014, in connection with the finance obtained by Upstar from BES, totaling 20 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan.

Additionally, during the nine months ended at 30 September 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 counterguarantee of a guarantee by BES in the amount of 30 million dollars, to pledge the fulfillment of the contract's obligations.**

In connection with the finance obtained by Finstar from Banco BIC, Banco BNI and BFA, totaling 1,818 million AKZ, 735 million AKZ and 1,179 million AKZ, respectively, NOS signed three comfort letters accepting liability for up to 30% of the total amount of the loan. The comfort letter from the Banco



Caixa Totta also covers 30% of 7.5 million USD of back to back letters of credit for importing goods. Furthermore, it includes a promissory note signed by NOS, responsible for up to 30% of Finstar's financing along with BFA, to the sum of 717 million AKZ.

In addition to the guarantees required by the Tax Authorities were set up sureties for the current fiscal processes. Sonaecom SGPS consisted of NOS SA surety for the amount of 10,529,619 euros and NOS consisted of NOS SA surety for the amount of 1,212,933 euros.

32.2. Operating Leases

The rentals due on non-cancellable operating leases or operating leases with renewal option have the following maturities:

Operating Leases

	31-12-2013 RESTATED				30-09-2014			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	1 AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	1 AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	4,453	44,380	127,850	46,080	2,268	36,653	84,526	38,016
Telecommunication towers and rooftops	8,240	5,920	15,207	13,511	9,607	4,269	13,231	10,877
Equipment	-	101	249	56	57	38	22	-
Vehicles	-	2,397	4,201	-	-	1,985	3,166	-
	12,693	52,799	147,507	59,647	11,932	42,945	100,944	48,893

32.3. Other Undertakings

Covenants

The EIB loan totaling 100 million euros with a maturity of 5 years is intended exclusively to finance the next generation network investment project. This amount may not in any circumstances exceed 50% of the total cost of the project.

The EIB loan totaling 110 million euros with a maturity of 8 years is intended exclusively to finance the **mobile broadband's network investment project**. This amount may not in any circumstances exceed 50% of the total cost of the project.

Of the loans obtained (excluding financial leases), in addition to being subject to the Group complying with its operating, legal and fiscal obligations, 84% are subject to cross-default clauses, 94% to pari passu clauses, 47% to ownership clauses and 74% to negative pledge clauses.

In addition, approximately 43% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA and 8% of the total loans obtained that the consolidated net financial debt does not exceed 4 times consolidated EBITDA.

Commitments Under the Merger between ZON and Optimus SGPS

Following the final decision of the Competition Authority not to oppose the merger between ZON and Optimus SGPS were made the following commitments:

- a) To ensure that NOS extends the contract's period of validity for the reciprocal sharing of the NOS SA and Vodafone Portugal ("Vodafone") network;
- b) To ensure that NOS modifies the reciprocal sharing contract for the NOS SA and Vodafone network so that the limitation of liability in the event that the resolution is unjustified or justified for a reason attributable to NOS SA, does not apply;
- c) To ensure that NOS SA, for a determined period of time, will not charge its fiber optic triple play service clients the payment due because of loyalty clauses in place, in the event of a disconnection request;
- d) To ensure that NOS SA will be open to negotiate, for a determined period of time, with a requested third party, a contract which allows wholesale access to its fiber network;
- e) To ensure that NOS SA will present to and negotiate with Vodafone, for a determined period of time, a contract that gives the option of buying its fiber network.



33. Related Parties

33.1. Summary List of Related Parties

Detailed summary of related parties as at 30 September 2014:

Related Parties

RELATED PARTIES	
3DO Holding GmbH	Canal 20 TV
3shoppings - Holding,SGPS, S.A.	Canasta - Empreendimentos Imobiliários, S.A.
8ª Avenida Centro Comercial, SA	Cape Technologies Limited
ADD Avaliações Engenharia de Avaliações e Perícias Ltda	Carvemagere-Manut.e Energias Renov., Lda
Adlands B.V.	Casa Agrícola de Ambrões, S.A.
Aegean Park, S.A.	Casa da Ribeira - Hotelaria e Turismo, S.A.
Agepan Eiweiller Management GmbH	Cascaishopping - Centro Comercial, S.A.
Agepan Flooring Products, S.A.RL	Cascaishopping Holding I, SGPS, S.A.
Agloma Investimentos, Sgps, S.A.	CCCB Caldas da Rainha - Centro Comercial, SA
Águas Furtadas Sociedade Agrícola, SA	Centro Colombo - Centro Comercial, S.A.
Airone - Shopping Center, Srl	Centro Residencial da Maia, Urban., S.A.
ALBCC Albufeirashopping C.Comercial SA	Centro Vasco da Gama - Centro Comercial, S.A.
ALEXA Administration GmbH	Change, SGPS, S.A.
ALEXA Asset GmbH & Co KG	Chão Verde - Soc.Gestora Imobiliária, S.A.
ALEXA Holding GmbH	Cinclus Imobiliária, S.A.
ALEXA Shopping Centre GmbH	Cinveste, SGPS, SA
Algarveshopping - Centro Comercial, S.A.	Citic Capital Sierra Limited
Alpêssego - Soc. Agrícola, S.A	Citic Capital Sierra WFOE
Andar - Sociedade Imobiliária, S.A.	Citorres - Sociedade Imobiliária, S.A.
Apor - Agência para a Modernização do Porto	Coimbrashopping - Centro Comercial, S.A.
Aqualuz - Turismo e Lazer, Lda	Colombo Towers Holding, BV
Arat inmebles, S.A.	Companhia de Pesca e Comércio de Angola (Cosal), SARL
ARP Alverca Retail Park,SA	Companhia Térmica do Serrado, ACE
Arrábidasshopping - Centro Comercial, S.A.	Companhia Térmica Hectare, ACE
Aserraderos de Cuellar, S.A.	Companhia Térmica Tagol, Lda.
Atelgen-Produção Energia, ACE	Contacto Concessões, SGPS, S.A.
Atlantic Ferries - Tráf.Loc,Flu.e Marít, S.A.	Contibomba - Comérc.Distr.Combustíveis, S.A.
Avenida M - 40 B.V.	Contimobe - Imobil.Castelo Paiva, S.A.
Avenida M - 40, S.A.	Continente Hipermercados, S.A.
Azulino Imobiliária, S.A.	Contry Club da Maia-Imobiliária, S.A.
BA Business Angels, SGPS, SA	Cooper Gay Swett & Crawford Lt
BA Capital, SGPS, SA	Craiova Mall BV
Banco BPI, SA	Cronosaúde - Gestão Hospitalar, S.A.
BB Food Service, S.A.	CTE-Central Termoelect. do Estuário, Lda
Beralands BV	Cumulativa - Sociedade Imobiliária, S.A.
Bertimóvel - Sociedade Imobiliária, S.A.	Darbo S.A.S
BHW Beeskow Holzwerkstoffe	Deutsche Industrieholz GmbH
Big Picture 2 Films, SA	Digitmarket - Sistemas de Informação, S.A.
Blackrock, Inc.	Discovery Sports, SA
Bloco Q - Sociedade Imobiliária, S.A.	Distodo - Distribuição e Logística, Lda.
Bloco W - Sociedade Imobiliária, S.A.	Dortmund Tower GmbH
Boavista Shopping Centre BV	Dos Mares - Shopping Centre B.V.
BOM MOMENTO - Comércio Retalhista, SA	Dos Mares - Shopping Centre, S.A.
Caixa Geral de Depósitos, SA	Dreamia - Serviços de Televisão, S.A.
Caixanet - Telecomunicações e Telemática, SA	Dreamia Holding B.V.

