



Consolidated Management Report

First Half 2014





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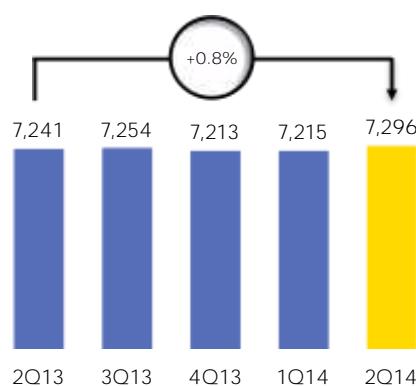


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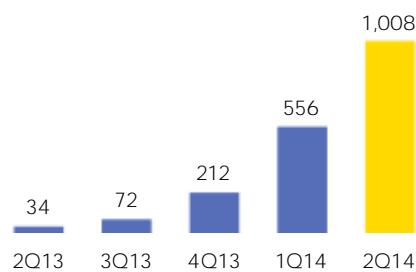
Key Performance Indicators

Business Indicators (in thousands):

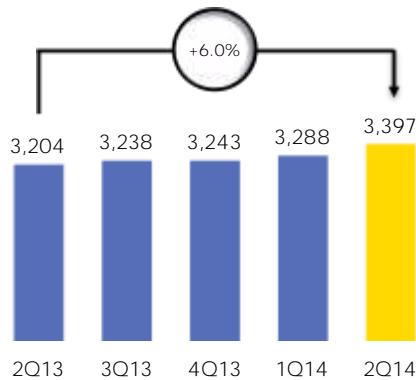
RGUs:



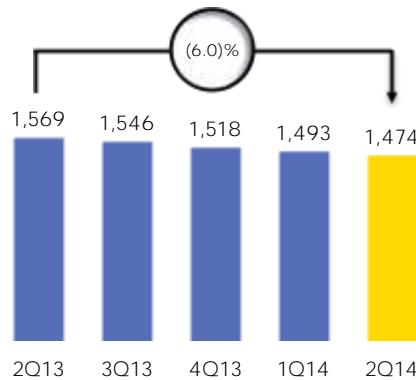
Convergent RGUs:



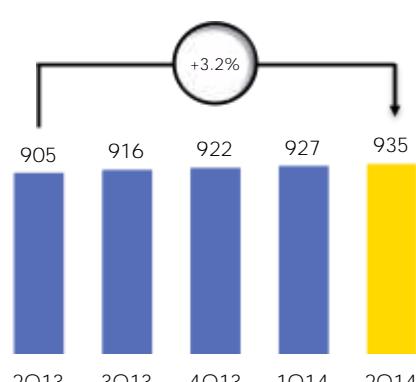
Mobile Subscribers:



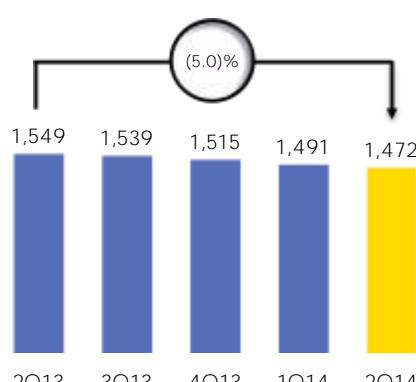
Pay TV:



Fixed Broadband:

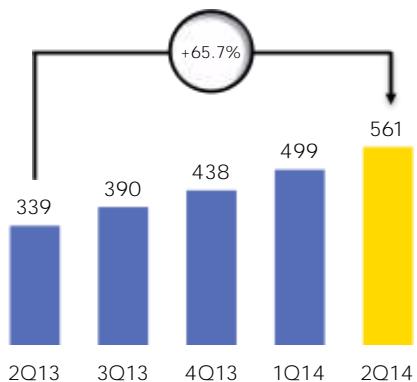


Fixed Voice:

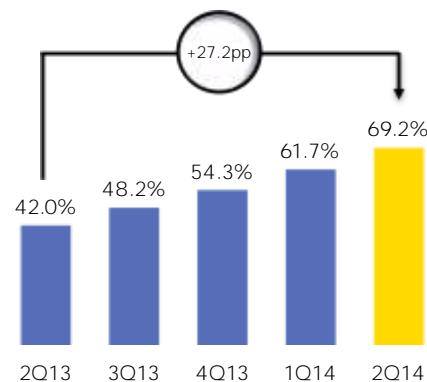




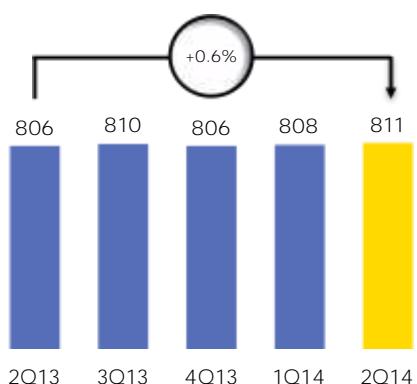
IRIS Subscribers:



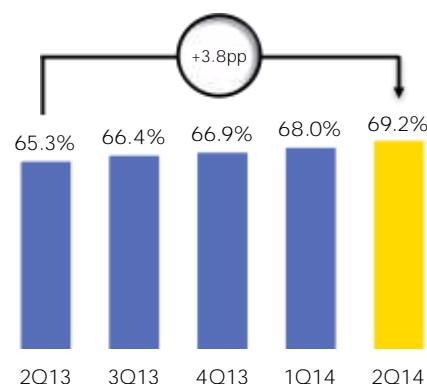
IRIS Subscribers as % of 3P&4P:



3P&4P Subscribers:



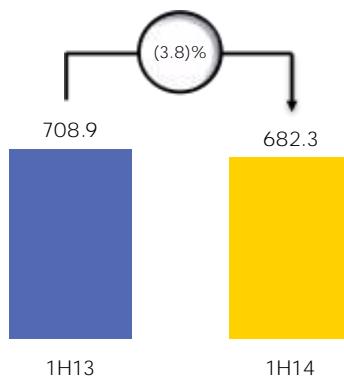
%3P&4P Subscribers:



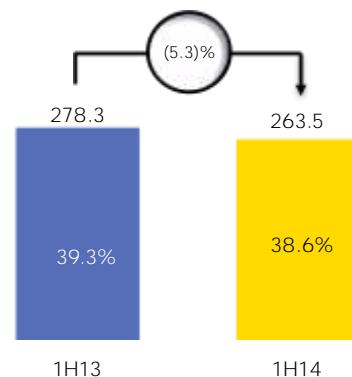


Financial Indicators (millions of euros):

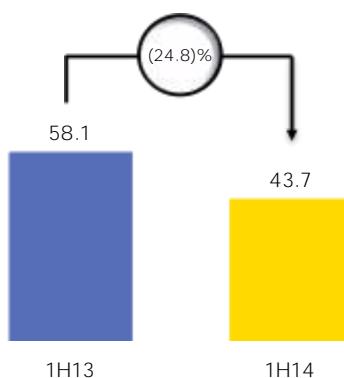
Operating Revenues:



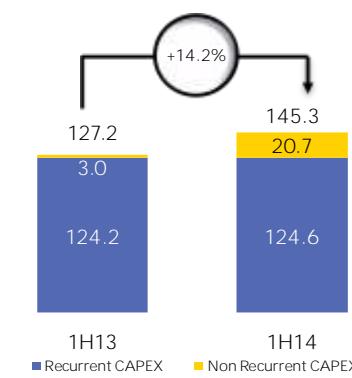
EBITDA (EBITDA Margin - % of revenues):



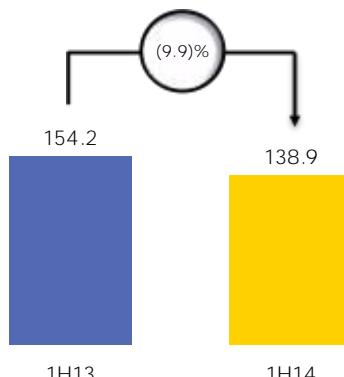
Net Income:



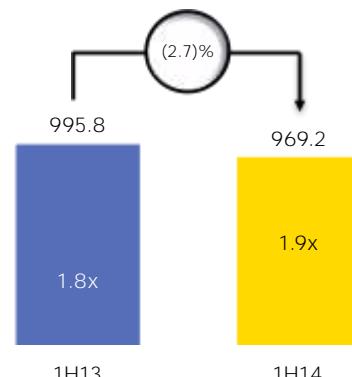
CAPEX:



EBITDA – Recurrent CAPEX:



Net Financial Debt Net Financial Debt / EBITDA



2

Highlights – First Half 2014

| 1H14 Highlights | 1H13 | 1H14 | 1H14 / 1H13 |
|---------------------------------|---------|---------|-------------|
| Operational Highlights | | | |
| Total RGUs | 7,240.9 | 7,295.6 | 0.8% |
| Convergent RGUs | 34.3 | 1,007.7 | n.a. |
| Mobile | 3,203.5 | 3,397.1 | 6.0% |
| % 3P&4P Subscribers | 65.3% | 69.2% | 3.8pp |
| IRIS Subscribers | 338.7 | 561.3 | 65.7% |
| Financial Highlights | | | |
| Operating Revenues | 708.9 | 682.3 | (3.8%) |
| EBITDA | 278.3 | 263.5 | (5.3%) |
| EBITDA Margin | 39.3% | 38.6% | (0.6pp) |
| Net Income | 58.1 | 43.7 | (24.8%) |
| Free Cash Flow Before Dividends | 43.3 | 25.9 | (40.3%) |