RELATED PARTIES

East Star Ltd	Imoferro - Soc.Imobiliária, S.A.
Ecociclo - Energia e Ambiente, S.A.	Imohotel - Emp.Turist.Imobiliários, S.A.
Ecociclo II	Imomuro - Sociedade Imobiliária, S.A.
Efanor Investimentos, SGPS, S.A.	Imopenínsula - Sociedade Imobiliária, S.A.
Efanor Serviços de Apoio à Gestão, S.A.	Imoplamac Gestão de Imóveis, S.A.
El Rosal Shopping, S.A.	Imoponte - Soc.Imobiliaria, S.A.
Emfísico Boavista	Imoresort - Sociedade Imobiliária, S.A.
Empreend.Imob.Quinta da Azenha, S.A.	Imoresultado - Soc.Imobiliaria, S.A.
Enerlousado-Recursos Energéticos, Lda.	Imosedas - Imobiliária e Seviços, S.A.
Equador & Mendes, Lda	Imosistema - Sociedade Imobiliária, S.A.
Espimaia - Sociedade Imobiliária, S.A.	Imosonae II
Estação Viana - Centro Comercial, S.A.	Impaper Europe GmbH & Co. KG
Estêvão Neves - SGPS, SA	Implantação - Imobiliária, S.A.
Euroresinas - Indústrias Químicas, S.A.	Infocfield - Informática, S.A.
Farmácia Seleccção, S.A.	Infosystems-Sociedade de Sistemas de Informação,S.A.
Fashion Division Canárias, SL	Infratroia, EM
Fashion Division, S.A.	Inparsi - Gestão Galeria Comercial, S.A.
Feneralt-Produção de Enercia, ACE	Inparvi SGPS, S.A.
Filmes Mundáfrica, SARL	Integrum - Energia, SA
FINSTAR - Sociedade de Investimentos e Participações, SA	Integrum ACE, SA
Fozimo - Sociedade Imobiliária, S.A.	Integrum Colombo Energia, S.A.
Freccia Rossa - Shopping Centre S.r.l.	Integrum Engenho Novo - Energia, S.A.
Frieengineering International Ltda	INTEGRUM II - ENERGIA, S.A.
Fundação José Berardo	INTEGRUM III - ENERGIA, S.A.
Fundo de Invest. Imobiliário Imosede	Integrum Martim Longo - Energia, S.A.
Fundo I.I. Parque Dom Pedro Shop.Center	Interlog - SGPS, S.A.
Fundo Invest.Imob.Shopp. Parque D.Pedro	Invesaude - Gestão Hospitalar S.A.
Fundo Investimento para Cinema e Audiovisual	Ioannina Development of Shopping Centres, SA
Gaiashopping I - Centro Comercial, S.A.	Isoroy SAS
Gaiashopping II - Centro Comercial, S.A.	ITRUST - Cyber Security and Intellig.,SA
Gesgráfica - Projectos Gráficos, Lda	Joaquim Alves Ferreira de Oliveira
GHP GmbH	Kento Holding Limited
Gli Orsi Shopping Centre 1 Srl	La Farga - Shopping Center, SL
Glunz AG	Laminate Park GmbH Co. KG
Glunz Service GmbH	Land Retail B.V.
Glunz UK Holdings Ltd	Larim Corretora de Resseguros Ltda
Glunz Uka GmbH	Larissa Develop. Of Shopping Centers, S.A.
GMET, ACE	Lazam - MDS Corretora e Administradora de Seguros, S.A.
Golf Time - Golfe e Invest. Turísticos, S.A.	LCC LeiriaShopping Centro Comercial SA
Grupo Visabeira, SGPS, SA	Le Terrazze - Shopping Centre 1 Srl
Guimarãesshopping - Centro Comercial, S.A.	Libra Serviços, Lda.
Harvey Dos Iberica, S.L.	Lídergraf - Artes Gráficas, Lda.
Herco Consultoria de Riscos e Corretora de Seguros Ltda	Lookwise, S.L.
HighDome PCC Limited	Loop5 Shopping Centre GmbH
Iberian Assets, S.A.	Loureshopping - Centro Comercial, S.A.
Igimo - Sociedade Imobiliária, S.A.	Lusitânia - Companhia de Seguros, SA
Iginha - Sociedade Imobiliária, S.A.	Lusitânia Vida - Companhia de Seguros, SA
Imoareaia - Invest. Turísticos, SGPS, S.A.	Luz del Tajo - Centro Comercial S.A.
Imoclub - Serviços Imobiliários, S.A.	Luz del Tajo B.V.
Imoconti - Soc.Imobiliária, S.A.	Madeirashopping - Centro Comercial, S.A.
Imodivor - Sociedade Imobiliária, S.A.	MaiaShopping - Centro Comercial, S.A.
Imoestrutura - Soc.Imobiliária, S.A.	Maiequipa - Gestão Florestal, S.A.