- **Launch of "NOS" on 16 May** - a single brand for all segments and for all services. In just 7 weeks after launch, results have beaten all expectations with total awareness of more than 90% and over 70% recognition that NOS is associated with the services provided under the ZON and OPTIMUS brands;
- Very strong commercial momentum in core convergent services with over 1.007 million convergent RGUs at the end of 1H14, representing net adds of 795.3 thousand;
- Convergent customers already represent 17% of the fixed customer base;
- Mobile net adds of 153.7 thousand in 1H14 led by growth in post-paid subscribers of 277.6 thousand consolidating the very strong sequential trend led by convergence;
- IRIS achieved in 1H14 two record quarters with additional 61 thousand and 62.7 thousand subscribers, a total of 123.7 thousand customers in 1H14, reaching 69.2% as a percentage of the 3&4P subscriber base;
- DTH subscriber quarterly net losses down to only 1.9 thousand in 2Q14 (12.2 thousand in 1H14), due to success of convergent offers launched for this segment using 4G;
- Sequential quarterly improvement in yoy financial results through 1H14, led by strong operational trends; Consolidated Revenues declined by 3.8% (4.1% in 1Q14 and 3.4% in 2Q14)



and EBITDA by 5.3% (5.9% in 1Q14 and 4.8% in 2Q14), representing an EBITDA margin of 38.6%;

- Non-recurrent operating costs of 15.5 million euros related with the merger process and new brand launch led to lower Net Income of 43.7 million euros.



3

Governing Bodies

As at 30 June 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 Tavira 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 Correira 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)

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Management Report

4.1. Events in 1H14 and Recent Developments

New brand launch and change of corporate name to NOS, SGPS, SA

The merger between ZON and Optimus and the company's new strategy meant that the creation of a new brand and identity was vital: **"NOS"**. **This new brand was** launched on 16 May 2014, as a lever critical to the company's growth ambitions, it embodies the integration of all telecommunications and entertainment needs in a single, convergent access point based on an experience of global delivery and excellence.

NOS is born with the purpose of delivering the best communications and entertainment experience, appearing for a new world that increasingly works in network and is increasingly collaborative. It is a multi-segment brand which will create value for people, families and companies.

The new brand takes on a unique image covering the entire range of offers, appropriating key territories for its development: from television to mobile, including internet, telephone, cinema and convergence.

Following the launch of the new, unified brand **"NOS"** on 16 May, the General Shareholders meeting held on 20 June 2014 approved the change of the corporate name to **"NOS, SGPS, SA"**, a logical and essential step for the development of a common growth structure that will further enhance the potential to achieve synergies.

After the formal registry with the Companies Registrar of this change was carried out, it was requested that Euronext change the Ticker to NOS, which took place on 8 July 2014.



4.2. Capital Markets

NOS' Share Performance

On 30 June 2014, the close price of NOS' shares was 4.80 euros, which represents a drop of 11.1% since the beginning of the year, and which compares with a 3.7% climb of the main Portuguese share index, PSI20.

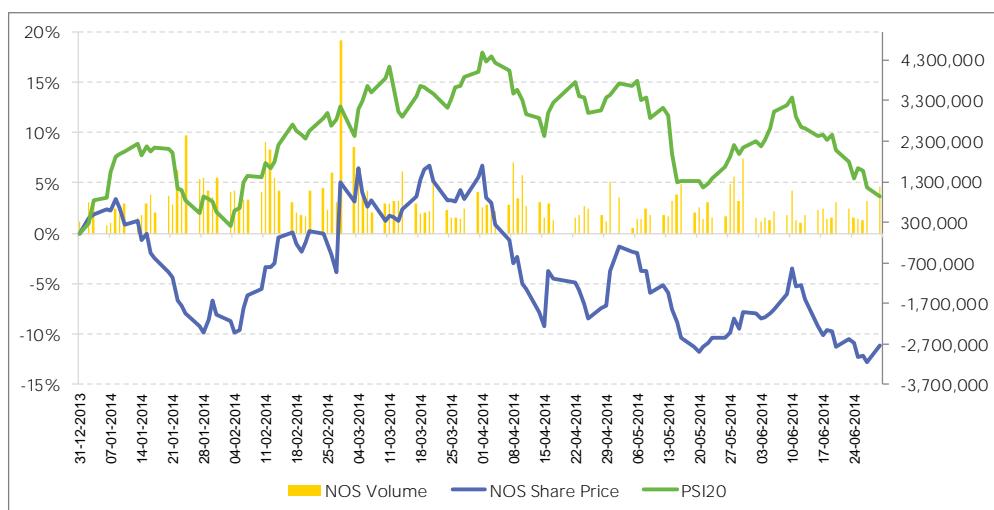
Taking into account the payment of a dividend of 0.12 euros per share, which took place on 23 May 2014, **NOS' Total Shareholder Return in 1H14 amounted to (8.9)%**.

In 1H14 more than 104.2 million NOS shares were traded, which translates to an average daily volume of 833.6 thousand shares per market session, which compares with a total volume of 62.2 million ZON Multimédia shares in 1H13, which represented an average volume of 497.6 thousand shares (in 1H13 this company only had 309,096,828 shares outstanding, which compares with the current 515,161,380 shares).

As such, the daily average volume of NOS in 1H14 represents 0.16% of its total number of shares outstanding. The liquidity of NOS shares on the market is also supported by the increase of the shareholder base which does not hold qualified shareholdings, which has increased from 28.78% at the end of 2013 to 34.92% at the end of 1H14.

The highest price at which NOS shares were traded this semester was 5.83 euros (on 3 March 2014), while their lowest trade price was 4.62 euros (on 20 May 2014).

NOS Share 1H14 Performance



As previously mentioned, the main Portuguese share index, PSI20, posted in 1H14 a climb of 3.7%, while the Spanish index, IBEX35, posted growth of 10.2%. FTSE100 (United Kingdom) posted a slight



decline of 0.1%, while the other main European indexes had a similar performance to PSI20, with CAC40 (France), DAX (Germany), and the Dow Jones EuroStoxx 50 posting climbs of 3.0%, 2.9% and 3.8%, respectively, during 1H14.

Main Announcements 1H14

- 03-01-2014 ZON OPTIMUS informs on PricewaterhouseCoopers' representative
- 22-01-2014 ZON OPTIMUS informs on Early Redemption of Bonds within the ZON MULTIMEDIA 2010/2014 Bond Issue
- 24-01-2014 ZON OPTIMUS informs on Qualified Shareholding of Teleresources, B.V.
- 27-01-2014 ZON OPTIMUS informs on Qualified Shareholding of Espírito Santo Irmãos, SGPS, SA
- 29-01-2014 ZON OPTIMUS informs on Qualified Shareholding of Credit Suisse Group AG
- 29-01-2014 ZON OPTIMUS informs on Qualified Shareholding of Credit Suisse Group AG
- 31-01-2014 ZON OPTIMUS informs on Qualified Shareholding of Espírito Santo Irmãos, SGPS, SA
- 27-02-2014 ZON OPTIMUS informs on FY13 Earnings Announcement
- 28-02-2014 ZON OPTIMUS informs on Strategy Day Presentation
- 17-03-2014 ZON OPTIMUS informs on "ZON OPTIMUS 2011/2015" Bond Interest Payment
- 19-03-2014 ZON OPTIMUS informs on "ZON MULTIMEDIA 2012-2015" Bonds Interest Payment
- 27-03-2014 ZON OPTIMUS informs on dividend proposal relative to year 2013
- 28-03-2014 ZON OPTIMUS, SGPS, S.A. informs on Annual Report 2013
- 28-03-2014 ZON OPTIMUS, SGPS, S.A. informs on General Shareholders Meeting
- 23-04-2014 ZON OPTIMUS informs on Shareholders' Meeting Deliberations
- 24-04-2014 ZON OPTIMUS informs on calendar for dividend payment
- 05-05-2014 ZON OPTIMUS informs on Qualified Shareholding of Lancaster Investment Management LLP
- 07-05-2014 ZON OPTIMUS informs on 1Q14 Consolidated Results
- 12-05-2014 **ZON OPTIMUS informs on 100,000,000 € Bond Issue**
- 14-05-2014 ZON OPTIMUS informs on 1Q14 Consolidated Management Report
- 14-05-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley
- 16-05-2014 A new operator is born in the telecommunications market in Portugal
- 23-05-2014 ZON OPTIMUS informs on General Shareholders Meeting
- 26-05-2014 ZON OPTIMUS, SGPS, S.A. Employee Subscription Public Offering held on 13 May 2014
- 03-06-2014 ZON OPTIMUS informs on "ZON MULTIMEDIA 2010-2014" Bonds Interest Payment
- 09-06-2014 ZON OPTIMUS informs on Management Transactions
- 12-06-2014 ZON OPTIMUS informs on "ZON MULTIMEDIA 2012-2015" Bonds Interest Payment
- 12-06-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley
- 17-06-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley
- 19-06-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley
- 20-06-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley
- 20-06-2014 ZON OPTIMUS informs on Deliberations of the Extraordinary Shareholders Meeting
- 23-06-2014 ZON OPTIMUS informs on Qualified Shareholding of Morgan Stanley



Below we present the major Investor Relation Events which took place in 1H14. The activity developed by the Investor Relations Office also provides permanent and updated information to the financial community about the activities of NOS, through regular press releases, presentations and communications on the quarterly, half-yearly and annual results, as well as any other relevant events that may occur. It also provides all clarifications to the financial community in general - shareholders, investors (both institutional and retail) and analysts, also assisting and supporting the exercise of the shareholders rights. The Investor Relations Office promotes regular meetings of the executive management team with the financial community through the participation in specialized conferences, roadshows, both in Portugal or in major international financial centers, and often meets with investors who visit Portugal.

Main Events 1H14

| | |
|---------------|--|
| 6 March | Roadshow in London |
| 12 March | Roadshow in NY |
| 20 March | XX Santander Portuguese Conference in Lisbon |
| 26 March | HSBC 12th Equity Conference in Paris |
| 28 March | Roadshow in Madrid |
| 02 April | Roadshow in Frankfurt |
| 03 April | Roadshow in Paris |
| 08 / 10 April | Roadshow in Stockholm, Helsinki, Oslo and Copenhagen |
| 15 May | Roadshow in London |
| 19 May | Roadshow in NY |
| 20 May | Pan European Days in NY |
| 21 / 22 May | Roadshow in S. Francisco and LA |
| 28 May | Berenberg TMT Conference in Zurich |
| 29 May | Fidentiis Annual Conference in Madrid |
| 04 June | Roadshow in Brussels |
| 12 June | UBS Pan European SMC Conference in London |
| 17 June | GS Cable & Convergence Conference in London |
| 18 June | UBS Benelux Investor Day in Amsterdam |

NOS' legal representative for Capital Markets is Maria João Carrapato.

Any interested parties are invited to request information from the Investor Relations Office, using the following contacts:

Rua Actor António Silva, nº 9
 1600 - 404 Lisboa (Portugal)
 Tel. / Fax: +(351) 21 7824725 / +(351) 21 7824735
 E-mail: ir@nos.pt



4.3. Governing Bodies Shareholdings

Under the terms and for the purposes of Article 9, Paragraph a) and numbers 6 and 7 of Article 14 of CMVM Regulation 5/2008, and according to the information provided to the Company by the Governing Bodies, NOS hereby informs on the shareholdings of the members of its Governing Bodies, including the Audit and Finance Committee and the Alternate and In Office Statutory Auditors, at 30 June 2014:

| Name | Position | Shares held at 31-12-2013 | 1H14 Transactions | | | | Shares held 30-06-2014 |
|--|--------------------------------------|--------------------------------|------------------------------|---|--|--|--------------------------------|
| | | | Purchased | Disposed | Price Per Share | Date | |
| Jorge Manuel de Brito Pereira | Chairman of the Board of Directors | 0 | - | - | 4.970 € | - | 0 |
| Miguel Nuno Santos Almeida | Chairman of the Executive Committee | 0 | 64,859 | - | 4.970 € | 03-06-2014 | 0 |
| | | | - | 64,859 | 4.970 € | 05-06-2014 | |
| José Pedro Faria Pereira da Costa | Member of the Executive Committee | 100,000 | 2,125 58,872 | - 15,575 20,795 - 16,545 8,082 | 5.039 € 4.970 € * * * 4.979 € | 31-01-2014 03-06-2014 03-06-2014 04-06-2014 05-06-2014 06-06-2014 | 100,000 |
| Miguel Veiga Martins | Member of the Executive Committee | 0 | - | - | - | - | 0 |
| Manuel Ramalho Eanes | Member of the Executive Committee | 0 | 27,304 | - 27,304 | 4.970 € * | 03-06-2014 09-06-2014 | 0 |
| André Nuno Malheiros dos Santos Almeida | Member of the Executive Committee | 7,700 | 300 16,110 - 16,110 | - | 5.039 € 4.970 € 4.970 € | 31-01-2014 03-06-2014 06-06-2014 | 8,000 |
| Ana Paula Garrido de Pina Marques <i>Conjuge</i> | Member of the Executive Committee | 0 | 27,304 | - | 4.970 € | 03-06-2014 | 27,304 |
| | | 0 | 21,158 | - | 4.970 € | 03-06-2014 | 21,158 |
| Angelo Gabriel Ribeirinho dos Santos Paupério ⁽¹⁾ <i>Sonaecom, SGPS, SA</i> <i>ZOPT, SGPS, SA</i> | Member of the Board of Directors | 0 37,489,324 257,632,005 | - - - | 26,476,792 - - | - | 25-02-2014 | 0 11,012,532 257,632,005 |
| António Bernardo Aranha da Gama Lobo Xavier ⁽²⁾ <i>Sonaecom, SGPS, SA</i> | Member of the Board of Directors | 0 37,489,324 | - | - 26,476,792 | - | 25-02-2014 | 0 11,012,532 |
| António Domingues ⁽³⁾ <i>Grupo BPI</i> | Member of the Board of Directors | 0 23,344,798 | - 50,584 | - 107,883 | - | - | 0 23,287,499 |
| Catarina Eufémia Amorim da Luz Tavira | Member of the Board of Directors | 0 | - | - | - | - | 0 |
| Fernando Fortuny Martorell | Member of the Board of Directors | 0 | - | - | - | - | 0 |
| Isabel dos Santos ⁽⁴⁾ <i>ZOPT, SGPS, SA</i> | Member of the Board of Directors | 0 257,632,005 | - - | - - | - | - | 0 257,632,005 |
| Joaquim Francisco Alves Ferreira de Oliveira ⁽⁵⁾ <i>Controlinveste International, Sarl</i> <i>Gripcom, SGPS, SA</i> | Member of the Board of Directors | 0 7,965,980 6,989,704 | - - - | - - - | - | - | 0 7,965,980 6,989,704 |
| Lorena Solange Fernandes da Silva Fernandes | Member of the Board of Directors | 0 | - | - | - | - | 0 |
| Maria Cláudia Teixeira de Azevedo ⁽⁶⁾ <i>Sonaecom, SGPS, SA</i> <i>ZOPT, SGPS, SA</i> | Member of the Board of Directors | 0 37,489,324 257,632,005 | - - - | 26,476,792 - - | - | 25-02-2014 | 0 11,012,532 257,632,005 |
| Mário Filipe Moreira Leite da Silva ⁽⁷⁾ <i>ZOPT, SGPS, SA</i> | Member of the Board of Directors | 0 257,632,005 | - - | - - | - | - | 0 257,632,005 |
| Rodrigo Jorge de Araújo Costa | Member of the Board of Directors | 0 | - | - | - | - | 0 |
| Paulo Cardoso Correia da Mota Pinto | Chairman of the Fiscal Board | 0 | - | - | - | - | 0 |
| Eugenio Luís Lopes Franco Ferreira | Member of the Fiscal Board | 0 | - | - | - | - | 0 |
| Nuno Tiago Bandeira de Sousa Pereira | Member of the Fiscal Board | 0 | - | - | - | - | 0 |
| Luis Filipe da Silva Ferreira | Alternate Member of the Fiscal Board | 0 | - | - | - | - | 0 |
| Ernst & Young Audit & Associados, SROC, S.A. | Statutory Auditor | 0 | - | - | - | - | 0 |
| Ricardo Filipe de Frias Pinheiro | Statutory Auditor | 0 | - | - | - | - | 0 |
| Paulo Jorge Luís da Silva | Alternate Statutory Auditor | 0 | - | - | - | - | 0 |

Paulo Jorge Luis da Silva, Alternate Statutory Auditor, 0, -

* Given that more than one transaction took place on the date, we hereby remit the detail of the price per share of these transactions to the market for that purpose.
(1) Angelo Gabriel Ribeiroinho dos Santos Paupério is a member of the Board of Directors of ZOPT, SGPS, SA, a company which at 30 June 2014 held a shareholding corresponding to 50.01% of NOS, SGPS, SA and a member of the Board of Directors and of the Executive Committee of Sonae.com, SGPS, SA.

(1) Angela Berti Regini is NGS SA's chairman and a member of the Board of Directors of SGIP S.p.A., a company which at 30 June 2014 held a shareholding corresponding to 30.01% of NGS, SGIP S.p.A. and a member of the Board of Directors of a company which at 30 June 2014 held a shareholding corresponding to 2.14% of NGS, SGIP S.p.A.

(2) António Bernardo Aranha da Gama Lobo Xavier is a member of the Board of Directors and of the Executive Committee of Sonae.com, SGPS, SA, a company which, at 30 June 2014, held 23,281,499 shares of MOS, SGPS, SA.