RELATED PARTIES	
Marcas do Mundo – Viag. e Turismo Unip, Lda	Pátio Penha Shopping Ltda.
Marcas MC, ZRT	Pátio São Bernardo Shopping Ltda
Marina de Tróia S.A.	Pátio Sertório Shopping Ltda
Marinamagic – Expl.Cent.Lúdicos Marít, Lda	Pátio Uberlândia Shopping Ltda
Marmagno – Expl.Hoteleira Imob., S.A.	PCJ - Público, Comunicação e Jornalismo, S.A.
Martimope – Sociedade Imobiliária, S.A.	Pharmaconcept – Actividades em Saúde, S.A.
Marvero – Expl.Hoteleira Imob., S.A.	PHARMACONTINENTE – Saúde e Higiene, S.A.
MDS Affinity - Sociedade de Mediação, Lda	PJP – Equipamento de Refrigeração, Lda
MDS Africa SGPS, S.A.	Plaza Eboli B.V.
MDS Consultores, S.A.	Plaza Eboli – Centro Comercial S.A.
MDS Corretor de Seguros, S.A.	Plaza Mayor Holding, SGPS, SA
MDS Malta Holding Limited	Plaza Mayor Parque de Ócio BV
MDS SGPS, SA	Plaza Mayor Parque de Ocio, SA
MDSAUTO - Mediação de Seguros, SA	Plaza Mayor Shopping BV
Megantic BV	Plaza Mayor Shopping, SA
Metalgest - Sociedade de Gestão, SGPS, SA	Ploi Mall BV
MJLF – Empreendimentos Imobiliários, S.A.	Plysorol, BV
Mlearning - Mds Knowledge Centre, Unip, Lda	Poliface North America
Modalfa – Comércio e Serviços, S.A.	PORTCC - Portimãoshopping Centro Comercial, SA
MODALLOOP – Vestuário e Calçado, S.A.	Porturbe – Edifícios e Urbanizações, S.A.
Modelo – Dist.de Mat. de Construção, S.A.	Powercer-Soc.de Cogeração da Vialonga,SA
Modelo Continente Hipermercados, S.A.	Praedium – Serviços, S.A.
Modelo Continente Intenational Trade, SA	Praedium II – Imobiliária, S.A.
Modelo Hiper Imobiliária, S.A.	Praedium SGPS, S.A.
Modelo.com – Vendas p/Correspond., S.A.	Praesidium Services Limited
Movelpartes – Comp.para Ind.Mobiliária, S.A.	Predicomercial – Promoção Imobiliária, S.A.
Movimento Viagens – Viag. e Turismo U.Lda	Predilugar - Sociedade Imobiliária, SA
Mstar, SA	Prédios Privados Imobiliária, S.A.
Mundo Vip – Operadores Turísticos, S.A.	Predisedas – Predial das Sedas, S.A.
Munster Arkaden, BV	Pridelease Investments, Ltd
Norges Bank	Proj. Sierra Germany 4 (four) – Sh.C.GmbH
Norscut – Concessionária de Scut Interior Norte, S.A.	Proj.Sierra Germany 2 (two) – Sh.C.GmbH
Norteshopping – Centro Comercial, S.A.	Proj.Sierra Italy 1 – Shop. Centre Srl
Norteshopping Retail and Leisure Centre, BV	Proj.Sierra Italy 3 – Shop. Centre Srl
Nova Equador Internacional,Ag.Viag.T, Ld	Proj.Sierra Italy 5 – Dev. Of Sh.C.Srl
Nova Equador P.C.O. e Eventos	Project SC 1 BV
Ongoing Strategy Investments, SGPS, SA	Project SC 2 BV
Operscut – Operação e Manutenção de Auto-estradas, S.A.	Project Sierra 2 B.V.
OSB Deutschland GmbH	Project Sierra 7 BV
PantheonPlaza BV	Project Sierra 8 BV
Paracentro – Gest.de Galerias Com., S.A.	Project Sierra 9 BV
Pareuro, BV	Project Sierra Brazil 1 B.V.
Park Avenue Develop. of Shop. Centers S.A.	Project Sierra Charagionis 1 S.A.
Parque Atlântico Shopping – C.C., S.A.	Project Sierra Four, SA
Parque D. Pedro 1 B.V.	Project Sierra Germany Shop. Center 1 BV
Parque D. Pedro 2 B.V.	Project Sierra Germany Shop. Center 2 BV
Parque de Famalicão – Empr. Imob., S.A.	Project Sierra Spain 1 B.V.
Parque Principado SL	Project Sierra Spain 2 – Centro Comer. S.A.
Pátio Boavista Shopping Ltda.	Project Sierra Spain 3 – Centro Comer. S.A.
Pátio Campinas Shopping Ltda	Project Sierra Spain 3 B.V.
Pátio Goiânia Shopping Ltda	Project Sierra Spain 6 B.V.
Pátio Londrina Empreend. e Particip. Ltda	Project Sierra Spain 7 B.V.