(3) António Domingues is a member of the Board of Directors of companies within the BPI Group which, at 30 June 2014, held 23,287,499 shares of NOS, SGPS, SA.

(4) Isabel dos Santos is a member of the Board of Directors of ZOPT, SGPS, SA, a company which holds a shareholding corresponding to 50.01% of NOS, SGPS, SA.

(5) Joaquim Francisco Alves Ferreira de Oliveira indirectly holds more than half of the share capital of Controlinveste International, Sarl, which held, on 30 June 2011:

(6) Maria Cláudia Teixeira de Azevedo, is a member of the Board of Directors of ZOPT, SGPS, SA, a company which at 30 June 2014 held a shareholding corresponding to 50.00% of the shares of NOS.

(6) Maria Cláudia Teixeira de Azevedo, is a member of the Board of Directors of ZOPTI, SGPS, SA, a company which at 30 June 2014 held a shareholding corresponding at 30 June 2014 held a shareholding corresponding to 2.14% of NOS, SGPS, SA.

(7) Mário Filipe Moreira Leite da Silva, is a member of the Board of Directors of SGPT, SGPS, SA, a company which holds a shareholding corresponding to 50.01% of the shares of SGPS, SA.



4.4. Qualified Shareholdings

Under the terms of paragraph c) of number 1 of article 9 of the Regulation 5/2008 of the Portuguese Securities Committee (CMVM), NOS hereby informs on its qualified shareholdings held by third parties, which have been reported to the Company.

The structure of NOS' Social Qualified Shareholdings disclosed to the company, was, in 30 June 2014, as follows:

| Shareholders | Number of Shares | % Voting Rights |
|--|--------------------|-----------------|
| ZOPT, SGPS, SA ⁽¹⁾ | 257,632,005 | 50.01% |
| Banco BPI, SA ⁽²⁾ | 23,287,499 | 4.52% |
| Fundação José Berardo e Metalgest - Sociedade de Gestão, SGPS, SA ⁽³⁾ | 17,999,249 | 3.49% |
| Joaquim Alves Ferreira de Oliveira ⁽⁴⁾ | 14,955,684 | 2.90% |
| Sonaecom, SGPS, SA ⁽⁵⁾ | 11,012,532 | 2.14% |
| Morgan Stanley | 10,392,627 | 2.02% |
| Total | 335,279,596 | 65.08% |

(1) According to paragraphs b) and c) of number 1 of article 20º and article 21º of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of NOS, as calculated in the terms of article 20º of the Portuguese Securities Code, is attributable to ZOPT, Sonaecom and the following companies:

a. This qualified holding is attributable to the companies Kento Holding Limited ("Kento") and Unitel International Holdings, BV ("Unitel International"), as well as to Mrs. Isabel dos Santos, under the terms of articles 20(1)(b) and (c) and 21 of the Portuguese Securities Code, being (i) Kento and Unitel International directly and indirectly controlled by Mrs. Isabel dos Santos and (ii) ZOPT controlled together by its shareholders Kento, Unitel International and Sonaecom as a result of the shareholders agreement entered into between these entities;

b. The aforementioned qualified holding is also attributable to Sonaecom and all entities in a control relationship with Sonaecom, namely SONTEL, BV, Sona Investments, BV, SONAE, SGPS, S.A., EFANOR INVESTIMENTOS, SGPS, S.A. and to Mr. Belmiro Mendes de Azevedo, also under the terms of articles 20(1)(b) and (c) and 21 of the Portuguese Securities Code, as a result of the control relationship and shareholders agreement mentioned in a.

(2) Under the terms of Paragraph 1 of article 20º of the Securities Code, Banco BPI, SA is attributed the voting rights corresponding to 4.52% of NOS' share capital, held by Fundo de Pensões do Banco BPI.

(3) Fundação José Berardo holds 14,013,761 shares corresponding to 2.72% of the share capital of NOS. In turn, Metalgest - Sociedade de Gestão, SGPS, S.A. holds 3,985,488 shares corresponding to 0.774% of the company's share capital. Fundação José Berardo's shareholding and voting rights are reciprocal with the shareholding and voting rights of Metalgest - Sociedade de Gestão, SGPS, SA.

(4) Mr. Joaquim Francisco Alves Ferreira de Oliveira is attributed the voting rights corresponding to 2.90% of the share capital since he controls GRIPCOM, SGPS, SA, and Controlinveste International S.à.r.l., who hold respectively 1.36% and 1.55% of NOS' share capital.

(5) Qualified Shareholding according to the results of the Public Offer disclosed by Sonaecom, SGPS, SA on 20 February 2014.

The following table presents the qualified holding of Fundação José Berardo and Metalgest - Sociedade de Gestão, SGPS, SA, calculated under the terms of number 1 of article 20 of the Portuguese Securities Code.

| Shareholders | Number of Shares | % Voting Rights |
|---|-------------------|-----------------|
| Fundação José Berardo | 14,013,761 | 2.72% |
| Metalgest - Sociedade de Gestão, SGPS, SA | 3,985,488 | 0.77% |
| Total | 17,999,249 | 3.49% |

The following table presents the qualified holding of Joaquim Alves Ferreira de Oliveira, calculated under the terms of number 1 of article 20 of the Portuguese Securities Code.

| Shareholders | Number of Shares | % Voting Rights |
|--|-------------------|-----------------|
| Gripcom, SGPS, SA | 6,989,704 | 1.36% |
| Controlinveste International, S.à.r.l. | 7,965,980 | 1.55% |
| Total | 14,955,684 | 2.90% |

The following table presents the qualified holding of Morgan Stanley, calculated under the terms of number 1 of article 20 of the Portuguese Securities Code.

| Shareholders | Number of Shares | % Voting Rights |
|--|-------------------|-----------------|
| Bank Morgan Stanley AG | 352 | 0.00% |
| Morgan Stanley & Co. International PLC | 10,188,222 | 1.98% |
| Morgan Stanley & Co. LLC | 203,423 | 0.04% |
| Morgan Stanley Smith Barney LLC | 630 | 0.00% |
| Total | 10,392,627 | 2.02% |

A detailed record of the qualified shareholdings' communications can be found at NOS' corporate website, at www.nos.pt/ir.



4.5. Transactions of Own Shares

By the end of 1H14, NOS held, within the scope of its Employee Share Plan, Share Savings Plan and the Regulation on Short and Medium Term Variable Remuneration, aimed at NOS employees, 531,262 own shares.

The table below summarizes NOS' own shares transactions, which took place until 30 June 2014:

| Description | Number of Shares |
|---|------------------|
| Balance as at 1 January 2014 | 403,382 |
| Acquisition of Own Shares | 3,691,471 |
| Loan of Own Shares | 950,000 |
| Reimbursement of the Loan of Own Shares | (576,100) |
| Distribution of Own Shares - Share Incentive Scheme | (2,102,399) |
| Distribution of Own Shares - Share Public Offering | (1,706,761) |
| Distribution of Own Shares - Other Remunerations | (128,331) |
| Balance as at 30 June 2014 | 531,262 |

During the six months ended on 30 June 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 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' 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 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 of 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.



4.6. Business Review

A major milestone of the merger between ZON and OPTIMUS was achieved in 2Q14 with the launch, on 16 May, of the new brand NOS. This was a logical and essential step for the development of an ambitious growth strategy that enhances the potential to achieve synergies.

The launch of NOS ("US" in Portuguese) embodies the integration of all telecommunications and entertainment needs in a single, convergent access point based on a customer experience of full delivery and excellence. NOS is born to deliver the best communication and entertainment experience, for everyone, everywhere, for all services, content, devices and platforms, from television to mobile, including internet, telephone, cinema and convergence. The name focuses on the needs of a world that is increasingly network driven and collaborative.

We have a unique set of assets which provide a very solid platform for our growth ambitions: our network is the most modern both in terms of coverage and capacity; our television offer is the most advanced, with unique features and the best user interface; and our offers break down the barriers of the network effect.

With the launch of NOS, teams are now fully able to focus on ramping up commercial deployment and restructuring operations in the merged entity.

Results to date from the new brand launch and major campaigns are well above best expectations. Total brand awareness exceeds 90% just 7 weeks after launch with over 70% recognition that NOS is associated with the services provided under the ZON and OPTIMUS brands. Equally relevant is the fact that **spontaneous association with NOS' services exceeds 75%**, meaning consumers are almost totally aware about NOS' services.

Over 1 million Convergent RGUs

Take-up of convergent services continues to be very strong and NOS is extremely well positioned to take advantage of the market trends. Anchored by a very strong position in the fixed pay TV market, **NOS' ability to upsell convergent bundles has been significantly reinforced with the launch of new, more segmented offers** with the launch of the new brand and that have reached out to tiers of the market that were previously not being addressed.

By the end of 1H14, NOS had reached over 1 million convergent RGUs, representing over 200 thousand convergent customers, an average of 5 RGUs per household, and over 17% of the fixed access subscriber base. These results reflect monthly average growth in 2Q14 in convergent RGUs of more than 150 thousand, picking up from the already strong pace of close to 115 thousand in 1Q14.