RELATED PARTIES

Project Sierra Three Srl	SIAL Participações Ltda
Project Sierra Two Srl	Sierra Asia Limited
Promessa Sociedade Imobiliária, S.A.	Sierra Asset Management – Gest. Activos, S.A.
Prosa – Produtos e serviços agrícolas, S.A.	Sierra Berlin Holding BV
Público – Comunicação Social, S.A.	Sierra Central S.A.S
Puravida – Viagens e Turismo, S.A.	Sierra Charagionis Develop. Sh. Centre S.A.
Racionaliz. y Manufact.Florestales, S.A.	Sierra Charagionis Propert.Management S.A.
RASO - Viagens e Turismo, S.A.	Sierra Corporate Services Holland, BV
RASO II-Viagens e Turismo, Unipessoal Lda	Sierra Development Greece, S.A.
RASO, SGPS, S.A.	Sierra Developments Germany GmbH
Rio Sul – Centro Comercial, S.A.	Sierra Developments Holding B.V.
River Plaza Mall, Srl	Sierra Developments Italy S.r.l.
River Plaza, BV	Sierra Developments Romania, Srl
Rochester Real Estate, Limited	Sierra Developments Spain – Prom.C.Com.SL
Ronfegen-Recursos Energéticos, Lda.	Sierra Developments, SGPS, S.A.
RSI Corretora de Seguros Ltda	Sierra Enplanta Ltda
S.C. Microcom Doi Srl	Sierra European R.R.E. Assets Hold. B.V.
S21 Sec Barcelona, S.L.	Sierra GP Limited
S21 Sec Brasil, Ltda	Sierra Investimentos Brasil Ltda
S21 Sec Ciber Seguridad, S.A. de CV	Sierra Investments (Holland) 1 B.V.
S21 Sec Fraud Risk Management, S.L.	Sierra Investments (Holland) 2 B.V.
S21 SEC Gestion, S.A.	Sierra Investments Holding B.V.
S21 Sec Inc.	Sierra Investments SGPS, S.A.
S21 Sec Information Security Labs, S.L.	Sierra Management Germany GmbH
S21 Sec Institute, S.L.	Sierra Management Italy S.r.l.
S21 Sec México, S.A. de CV	Sierra Management Romania, Srl
S21 Sec, S.A. de CV	Sierra Management Spain – Gestión C.Com.S.A.
Saphety – Transacciones Electronicas SAS	Sierra Management, SGPS, S.A.
Saphety Brasil Transações Eletrônicas Ltda.	Sierra Portugal, S.A.
Saphety Level – Trusted Services, S.A.	SII – Soberana Invest. Imobiliários, S.A.
Saúde Atlântica – Gestão Hospitalar, S.A.	SIRS – Sociedade Independente de Radiodifusão Sonora, S.A.
SC – Consultadoria, S.A.	SISTAVAC, S.A.
SC – Eng. e promoção imobiliária,SGPS, S.A.	SKK – Central de Distr., S.A.
SC Aegean B.V.	SKK SRL
SC Assets SGPS, S.A.	SKKFOR – Ser. For. e Desen. de Recursos
SC Finance BV	Sociedade de Construções do Chile, S.A.
SC Mediterraneo Cosmos B.V.	Société de Tranchage Isoroy S.A.S.
SC, SGPS, SA	Socijofra – Sociedade Imobiliária, S.A.
SCS Beheer, BV	Sociloures – Soc.Imobiliária, S.A.
SDSR - Sports Division 2, S.A.	Soconstrução BV
Selfrio,SGPS, S.A.	Sodesa, S.A.
Selifa – Empreendimentos Imobiliários, S.A.	Soflorin, BV
Sempre à Mão – Sociedade Imobiliária, S.A.	Soira – Soc.Imobiliária de Ramalde, S.A.
Sempre a Postos – Produtos Alimentares e Utilidades, Lda	Solinca - Eventos e Catering, SA
Serra Shopping – Centro Comercial, S.A.	Solinca - Health and Fitness, SA
Servicios de Int.Estratégica Global, S.L.	Solinca – Investimentos Turísticos, S.A.
Sesagest – Proj.Gestão Imobiliária, S.A.	Solinfitness – Club Malaga, S.L.
Sete e Meio – Invest. Consultadoria, S.A.	Solingen Shopping Center GmbH
Sete e Meio Herdades – Inv. Agr. e Tur., S.A.	Soltroia – Imob.de Urb.Turismo de Tróia, S.A.
SGC, SGPS, SA	Somit Imobiliária
Shopping Centre Parque Principado B.V.	SONAE - Specialized Retail, SGPS, SA
Siaf – Soc.Iniciat.Aprov.Florestais - Energia, S.A.	Sonae Capital Brasil, Lda