The acceleration in pace of growth coincided with the launch of the NOS brand and of the new, more segmented bundles, starting at the low end of the range at 49.99 euros and increasing to the highest value proposition of 79.99 euros. The new entry convergent offer of 49.99 euros, launched at the beginning of June, combines an IRIS interface TV solution with fewer channels (121 channels), a lower fixed broadband offer of 30 Mbps, unlimited fixed voice and one mobile SIM card including unlimited



voice calls and SMS and 200 MB of data. At the higher end of the range, the 79.99 euros offer includes more TV channels (151), 100 Mbps fixed broadband, unlimited fixed voice and two mobile SIM cards with unlimited voice and SMS and 200 MB of data.

These new convergent bundles provide customers with more choice and flexibility, being able to choose between 1, 2, 3 or 4 SIM cards. Despite the launch of these lower-end offers, the pace of growth in subscribers with more than one SIM card remained intact and the take-up of offers with a single SIM card represented additional growth in segments previously not catered for.

A positive development felt in 2Q14 was also the significantly reduced pace of net losses in the quarter in the DTH customer base due to the launch of convergent offers combining satellite TV and internet and voice over 4G. Monthly trends in DTH net adds during the quarter were very positively impacted, down to 1.9 thousand in 2Q14 compared with an average of 10.4 thousand over the past 4 quarters, and actually turning positive in June.

[IRIS at the forefront of consumer preference with another six months of record growth](#)

Our award winning IRIS interface continues to be a key driver of our TV and entertainment strategy and is today the default interface for all NOS' offers. This was another semester of record growth for IRIS, with both quarters recording the highest net adds ever – 1Q14 with 61.0 thousand and 2Q14 with a further 62.7 thousand net adds, bringing penetration of the 3&4P fixed subscriber base to 69.2%, up from 42% in 1H13. The proportion of subscribers benefitting from IRIS is a clear indication of how much subscribers value its innovative and user-friendly, cloud-based viewing and recording capabilities within a multi-device ecosystem.

Levels of satisfaction and customer experience with IRIS are extremely high, with usage of the leading edge, cloud based functionalities completely transforming the way people watch TV - over 75% of customers use Timewarp and Restart TV every day, at least twice a day.

NOS continues to improve the IRIS interface and integrate innovative new features and apps. During 2Q14, 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.

[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.

Strong pick-up in mobile net adds driving yoy growth in subscriber base

Driven by the strong growth in convergent bundles, NOS recorded total net-adds in mobile subscribers of 153.7 thousand, with 2Q14 representing a very significant pick up in the pace of acquisition with 108.7 thousand net adds, from 45 thousand in 1Q14 and from negative net adds of 57.6 thousand in 2Q13.

This net growth results from a combination of 277.6 thousand net-adds in post-paid mobile services and of negative net adds in pre-paid cards of 123.9 thousand, showing the structural shift from stand-alone mobile subscriptions to offers integrated in convergent bundles. Adjusted for a decline of 27 thousand in mobile data cards, due to the continued negative impact of the winding down of the e-escolas government subsidized programme, growth in post-paid mobile cards was actually higher in 1H14 at 304 thousand. In the stand-alone personal segment the focus remains on promoting all-net tariffs without any kind of network restrictions. There is still a significant opportunity for growth in smartphone penetration in the Portuguese market and NOS is actively exploring opportunities in this arena with initiatives such as the launch of own branded equipment at more widely affordable prices and through the sale of smartphones in instalments when acquired within post-paid tariff plans.

Very strong fixed growth in Corporate services although lagged by revenues. Market pressure on unit revenues in SME and SoHo

Trends in the Business segment are going well with RGU growth yoy of 6% to 1.016 million, focused on upselling TV and mobile services. Sales channel ramp-up and operational alignment is underway in the SME and SoHo segment, with the new launch of a single brand for all services enhancing the NOS value propositions and making the relationship with customers much more streamlined.

The number of accounts successfully tendered in the Corporate segment grew significantly with major inroads being made in the public sector and other large companies. Revenues for both the Corporate and SME and SoHo segment are still lagging the strong operational trends due to the longer installation period required for Corporate clients and due to the high market pressure felt on unit revenues in the smaller business segment, as was expected given the read-across from convergence in the consumer market.



| Operating Indicators ('000) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|----------------------------------|---------|---------|---------|-------------|-------------|---------|---------|-------------|
| Telco ⁽¹⁾ | | | | | | | | |
| Aggregate Indicators | | | | | | | | |
| | | | | | | | | |
| Homes Passed | 3,213.3 | 3,255.5 | 3,243.2 | 0.9% | (0.4%) | 3,213.3 | 3,243.2 | 0.9% |
| Total RGUs | 7,240.9 | 7,215.2 | 7,295.6 | 0.8% | 1.1% | 7,240.9 | 7,295.6 | 0.8% |
| Mobile | 3,203.5 | 3,288.4 | 3,397.1 | 6.0% | 3.3% | 3,203.5 | 3,397.1 | 6.0% |
| Pre-Paid | 2,284.2 | 2,161.5 | 2,127.1 | (6.9%) | (1.6%) | 2,284.2 | 2,127.1 | (6.9%) |
| Post-Paid | 919.3 | 1,126.9 | 1,270.0 | 38.1% | 12.7% | 919.3 | 1,270.0 | 38.1% |
| ARPU / Mobile Subscriber (Euros) | 9.8 | 9.0 | 9.2 | (6.0%) | 1.9% | 9.7 | 9.1 | (6.2%) |
| Pay TV | 1,569.1 | 1,493.3 | 1,474.3 | (6.0%) | (1.3%) | 1,569.1 | 1,474.3 | (6.0%) |
| Fixed Access ⁽²⁾ | 1,233.5 | 1,189.4 | 1,172.3 | (5.0%) | (1.4%) | 1,233.5 | 1,172.3 | (5.0%) |
| DTH | 335.7 | 303.9 | 302.1 | (10.0%) | (0.6%) | 335.7 | 302.1 | (10.0%) |
| Fixed Voice | 1,549.3 | 1,491.3 | 1,472.5 | (5.0%) | (1.3%) | 1,549.3 | 1,472.5 | (5.0%) |
| Broadband | 905.2 | 927.0 | 934.5 | 3.2% | 0.8% | 905.2 | 934.5 | 3.2% |
| Others and Data | 13.7 | 15.2 | 17.2 | 25.4% | 12.7% | 13.7 | 17.2 | 25.4% |
| 3P&4P Subscribers | 805.9 | 808.4 | 810.7 | 0.6% | 0.3% | 805.9 | 810.7 | 0.6% |
| % 3P&4P | 65.3% | 68.0% | 69.2% | 3.8pp | 1.2pp | 65.3% | 69.2% | 3.8pp |
| Convergent RGUs | 34.3 | 555.8 | 1,007.7 | n.a. | 81.3% | 34.3 | 1,007.7 | n.a. |
| IRIS Subscribers | 338.7 | 498.6 | 561.3 | 65.7% | 12.6% | 338.7 | 561.3 | 65.7% |
| IRIS as % of 3P&4P Subscribers | 42.0% | 61.7% | 69.2% | 27.2pp | 7.6pp | 42.0% | 69.2% | 27.2pp |
| Net Adds | | | | | | | | |
| Homes Passed | 13.6 | 13.7 | (12.3) | n.a. | n.a. | 27.7 | 1.4 | (94.9%) |
| Total RGUs | (54.5) | 2.2 | 80.3 | n.a. | n.a. | (116.0) | 82.5 | n.a. |
| Mobile | (57.6) | 45.0 | 108.7 | n.a. | 141.4% | (101.5) | 153.7 | n.a. |
| Pre-Paid | (71.9) | (89.5) | (34.4) | (52.1%) | (61.5%) | (124.2) | (123.9) | (0.3%) |
| Post-Paid | 14.3 | 134.5 | 143.1 | n.a. | 6.4% | 22.7 | 277.6 | n.a. |
| Pay TV | (13.8) | (24.7) | (19.0) | 37.1% | (23.3%) | (24.5) | (43.7) | 78.3% |
| Fixed Access ⁽²⁾ | (3.9) | (14.4) | (17.1) | n.a. | 18.5% | (4.0) | (31.5) | n.a. |
| DTH | (9.9) | (10.3) | (1.9) | (81.2%) | (81.9%) | (20.5) | (12.2) | (40.6%) |
| Fixed Voice | 6.8 | (23.7) | (18.8) | n.a. | (20.8%) | (8.4) | (42.5) | n.a. |
| Broadband | 9.7 | 4.9 | 7.5 | (22.9%) | 52.7% | 17.5 | 12.4 | (29.2%) |
| Others and Data | 0.5 | 0.7 | 1.9 | 275.5% | 186.1% | 1.0 | 2.6 | 155.1% |
| 3P&4P Subscribers | 6.4 | 2.5 | 2.3 | (64.1%) | (8.8%) | 14.7 | 4.8 | (67.3%) |
| Convergent RGUs | 34.3 | 343.4 | 451.9 | n.a. | 31.6% | 34.3 | 795.3 | n.a. |
| IRIS Subscribers | 54.2 | 61.0 | 62.7 | 15.8% | 2.9% | 103.8 | 123.7 | 19.1% |

(1) Portuguese Operations

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



| Operating Indicators ('000) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|---|---------|---------|---------|-------------|-------------|---------|---------|-------------|
| Telco ⁽¹⁾ | | | | | | | | |
| Indicators per Segment | | | | | | | | |
| Consumer | | | | | | | | |
| Total RGUs | 6,282.4 | 6,214.7 | 6,279.4 | (0.0%) | 1.0% | 6,282.4 | 6,279.4 | (0.0%) |
| Unique Subscribers With Fixed Access ⁽²⁾ | 1,218.9 | 1,159.1 | 1,127.0 | (7.5%) | (2.8%) | 1,218.9 | 1,127.0 | (7.5%) |
| Pay TV | 1,505.1 | 1,429.2 | 1,406.5 | (6.5%) | (1.6%) | 1,505.1 | 1,406.5 | (6.5%) |
| Fixed Access | 1,183.3 | 1,138.2 | 1,118.4 | (5.5%) | (1.7%) | 1,183.3 | 1,118.4 | (5.5%) |
| DTH | 321.8 | 291.0 | 288.1 | (10.5%) | (1.0%) | 321.8 | 288.1 | (10.5%) |
| IRIS Subscribers | 329.6 | 484.8 | 544.4 | 65.2% | 12.3% | 329.6 | 544.4 | 65.2% |
| Broadband | 833.3 | 853.8 | 858.9 | 3.1% | 0.6% | 833.3 | 858.9 | 3.1% |
| Fixed Voice | 1,356.9 | 1,299.2 | 1,281.1 | (5.6%) | (1.4%) | 1,356.9 | 1,281.1 | (5.6%) |
| Mobile | 2,587.2 | 2,632.5 | 2,733.0 | 5.6% | 3.8% | 2,587.2 | 2,733.0 | 5.6% |
| % 1P | 16.9% | 14.4% | 14.0% | (2.9pp) | (0.4pp) | 16.9% | 14.0% | (2.9pp) |
| % 2P | 18.1% | 19.2% | 18.5% | 0.4pp | (0.7pp) | 18.1% | 18.5% | 0.4pp |
| % 3P&4P | 65.0% | 66.4% | 67.9% | 2.9pp | 1.6pp | 65.0% | 67.9% | 2.9pp |
| ARPU / Unique Subscriber With Fixed Access (Euros) | 36.6 | 37.1 | 37.8 | 3.3% | 1.8% | 36.8 | 37.6 | 2.3% |
| Net Adds | | | | | | | | |
| Total RGUs | (56.8) | (21.0) | 64.7 | n.a. | n.a. | (135.4) | 43.7 | n.a. |
| Unique Subscribers With Fixed Access | (6.5) | (24.1) | (32.1) | n.a. | 33.3% | (10.5) | (56.2) | n.a. |
| Pay TV | (12.8) | (26.4) | (22.7) | 77.2% | (13.9%) | (23.5) | (49.1) | 108.7% |
| Fixed Access | (3.2) | (16.1) | (19.8) | n.a. | 23.3% | (3.8) | (35.9) | n.a. |
| DTH | (9.7) | (10.3) | (2.9) | (70.1%) | (72.0%) | (19.8) | (13.2) | (33.3%) |
| IRIS Subscribers | 52.9 | 58.6 | 59.6 | 12.6% | 1.8% | 101.4 | 118.2 | 16.6% |
| Broadband | 10.2 | 3.9 | 5.1 | (50.2%) | 30.3% | 17.4 | 9.0 | (48.6%) |
| Fixed Voice | 5.8 | (25.0) | (18.2) | n.a. | (27.4%) | (11.8) | (43.2) | 267.0% |
| Mobile | (59.9) | 26.5 | 100.5 | n.a. | 279.6% | (117.5) | 127.0 | n.a. |
| Business | | | | | | | | |
| Total RGUs | 958.5 | 1,000.5 | 1,016.1 | 6.0% | 1.6% | 958.5 | 1,016.1 | 6.0% |
| Pay TV | 64.1 | 64.1 | 67.8 | 5.9% | 5.8% | 64.1 | 67.8 | 5.9% |
| IRIS Subscribers | 9.1 | 13.8 | 16.9 | 85.7% | 22.5% | 9.1 | 16.9 | 85.7% |
| Broadband | 85.6 | 88.4 | 92.8 | 8.4% | 4.9% | 85.6 | 92.8 | 8.4% |
| Fixed Voice | 192.5 | 192.0 | 191.4 | (0.6%) | (0.3%) | 192.5 | 191.4 | (0.6%) |
| Mobile | 616.4 | 656.0 | 664.1 | 7.8% | 1.2% | 616.4 | 664.1 | 7.8% |
| ARPU per RGU (Euros) | 26.6 | 25.2 | 23.2 | (12.4%) | (7.7%) | 26.6 | 24.2 | (8.9%) |
| Net Adds | | | | | | | | |
| Total RGUs | 2.3 | 23.2 | 15.6 | n.a. | (32.7%) | 19.4 | 38.8 | 100.5% |
| Pay TV | (1.0) | 1.7 | 3.7 | n.a. | 125.8% | (1.0) | 5.4 | n.a. |
| IRIS Subscribers | 1.2 | 2.4 | 3.1 | 152.4% | 30.3% | 2.4 | 5.5 | 123.4% |
| Broadband | 0.0 | 1.7 | 4.3 | n.a. | 158.6% | 1.1 | 6.0 | n.a. |
| Fixed Voice | 1.0 | 1.3 | (0.6) | n.a. | n.a. | 3.3 | 0.7 | (78.9%) |
| Mobile | 2.3 | 18.6 | 8.2 | n.a. | (56.0%) | 16.0 | 26.7 | 67.4% |

(1) Portuguese Operations

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

Fixed access subscriber base showing positive inflection at the end of 1H14

Although still posting negative net adds in 1H14 of 43.7 thousand Pay TV subscribers, the quarterly trend shows improvement from April through to June, as the monthly pace of net adds progressively improved. In 1H14, the fixed access subscriber base was still negatively affected by the remedies imposed by the Competition Authority whereby, upon approval of the merger, NOS was forced to release **OPTIMUS' FTTH subscribers of their loyalty contracts and restricted from addressing them with commercial offers**. This effect will no longer be material in the coming quarters given that all



remaining OPTIMUS FTTH customers have either been acquired as NOS customers or churned. Fixed Voice and Broadband numbers were equally impacted by the above mentioned effect.

A very positive trend in 2Q14 was the fact that the DTH customer base posted a significant decline in net losses to 1.9 thousand, compared with 9.9 thousand in 2Q13 and 10.3 thousand in 1Q14. The improvement in the DTH trends is even more encouraging with positive net adds in June for the first time since December 2011. The launch of convergent DTH offers using the 4G network is proving successful in reverting the negative momentum of the past years in this segment, providing NOS with a much stronger value proposition and reducing its relative network disadvantage in geographies where it competes with DTH against a fixed infrastructure.

Very solid Fixed residential ARPU performance supported by convergence

ARPU per unique subscriber with fixed access increased 2.3% to 37.6 euros due to the very strong take-up of convergent RGUs and the continued increase in RGU per subscriber. Although there is still pressure in the market through competitor promotions, the proposition to take higher value integrated packages is more than offsetting this effect.

Although down yoy by 6.2% at 9.1 euros, Mobile ARPU recorded a marginal increase in 2Q14 in comparison with the previous quarter showing that the substantial growth in convergent post-paid contract customers is helping to mitigate the underlying revenue pressure felt in stand-alone mobile consumption.

ARPU per RGU in the business segment posted a decline in 1H14 of 8.9% to 24.2 euros, showing the continued impact of repricing pressure in this segment, affected by the read across from prices in the residential segment and with the increasing shift to convergent solutions.

Cinemas and Audiovisuals

| Operating Indicators ('000) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|-----------------------------|---------|---------|---------|-------------|-------------|---------|---------|-------------|
| Cinema⁽¹⁾ | | | | | | | | |
| Revenue per Ticket (Euros) | 4.7 | 4.7 | 4.7 | 1.1% | 1.0% | 4.6 | 4.7 | 1.3% |
| Tickets Sold | 1,758.3 | 1,595.7 | 1,676.6 | (4.6%) | 5.1% | 3,542.8 | 3,272.3 | (7.6%) |
| Screens (units) | 210 | 209 | 209 | (0.5%) | 0.0% | 210 | 209 | (0.5%) |

⁽¹⁾ Portuguese Operations

In 1H14, NOS' Cinema ticket sales posted a decline of 7.6% to 3.272 million tickets, which compares with a decline in like-for-like, total market ticket sales of 6.5%¹, adjusted for the reopening of several screens by another operator. The ticket sales decline is explained mainly by the fact that 1H14 was less rich in terms of blockbusters than 1H13, when for example "Fast & Furious 6" and "The Hangover Part III" both accounted for more tickets sold than the top film of 1H14, "Rio 2". Also, May and June were affected by the poorer line-up of movies as well as by the World Cup event.