RELATED PARTIES	
Sonae Capital,SGPS, S.A.	Tecmasa Recicladados de Andalucia, SL
Sonae Center II S.A.	Tecnológica Telecomunicações LTDA.
Sonae Center Serviços, S.A.	Telefónica, SA
Sonae com - Sistemas Informação, SGPS, S.A.	Têxtil do Marco, S.A.
Sonae Financial Services, S.A.	TLANTIC B.V.
Sonae Ind., Prod. e Com.Deriv.Madeira, S.A.	Tlantic Portugal - Sist. de Informação, S.A.
Sonae Indústria - SGPS, S.A.	Tlantic Sistemas de Informação Ltdª
Sonae Indústria de Revestimentos, S.A.	Tool GmbH
Sonae Indústria Manag. Serv, SA	Torre Ocidente Imobiliária, S.A.
Sonae Investimentos, SGPS, SA	Torre São Gabriel - Imobiliária, S.A.
Sonae Novobord (PTY) Ltd	TP - Sociedade Térmica, S.A.
Sonae RE, S.A.	Troia Market, S.A.
Sonae Retalho Espana - Servicios Gen., S.A.	Troia Natura, S.A.
Sonae SGPS, S.A.	Troiaresort - Investimentos Turísticos, S.A.
Sonae Sierra Brasil S.A.	Troiaverde - Expl.Hoteleira Imob., S.A.
Sonae Sierra Brazil B.V.	Tulipamar - Expl.Hoteleira Imob., S.A.
Sonae Sierra, SGPS, S.A.	Turismo da Samba (Tusal), SARL
Sonae SR Malta Holding Limited	Unipress - Centro Gráfico, Lda
Sonae Tafibra Benelux, BV	Unishopping Administradora Ltda.
Sonae Turismo - SGPS, S.A.	Unishopping Consultoria Imob. Ltda.
Sonae UK, Ltd.	Unitel International Holdings, B.V.
Sonaecom - Serviços Partilhados, S.A.	Unitel STP
Sonaecom - Sistemas de Información España, S.L.	Unitel T+
Sonaecom BV	Upstar Comunicações SA
Sonaecom, SGPS, S.A.	Urbisedas - Imobiliária das Sedas, S.A.
SONAECON-CYBER SECURITY AND INT.,SGPS,SA	Valecenter Srl
Sonaegest - Soc.Gest.Fundos Investimentos	Valor N, S.A.
SONAEMC - Modelo Continente, SGPS, S.A.	Vastgoed One - Sociedade Imobiliária, S.A.
Sonaetelecom BV	Vastgoed Sun - Sociedade Imobiliária, S.A.
Sondis Imobiliária, S.A.	Via Catarina - Centro Comercial, S.A.
Sontel BV	Viajens y Turismo de Geotur España, S.L.
Sontur BV	Vistas do Freixo, SA
Sonvecap BV	Vuelta Omega, S.L.
Sopair, S.A.	We Do Technologies Panamá S.A.
Sotáqua - Soc. de Empreendimentos Turist	We Do Technologies Singapore PTE. LTD.
Soternix-Produção de Energia, ACE	WeDo Consulting - Sistemas de Informação, S.A.
Spanboard Products, Ltd	WeDo do Brasil - Soluções Informáticas, Ltda
SPF - Sierra Portugal Real Estate, Sarl	WeDo Poland Sp. Z o o.
Spinarc - Engenharia, Energia e Ambiente, SA	WeDo Technologies (UK) Limited
Spinveste - Gestão Imobiliária SGII, S.A.	WeDo Technologies Americas, Inc.
Spinveste - Promoção Imobiliária, S.A.	WeDo Technologies Australia PTY Limited
Sport Retalho España - Servicios Gen., S.A.	WeDo Technologies BV
Sport TV Portugal, S.A.	WeDo Technologies BV - Sucursal Malaysia
Sport Zone - Comércio Art.Desporto, S.A.	WeDo Technologies Egypt LLC
Sport Zone - Turquia	WeDo Technologies Mexico, S de R.L.
Sport Zone Canárias, SL	Weierstadt Shopping BV
Sport Zone España-Com.Art.de Deporte,SA	Worten - Equipamento para o Lar, S.A.
Spred, SGPS, SA	Worten Canárias, SL
SSI Angola, S.A.	Worten España, S.A.
Stinnes Holz GmbH	ZAP Cinemas, S.A.
Tableros Tradema, S.L.	ZAP Media, S.A.
Tafiber, Tableros de Fibras Ibéricas, SL	ZAP Publishing, S.A.
Tafibra Polska Sp.z.o.o.	Zenata Commercial Project S.A.
Tafibra South Africa	ZIPPY - Comércio e Distribuição, SA
Tafibra Suisse, SA	ZIPPY - Comercio y Distribución, S.A.
Tafisa - Tableros de Fibras, S.A.	Zippy Turquia
Tafisa Canadá Societé en Commandite	ZON II - Serviços de Televisão SA
Tafisa France, S.A.	ZOPT, SGPS, S.A.
Tafisa UK, Ltd	Zubiarte Inversiones Inmobiliarias, S.A.
Taiber, Tableros Aglomerados Ibéricos, SL	ZYEVOLUTION-Invest.Desenv.,SA.
Tarkett Agepan Laminat Flooring SCS	

33.2. 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 2013 and 30 September 2014 and transactions in the nine months ended 30 September 2013 and 2014 between NOS Group and its associated companies, joint ventures and other related parties are as follows:

Transactions for the Nine Months ended on 30 September 2013

	SALES AND SERVICES RENDERED	SUPPLIES AND EXTERNAL SERVICES	INTEREST INCOME (EXPENSE)	OTHER OPERATING REVENUES
SHAREHOLDERS				
Banco BPI	1	-	(4,970)	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES				
Big Picture 2 Films	15	2,086	-	1
Distodo	-	460	-	2
Dreamia Holding BV	252	-	156	-
Dreamia SA	2,298	78	-	547
Finstar	511	-	-	-
Fundo Investimento para Cinema e Audiovisual	-	-	-	-
Sport TV	198	42,709	-	-
Upstar	5,012	-	946	546
OTHER RELATED PARTIES				
Banco Espírito Santo	-	20	(6,629)	-
Mainroad	39	194	-	17
Sonaecom	5	88	(1,468)	71
WeDo	239	359	-	63
Outras	88	141	-	57
	8,657	46,134	(11,964)	1,303



Balances
at 31 December 2013

	ACCOUNT RECEIVABLE TRADE	ACCOUNT RECEIVABLE OTHER	ACCOUNT PAYABLE TRADE	ACCOUNT PAYABLE OTHER	ACCRUALS AND DEFERRALS ASSETS	ACCRUALS AND DEFERRALS LIABILITIES
SHAREHOLDERS						
Sonaecom	(6)	5,715	3,640	-	1,946	8,756
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES						
Big Picture 2 Films	-	-	222	-	-	111
Canal 20 TV	-	-	1	-	-	-
Distodo	2	46	105	-	-	-
Dreamia Holding BV	195	2,366	-	-	-	-
Dreamia SA	3,596	4,266	4,205	-	-	201
Finstar	6,387	693	-	-	-	-
Fundo Investimento para Cinema e Audiovisi	-	-	-	17,500	-	-
Mstar	1	1	-	-	-	-
Sport TV	612	45	21,202	-	-	3,363
Upstar	2,657	2,226	214	-	-	-
OTHER RELATED PARTIES						
Mainroad	802	6	938	-	32	-
Modelo Continente Hipermercados	601	3	16	1	299	405
Sierra Portugal	171	9	221	2	1,469	-
We Do Consulting	115	-	952	-	295	56
Worten	4,234	53	362	-	89	969
Other related parties	805	14	578	9	794	63
	20,172	15,443	32,656	17,512	4,924	13,924
		BORROWINGS	FINANCIAL APPLICATIONS	DERIVATIVES ASSETS	DERIVATIVES LIABILITIES	FINANCIAL LEASES
Banco BPI		96,447	-	-	384	-
Banco Espirito Santo		146,659	41,933	-	131	1,142
		243,106	41,933	-	515	1,142