¹ Source ICA - Portuguese Institute for Cinema and Audiovisuals



The most successful films shown in 1H14 were "Rio 2", "The Wolf of Wall Street", "12 Years a Slave", "Noah" and "The Lego Movie".

NOS opened the first IMAX® DMR - Digital 3D screen in Lisbon in June 2013. This premium cinema experience is proving very successful, having already achieved a total of around 124 thousand spectators so far, in its first year of operations.

Average revenue per ticket sold improved yoy, with an increase of 1.3%, to 4.7 euros.

Sales of 3D movie tickets declined yoy in 1H14 as a proportion of NOS' ticket sales, representing close to 9%, whereas they had represented around 11% in 1H13. 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 6.4% decrease in gross box-office revenues in 1H14, NOS continues to maintain its leading market position, with a market share of 60.9% in terms of gross revenues in 1H14. As a result of the abovementioned lower ticket sales and also of the decline of non-core revenues, total Cinema Exhibition revenues decreased by 7.2% yoy in 1H14 to 22.2 million euros.

Revenues in the Audiovisuals division declined by 3.0% to 28.4 million euros in 1H14, remaining flat in 2Q14 over the previous quarter. Revenues were impacted primarily by the decline of cinema tickets sold in the Portuguese market and also by the decrease of homevideo revenues. Of the top 10 cinema box-office hits in 1H14, NOS distributed 5, "The Wolf of Wall Street", "12 Years a Slave", "Noah", "American Hustle" and "Captain America: The Winter Soldier", maintaining its strong leading position with a 61.8% market share in terms of gross revenues.

The contract the Audiovisuals division had signed with Warner for the theatrical distribution of their catalogue for Portugal came into effect on 1 April 2014. It is therefore expected it will have a relevant contribution going forward.

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 6 new own stores, 3 in Angola (Caxito - Bengo, Soyo - Zaire and Dundo - Lunda Norte) and 3 in Mozambique (Tete, Beira and Nampula). ZAP now has 29 own stores in Angola and 8 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 this semester, ZAP added 3 new channels to its packages, 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.



4.7. 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 ¹ (Millions of Euros) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|---|---------|---------|---------|-------------|-------------|---------|---------|-------------|
| Operating Revenues | 357.1 | 337.3 | 345.0 | (3.4%) | 2.3% | 708.9 | 682.3 | (3.8%) |
| Telco | 341.9 | 323.5 | 330.2 | (3.4%) | 2.1% | 678.5 | 653.7 | (3.7%) |
| Consumer Revenues | 217.9 | 207.5 | 204.8 | (6.0%) | (1.3%) | 439.8 | 412.3 | (6.3%) |
| Business Revenues | 99.8 | 96.2 | 98.1 | (1.7%) | 1.9% | 193.8 | 194.3 | 0.3% |
| Equipment Sales | 8.8 | 8.2 | 8.9 | 0.6% | 9.1% | 15.1 | 17.1 | 13.1% |
| Others and Eliminations | 15.4 | 11.6 | 18.4 | 19.9% | 58.5% | 29.8 | 30.1 | 0.7% |
| Audiovisuals | 14.4 | 14.2 | 14.2 | (1.3%) | 0.6% | 29.3 | 28.4 | (3.0%) |
| Cinema ⁽¹⁾ | 12.1 | 10.7 | 11.4 | (5.3%) | 6.9% | 23.9 | 22.2 | (7.2%) |
| Others and Eliminations | (11.4) | (11.0) | (10.9) | (4.4%) | (1.3%) | (22.8) | (21.9) | (3.6%) |
| Operating Costs Excluding D&A | (216.7) | (207.5) | (211.3) | (2.5%) | 1.9% | (430.6) | (418.8) | (2.7%) |
| W&S | (23.7) | (21.0) | (18.7) | (21.0%) | (11.1%) | (47.0) | (39.8) | (15.3%) |
| Direct Costs | (101.8) | (96.7) | (100.5) | (1.3%) | 3.9% | (199.5) | (197.2) | (1.1%) |
| Commercial Costs ⁽²⁾ | (22.9) | (22.7) | (21.8) | (4.7%) | (4.2%) | (42.2) | (44.5) | 5.5% |
| Other Operating Costs | (68.3) | (67.0) | (70.4) | 3.0% | 5.1% | (141.9) | (137.3) | (3.2%) |
| EBITDA | 140.3 | 129.9 | 133.6 | (4.8%) | 2.9% | 278.3 | 263.5 | (5.3%) |
| EBITDA Margin | 39.3% | 38.5% | 38.7% | (0.6pp) | 0.2pp | 39.3% | 38.6% | (0.6pp) |
| Telco | 131.5 | 120.4 | 124.9 | (5.0%) | 3.7% | 262.6 | 245.3 | (6.6%) |
| EBITDA Margin | 38.5% | 37.2% | 37.8% | (0.6pp) | 0.6pp | 38.7% | 37.5% | (1.2pp) |
| Cinema Exhibition and Audiovisuals | 8.8 | 9.5 | 8.8 | (0.6%) | (7.5%) | 15.8 | 18.3 | 15.7% |
| EBITDA Margin | 37.3% | 42.4% | 37.4% | 0.1pp | (5.0pp) | 32.8% | 39.8% | 7.0pp |
| Share of results of associates and joint ventures | 0.4 | 4.9 | 2.7 | n.a. | (44.8%) | 1.7 | 7.6 | n.a. |
| EBITDA including results of associates and joint ventures | 140.7 | 134.8 | 136.3 | (3.1%) | 1.2% | 280.0 | 271.1 | (3.2%) |
| Depreciation and Amortization | (82.0) | (83.9) | (86.2) | 5.1% | 2.8% | (169.1) | (170.1) | 0.6% |
| (Other Expenses) / Income | (1.0) | (2.8) | (12.6) | n.a. | n.a. | (1.3) | (15.5) | n.a. |
| Operating Profit (EBIT) ⁽³⁾ | 57.6 | 48.1 | 37.5 | (35.0%) | (22.0%) | 109.6 | 85.6 | (22.0%) |
| (Financial Expenses) / Income | (17.9) | (15.2) | (14.2) | (21.0%) | (6.7%) | (34.7) | (29.4) | (15.3%) |
| Income Before Income Taxes | 39.7 | 32.9 | 23.3 | (41.3%) | (29.1%) | 75.0 | 56.2 | (25.0%) |
| Income Taxes | (9.0) | (7.3) | (4.8) | (46.5%) | (34.6%) | (16.5) | (12.1) | (26.6%) |
| Income From Continued Operations | 30.7 | 25.6 | 18.5 | (39.8%) | (27.5%) | 58.5 | 44.1 | (24.6%) |
| o.w. Attributable to Non-Controlling Interests | (0.2) | (0.3) | (0.1) | (31.7%) | (64.3%) | (0.4) | (0.4) | 14.3% |
| Net Income | 30.6 | 25.3 | 18.4 | (39.8%) | (27.1%) | 58.1 | 43.7 | (24.8%) |

⁽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 Dreamia (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 (6 months in 1H13). 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 682.3 million euros in 1H14, representing a decline of 3.8% in comparison with 1H13 and Revenues for the Telco business declined by 3.7% to 653.7 million euros, with 2Q14 reflecting an improving quarterly trend in yoy performance, due to the very positive momentum in leading operating indicators.

Consumer revenues posted a yoy decline of 6.3% to 412.3 million euros in comparison with 1H13, with 2Q14, with a decline rate of 6.0% representing a marginal sequential recovery in comparison with the yoy decline of 6.5% in 1Q14. Within consumer revenues, it is worth highlighting that the trend in residential fixed revenues was much less negative, down by just 2.9% yoy in 2Q14 reflecting the strong volume growth in convergent solutions driving positive performance in ARPU. In addition, the negative yoy trend in DTH residential revenues improved significantly in 2Q14, led by the launch of DTH convergent offers. The stand-alone mobile business is still posting challenging yoy growth trends however this should not be viewed in isolation as many previous personal mobile subscribers are moving to post-paid, high value convergent packages, with a net positive effect for NOS overall. Business Revenues increased marginally in 1H14 by 0.3% yoy showing a combination of positive growth in Corporate and Wholesale Revenues which compensated revenue repricing pressure in the SME and SoHo market influenced by convergent trends in the residential market.

Revenues from the Audiovisuals business fell by 3.0% yoy to 28.4 million euros and Cinema Exhibition revenues fell by 7.2% to 22.2 million euros, with 2Q14 posting a marked improvement in yoy trends from the previous quarter.

Despite the yoy 6.4% decrease in gross box-office revenues in 1H14, NOS continues to maintain its leading market position, with a market share of 60.9% in terms of gross revenues in 1H14. As a result of the abovementioned lower ticket sales and also of the decline of non-core revenues, total Cinema Exhibition revenues decreased by 7.2% yoy in 1H14.