Transactions
for the Nine Months ended on 30 September 2014

	SALES AND SERVICES RENDERED	SUPPLIES AND EXTERNAL SERVICES	INTEREST INCOME (EXPENSE)	OTHER OPERATING REVENUES
SHAREHOLDERS				
Banco BPI	-	12	(4,435)	-
Sonaecom	39	58	-	(17)
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES				
Big Picture 2 Films	9	3,244	-	-
Distodo	-	97	-	1
Dreamia Holding BV	224	-	155	-
Dreamia SA	2,682	31	-	407
Finstar	496	-	-	-
Mstar	8	-	-	-
Sport TV	140	34,562	-	2
Upstar	5,624	(361)	119	222
ZAP Media	296	-	-	-
OTHER RELATED PARTIES				
Continente Hipermercados	221	35	-	-
Digitmarket	28	719	-	(0)
Mainroad	237	2,128	-	515
MDS-Corrector Seguros	155	60	-	-
Modalfa	173	-	-	-
Modelo	155	-	-	-
Modelo Continente Hipermercados	3,111	(149)	-	81
Pharmacontinente	132	-	-	-
Raso - Viagens e Turismo	95	1,400	-	1
Saphety Level	66	433	-	(0)
Sierra Portugal	1,014	792	-	-
Sistavac	153	67	-	-
Sonae Center Serviços II	793	35	-	-
Sonae Indústria PCDM	269	-	-	-
SPINVESTE-Promoção Imobiliária	-	200	-	-
Sports Division SR	299	-	-	-
We Do Consulting	278	3,279	-	-
Worten	5,139	1,638	-	-
Other related parties	1,144	233	-	24
	22,981	48,514	(4,161)	1,235



Balances
at 30 September 2014

	ACCOUNT RECEIVABLE TRADE	ACCOUNT RECEIVABLE OTHER	ACCOUNT PAYABLE TRADE	ACCOUNT PAYABLE OTHER	ACCRUALS AND DEFERRALS ASSETS	ACCRUALS AND DEFERRALS LIABILITIES
SHAREHOLDERS						
Sonaecom	47	28	53	-	456	19
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES						
Big Picture 2 Films	1	-	237	-	1	370
Distodo	3	-	-	-	-	-
Dreamia Holding BV	280	2,713	-	151	99	-
Dreamia SA	1,364	1,402	809	-	46	128
Finstar	4,579	2,007	-	-	-	165
Mstar	-	(67)	-	-	-	-
Fundo Investimento para Cinema e Audiovisual	-	-	-	17,500	-	-
Sport TV	811	18	19,335	-	10	2,971
Teliz	-	-	-	-	-	-
Upstar	4,947	172	214	-	768	-
ZAP Media	311	-	-	-	-	-
OTHER RELATED PARTIES						
CascaShopping	2	2	4	-	126	-
Digitmarket	22	-	268	159	240	(1)
Modelo Continente Hipermercados	880	2	1,122	11	468	117
Raso - Viagens e Turismo	71	-	176	-	58	137
Saphety	44	1	122	26	39	22
Sierra Portugal	384	278	223	48	1,580	14
Sonaecenter II	190	6	615	-	90	-
Sonae Indústria PCDM	209	-	-	-	24	-
We Do Consulting	191	-	527	103	181	19
Worten	3,188	48	(575)	451	95	691
Other related parties	707	62	373	133	348	(174)
	18,229	6,672	23,503	18,582	4,631	4,480
	BORROWINGS		FINANCIAL APPLICATIONS	DERIVATIVES ASSETS	DERIVATIVES LIABILITIES	FINANCIAL LEASES
Banco BPI	99,997		-	-	-	-
	99,997		-	-	-	-

Additionally, during the nine months ended on 30 September 2014, NOS received, reimbursed and paid the whole of the 950,000 own shares loaned by Sonaecom, SGPS, SA (Note 30.3).

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.

34. Legal Actions and Contingent Assets and Liabilities

34.1. Municipal Wayleave Tax (Tmdp) Proceedings

In February 2004, pursuant to Article 13 of the Authorisation Directive (Directive 2002/20/EC of 7 June), Law 5/2004 of 10 February (Electronic Communications Law) established in its Article 106 the **Municipal Wayleave Tax (TMDP) as consideration for the "rights and costs of the installation, passage and crossing, in a determined area, of the public and private municipal domain"** by the systems, equipment and other resources of companies offering public electronic communications networks and services.

The TMDP charge is levied on "each invoice issued by the companies offering public electronic communications networks and services at a fixed location to all end customers within the respective municipality", and is calculated as a maximum percentage of 0.25% of the amount of each invoice. Some municipalities, despite approving the TMDP, have continued to collect Occupancy Taxes, while others have opted to maintain the latter taxes rather than approving the TMDP.

In the light of legal advice on the matter, the Group believes that the TMDP is the only tax that should be collected as consideration for the above mentioned rights, namely the right of installation, for which reason it has challenged the public highway Occupancy Taxes charged to it by municipalities, since it deems such taxes illegal. It must also be highlighted that under the scope of an administrative complaint, a decision has been made by some municipalities, which have either subscribed to the Group's interpretation or decided that they may only opt for one rate or the other, as it is not possible for the TMDP and public road Occupancy Rates to overlap.

Meanwhile, various judicial judgments have been issued on the substantive issue, including by the Supreme Administrative Court that uphold the position and understanding of NOS SA, with the result that there are good prospects that this dispute will be definitively resolved in favour of NOS SA by the majority of municipalities. Two appeals have been entered on the constitutional court related to two proceedings of Lisbon City Hall, which have not been decided.

With the entry into force of Decree-Law 123/2009, this matter has been definitively resolved for the future. **This law clearly states (in line with Group's interpretation of the previous legislation) that the TMDP is payable for the use and usufruct of property in the public or private municipal domain which involves the construction or installation, by companies that offer public electronic communications networks and services, of infrastructures for housing electronic communications in accordance with the terms of the Electronic Communications Law, and that no other taxes, official fees or consideration are due.**



34.2. Legal Actions with Regulators

- On 8 July 2009, NOS SA was notified by the Competition Authority (AdC) in connection with infringement proceeding relating to the triple-play offer, requesting NOS SA to comment on the content of the notification, which it did in good time. The case is currently at the fact-finding stage in AdC and various information has been requested, to which NOS has responded. If it is concluded that an infringement has occurred, the AdC may levy a fine not exceeding 10% of the company's turnover in last year of infringement.
- ICP-ANACOM instituted regulatory infringement proceedings against the Group companies, as it did against the majority of Portuguese electronic communications operators, for infringement of the portability regulations. NOS, SA, NOS Açores and NOS Madeira brought actions for judicial review of decisions by ANACOM ordering them to pay a fine. In 2014 court decisions confirmed five sanctions to NOS SA, NOS Açores and NOS Madeira amounting to 72 thousand euros. Are still processes of previous years pending decision.

NOS SA, NOS Açores and NOS Madeira brought actions for judicial review of ICP-ANACOM's decisions in respect of the payment of the Annual Fee (for 2009, 2010, 2011, 2012 and 2013) for carrying on the business of Electronic Communications Services Networks Supplier in the amounts, respectively, of (i) 1,861 thousand euros, 3,808 thousand euros, 6,049 thousand euros, 6,283 thousand euros and 7,270 thousand euros; (ii) 29 thousand euros, 60 thousand euros, 95 thousand euros, 95 thousand euros and 104 thousand euros; (iii) 40 thousand euros, 83 thousand euros, 130 thousand euros, 132 thousand euros and 149 thousand euros, and seeking reimbursement of the amounts meanwhile paid in connection with the enforcement proceedings. This fee is a percentage decided annually by ANACOM (in 2009 it was 0.5826%) **of operators' electronic communications revenues. The scheme is being introduced gradually:** $\frac{1}{3}$ in the first year, $\frac{2}{3}$ in the second year and 100% in the third year. NOS SA, NOS Açores and NOS Madeira claim, in addition to defects of unconstitutionality and illegality, 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 a ruling was passed on the proceedings instigated by NOS SA for 2009, for which the appeal was upheld, with no prior hearing, condemning ICP-ANACOM to pay the costs. ICP-ANACOM appealed and by decision of July 2013 was not upheld.

The remaining proceedings are awaiting trial and decision.

- NOS tendered in an auction for licences for a nationwide freeview generalist programme service, to be broadcast via terrestrial television. The Regulator of Social Communication **decided on 23 March 2009 to disqualify NOS's bid, along with that of another bidder.** NOS has applied for judicial review of the decision. Meanwhile, in 2014, NOS gave up for the appeal and ended the action.

34.3. Tax Authorities

During the course of the 2003 to 2013 financial years, some companies of the NOS Group were the subject of tax inspections for the 2001 to 2011 financial years. Following these inspections, NOS, 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 is about 25.8 million euros. 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 32.

At end of year 2013 and taking advantage of the extraordinary settlement scheme of tax debts, the Group settled 7.7 million euros (corresponding to notifications in the amount of 17.3 million euros less accrued interests). This amount was recorded as "taxes receivable" non current net of the provision recorded in the amount of 3.5 million euros (Note 22).

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.

34.4. Actions by Portugal Telecom against NOS Madeira and NOS Açores

- PT brought an action in Funchal Judicial Court against NOS Madeira, claiming payment of 1,608 thousand euros, plus accrued interest until the date of full settlement, for the alleged use of ducts, supply of the MID service, supply of video and audio channels, operating, maintenance and management costs of the Madeira/Porto Santo undersea cable and the use of two fiber optic circuits.

The company contested the action, in particular the prices concerned, the services and PT's legal capacity in respect of the ducts.

At the end of July 2013, a favorable decision was given to NOS Madeira, which, however, PT appealed. The case is pending normal development.

- In April 2012, following the decision made on 19 July 2011 in which NOS Açores was acquitted, PT brought two new actions against NOS Açores, one relating to the MID service and the other to the supply of video and audio channels, claiming payment of 222 thousand euros and 316 thousand euros respectively, plus interest. They are awaiting decision. A sentence, without impacting interests, reduced the amount payable by NOS Açores to about 97 thousand euros concerning the first action. In what concerns the second action, in the third quarter of 2014, NOS Açores was sentenced to pay 316 thousand euros, plus interest and legal costs. Both these values are fully provisioned at 30 September 2014.



34.5. Action against NOS SA

Already in 2014, a NOS SA provider's 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. It is belief of the Board that the arguments used are not correct, so the outcome of the proceeding will not result in significant impact on the financial statements of the group. This action awaits for trial.

34.6. Actions against Sport TV

SPORT TV Portugal, S.A. was fined by the Competition Authority to the value of 3,730 thousand euros for the alleged abuse of its dominant position in the domestic market of subscription channels with premium sport content.

SPORT TV is not in agreement with the decision and has therefore decided to appeal against the same to the competent judicial authorities. Meanwhile, the Court of Competition, Regulation and Supervision altered the value to 2,700 thousand euros. **Sport TV has appealed to the "Tribunal da Relação" (Court of Appeal).**

34.7. 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. At September 2014, damages charged but not received by NOS SA, NOS Madeira and NOS Açores amount to a total of 108,842 thousand euros. In the nine months ended 30 September 2014 were received and recorded in the income statement 5,080 thousand euros.

34.8. Interconnection Tariffs

At 30 September 2014, 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 the year ended at 31 December 2001. In the lower court, the decision was favorable to NOS SA. The "Tribunal da Relação" (Court of Appeal), on appeal, rejected the intentions of MEO. However, MEO again appealed to the "Supremo Tribunal de Justiça" (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. The settlement of outstanding amounts will depend on the price that will be established.

35. Share Incentive Scheme

The Share Incentive Schemes approved by the General Meetings of Shareholders on 27 April 2008 and 19 April 2010 with the aim of promoting employee loyalty, aligning their **interests with the Company's** objectives and creating more favorable conditions for the recruitment of staff of high strategic value, have been implemented in accordance with the principles agreed at those meetings.

These incentive plans comprise a Standard Plan and a Senior Executive 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. The Senior Executive Plan is aimed at eligible members classed as Senior Executives, also selected by the responsible bodies. The Senior Executive Plan, implemented following approval by the General Meeting of Shareholders in April 2010, has a vesting period of 3 years following the attribution of the shares.

The maximum number of shares assigned each year to these plans is approved by the Board of Directors and depends exclusively on fulfillment of the performance objectives established for NOS **and on the assessment of the individual's performance.**

The Optimus Group companies had implemented since 2000, a share incentive scheme for more senior employees based on Sonaecom shares, subsequently converted, during 2013 year, into NOS shares. The vesting occurs three years after the award of each plan, assuming that the employees are still employed in the Group, during that period.

As at 30 September 2014, the unvested plans are:

	NUMBER OF SHARES
SENIOR PLAN	
Plan - 2012	154,894
Plan - 2013	166,283
STANDARD PLAN	
Plan - 2009	570
Plan - 2010	59,613
Plan - 2011	133,999
Plan - 2012	195,093
Plan - 2013	261,777
OPTIMUS PLAN	
Plan - 2011	4,435
Plan - 2012	1,550,966
Plan - 2013	1,199,610



During the nine months ended 30 September 2014, the movements that occurred in the plans, are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN
BALANCE AS AT 31 DECEMBER 2013	583,000	921,859	4,041,865
MOVEMENTS IN THE PERIOD:			
Vested	(185,835)	(311,740)	(1,609,627)
Cancelled / elapsed / corrected ⁽¹⁾	(75,988)	40,933	322,773
BALANCE AS AT 30 SEPTEMBER 2014	321,177	651,052	2,755,011

(1) Refers mainly to adjustments made related to dividends paid, exit of employees not entitled to the vesting of shares and adjustments resulting from the way the shares are vested, which are made through the purchase of shares with a discount.

The share plans costs are recognised over the year between the award 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 Optimus plans, the award date is the date of the merger (the time of conversion of Sonaecom shares plans into NOS shares plans). As at 30 September 2014, the outstanding responsibility related to these plans is 10,885 thousand euros and is recorded in reserves.

The costs recognised in previous years and in the nine months ended at 30 September 2014, were as follows:

	TOTAL
Costs recognised in previous years related to plans as at 31 December 2013	14,297
Costs of plans vested in the nine months	(8,579)
Costs recognised in the nine months and others	5,167
TOTAL COST OF THE PLANS (REGISTERED IN RESERVES)	10,885

* Includes an estimate of the plans to be awarded for the year 2014.

36. Subsequent Events

In 1 October 2014, Zon Cinemas, SGPS, SA was dissolved with immediate sharing of its assets. The dissolution will not result in any impacts on the consolidated financial statements.

Until the approval of this document, no other significant subsequent events occurred that should be disclosed in this report.

37. Annexes

A) Companies Included in the Consolidation by the Full Consolidation Method

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 30-09-2014	EFFECTIVE 30-09-2014
NOS, SGPS, S.A.	Lisbon	Management of investments				
Be Artis - Conceção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Maia	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%
Be Towering - Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Maia	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
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 España, SL	Madrid	Management of investments relating to activities in Spain in the audiovisuals business	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%
Mainroad - Serviços em Tecnologias de Informação, S.A. ('Mainroad') (a)	Maia	Rendering of consulting services in the area of information systems	NOS SA	-	100%	100%
NOS Açores Comunicações, S.A. (b)	Luxembourg	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Communications S.à.r.l	Luxemburgo	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%
NOS Comunicações, S.A. (c)	Lisbon		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.	Lisboa	Movies distribution, editing, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	100%	100%	100%
NOS Madeira Comunicações, S.A.	Lisbon	Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area	NOS SA	78%	78%	78%
NOSPUB, Publicidade e Conteúdos, S.A.	Lisboa	Commercialization of cable tv contents	NOS SA	100%	100%	100%
Per-Mar - Sociedade de Construções, S.A. ('Per-Mar')	Maia	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Maia	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.	Lisbon	Management of group financing activities	NOS	100%	100%	100%
ZON Audiovisuais, SGPS S.A. (d)	Lisbon	Management of investments	NOS Audiovisuais	100%	-	-
ZON Cinemas, SGPS S.A.	Amsterdam	Management of investments	NOS Cinemas	100%	-	-
ZON FINANCE B.V.	Lisbon	Management of group financing activities	NOS SA / NOS	100%	50% / 50%	100%
ZON Televisão por Cabo, SGPS, S.A. (e)	Lisbon	Management of investments	NOS SA	100%	100%	100%
ZON TV Cabo Portugal, S.A. (c)		Distribution of television by cable and satellite and operation of telecommunications services	NOS	100%	-	-

a) Company established in 15 May 2014

b) Company acquired in 30 September 2014.

c) During 2014, the Company completed a merger operation by incorporation of ZON TV Cabo Portugal, S.A. in Optimus - Comunicações, S.A., thereafter named NOS Comunicações, S.A..

d) Company merged in NOS Lusomundo Audiovisuais, S.A. in September 2014.

e) Company merged in NOS SA in September 2014.



B) Associated Companies

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 30-09-2014	EFFECTIVE 30-09-2014
Distodo - Distribuição e Logística, Lda. ("Distodo")	Lisbon	Stocking, sale and distribution of audiovisuals material	NOS Audiovisuais	50.00%	50.00%	50.00%
Canal 20 TV, S.A.	Madrid	Production, distribution and sale of contents rights for television films	NOS	50.00%	50.00%	50.00%
ZON II - Serviços de Televisão S.A. (a)	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	NOS	100.00%	-	-
Big Picture 2 Films, S.A.	Oeiras	Import, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	20.00%	20.00%	20.00%
ZON III - Comunicações electrónicas S.A. (b)	Lisbon	Network operator and provider of electronic communication services	NOS	100.00%	-	-

a) Company with no activity

b) Company dissolved during the six months ended at 30 June 2014

C) Jointly Controlled Companies

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 30-09-2014	EFFECTIVE 30-09-2014
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%
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%
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	50.00%	50.00%	50.00%
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	-	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 as Financial Assets Available for Sale

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 30-09-2014	EFFECTIVE 30-09-2014
Investment fund for cinema and audiovisuals	Portugal	Investments in cinema and audiovisual production	NOS	30,12%	30,12%	30,12%
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	Porto	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%	0,04%	0,04%

a) The financial investments in these companies are fully provisioned

These financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards (IAS / IFRS) as adopted by the European Union and the format and disclosures required by those Standards, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