Revenues in the Audiovisuals division declined by 3.0% to 28.4 million euros in 1H14, remaining flat in 2Q14 over the previous quarter. Revenues were impacted primarily by the decline of cinema tickets sold in the Portuguese market and also by the decline of homevideo revenues.

ZAP continued to post strong operational and financial momentum with contribution to revenues of **NOS' 30% stake increasing by 35.8%** to 28.5 million euros in 1H14.

EBITDA

Consolidated EBITDA fell by 5.3% in 1H14 to 263.5 million euros generating a margin of 38.6%. The EBITDA of **NOS' 30% stake in ZAP**, grew by 79.6% yoy to 10.6 million euros. Telco EBITDA fell by 6.6% in 1H14 to 245.3 million euros and EBITDA from the Audiovisuals and Cinema operations posted a yoy growth of 15.7% to 18.3 million euros.



Consolidated Operating Costs Excluding D&A

Consolidated Operating Costs fell by 2.7% yoy to 418.8 million euros.

Wages and Salaries fell by 15.3% to 39.8 million euros in 1H14 as a result mainly of a lower average level of headcount at the telco division in comparison with 1H13.

The majority of the projected headcount optimization resulting from the merger process has already occurred and this will continue to be reflected in yoy savings in this cost line.

Direct Costs recorded a 1.1% decline to 197.2 million euros, which reflects a combination of significantly lower yoy programming and capacity related costs that posted declines of 8% and 18% respectively due to savings already achieved with the merger, namely the integration of previous OPTIMUS Pay TV and fixed customers onto the NOS fixed network and an increase in traffic costs of 11% due to the greater level of activity.

Commercial Costs increased by 5.5% in 1H14 to 44.5 million euros reflecting a mix of higher cost of goods sold on the back of higher mobile handset sales, partially offset by lower commissions, marketing and publicity costs. The launch of the new brand in 2Q14 incurred a significant amount of **non recurrent marketing related costs which are isolated on the income statement in the "other expenses/income" line.**

Other Operating Costs declined by 3.2% yoy to 137.3 million euros due to a combination of effects with the most relevant impacts due to a decline in Supplies and External Services and in the level of provisions.

Net Income

Net Income reached 43.7 million euros in 1H14, compared with 58.1 million euros in 1H13 due to **significant non-recurrent expenses in the period related with the launch of the new brand "NOS".**

Equity in affiliate companies recorded a very significant yoy improvement to 7.6 million euros in 1H14, compared with 1.7 million euros in 1H13. This increase is due to the yoy growth in financial contribution of the international JV, ZAP, which amounted to 7.6 million euros in 1H14.

Depreciation and Amortization posted a relatively small yoy increase of 0.6% to 170.1 million euros affected by the more intense commercial activity and some restructuring investment related with the merger.

Other Expenses* of 15.5 million euros in 1H14 increased significantly in 2Q14 over 1Q14, and the majority relates to non-recurrent merger related costs namely the launch of the new brand.

Net Financial Expenses fell by 15.3% to 29.4 million euros in 1H14 compared with 34.7 million euros in 1H13 as a result of the lower average level of gross debt and the lower average cost of the new debt

* 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.



contracted in 4Q13. Net interest charges in 1H14 were 18.6 million euros compared with 24.9 million euros in 1H13.

Income Tax provision amounted to 12.1 million euros in 1H14, representing a 26.6% decline in comparison with 1H13, in line with the decline in Income Before Income Taxes.

CAPEX

| Pro-Forma CAPEX (Millions of Euros) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|-------------------------------------|------|------|------|-------------|-------------|-------|-------|-------------|
| Telco | 58.5 | 45.1 | 63.4 | 8.4% | 40.6% | 109.2 | 108.5 | (0.6%) |
| Infrastructure | 27.1 | 12.6 | 27.8 | 2.8% | 121.1% | 44.9 | 40.4 | (9.9%) |
| Customer Related CAPEX | 29.7 | 29.1 | 34.8 | 17.2% | 19.5% | 60.5 | 64.0 | 5.7% |
| Other | 1.8 | 3.4 | 0.8 | (54.7%) | (76.5%) | 3.8 | 4.2 | 8.9% |
| Audiovisuals and Cinema Exhibition | 7.1 | 7.6 | 8.4 | 18.3% | 10.2% | 15.0 | 16.0 | 7.1% |
| Recurrent CAPEX | 65.6 | 52.7 | 71.8 | 9.5% | 36.2% | 124.2 | 124.6 | 0.3% |
| Non-Recurrent CAPEX | 1.0 | 3.9 | 16.8 | n.a. | n.a. | 3.0 | 20.7 | n.a. |
| Total CAPEX | 66.7 | 56.7 | 88.6 | 33.0% | 56.4% | 127.2 | 145.3 | 14.2% |

Recurrent CAPEX amounted to 124.6 million euros in 1H14, a marginal increase of 0.3% yoy, with Telco CAPEX posting a decrease of 0.6% to 108.5 million euros, 16.6% of Telco Operating Revenues.

The increase in CAPEX was led by additional customer driven and integration related CAPEX, reflected in the higher level of non-recurrent CAPEX of 20.7 million euros. Planned network investment related with new network rollout will become more material in coming months as and when new households are connected.

Audiovisuals and Cinemas CAPEX of 16.0 million euros in 1H14, +7.1% yoy, reflects mostly the capitalization of certain movie rights in the Audiovisuals division.



Cash Flow

| Pro-Forma Cash Flow (Millions of Euros) | 2Q13 | 1Q14 | 2Q14 | 2Q14 / 2Q13 | 2Q14 / 1Q14 | 1H13 | 1H14 | 1H14 / 1H13 |
|--|--------|--------|--------|-------------|-------------|---------|---------|-------------|
| EBITDA | 140.3 | 129.9 | 133.6 | (4.8%) | 2.9% | 278.3 | 263.5 | (5.3%) |
| Recurrent CAPEX | (65.6) | (52.7) | (71.8) | 9.5% | 36.2% | (124.2) | (124.6) | 0.3% |
| EBITDA - Recurrent CAPEX | 74.7 | 77.1 | 61.8 | (17.3%) | (19.9%) | 154.2 | 138.9 | (9.9%) |
| Non-Cash Items Included in EBITDA - Recurrent CAPEX ⁽¹⁾ and Change in Working Capital | (26.6) | (35.7) | (10.1) | (61.9%) | (71.6%) | (61.2) | (45.8) | (25.2%) |
| Operating Cash Flow After Investment | 48.1 | 41.4 | 51.7 | 7.4% | 24.6% | 92.9 | 93.1 | 0.2% |
| Long Term Contracts | (6.2) | (3.9) | (4.2) | (32.3%) | 5.6% | (11.5) | (8.1) | (29.7%) |
| Net Interest Paid and Other Financial Charges | (17.7) | (13.8) | (15.4) | (12.7%) | 11.8% | (24.2) | (29.2) | 20.7% |
| Income Taxes Paid | (2.2) | (1.1) | (0.3) | (86.3%) | (73.1%) | (3.7) | (1.4) | (60.5%) |
| Other Cash Movements | (0.6) | 0.1 | 0.5 | n.a. | n.a. | (0.6) | 0.6 | n.a. |
| Recurrent Free Cash-Flow | 21.4 | 22.6 | 32.3 | 50.5% | 42.6% | 52.9 | 54.9 | 3.8% |
| LTE Payments | 0.0 | 0.0 | 0.0 | n.a. | n.a. | (6.0) | 0.0 | n.a. |
| Non-Recurrent CAPEX | (1.0) | (0.4) | (16.8) | n.a. | n.a. | (3.0) | (17.2) | n.a. |
| Cash Restructuring Payments | (0.5) | (8.0) | (3.9) | n.a. | (51.3%) | (0.5) | (11.8) | n.a. |
| Free Cash Flow Before Dividends | 19.9 | 14.3 | 11.6 | (41.5%) | (18.6%) | 43.3 | 25.9 | (40.3%) |
| Foreign Currency Debt Exchange Effect | (0.0) | 0.0 | 0.0 | n.a. | (44.5%) | 0.0 | 0.0 | 66.5% |
| Dividends | (62.0) | 0.0 | (62.0) | 0.1% | n.a. | (62.0) | (62.0) | 0.1% |
| Total Free Cash Flow | (42.1) | 14.3 | (50.4) | (19.6%) | n.a. | (18.6) | (36.1) | (94.0%) |
| Debt Variation Through Accruals & Deferrals & Others ⁽²⁾ | 1.6 | 2.0 | 4.7 | 186.4% | 137.8% | (6.5) | 6.6 | n.a. |
| Change in Net Financial Debt | (40.5) | 16.2 | (45.7) | (12.9%) | n.a. | (25.1) | (29.5) | (17.4%) |

(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 0.2% increase to 93.1 million euros as a result of the previously explained decline in EBITDA of 5.3% and the increase of Recurrent CAPEX being offset by the improvement of the performance of Non-Cash Items included in EBITDA-CAPEX and Change in Working Capital.

Recurrent FCF increased by 3.8% in 1H14 to 54.9 million euros, a combination of higher Operating cash flow after investment and lower long term contract and income tax payments. The improvement in long term contract payments is due to the forecast savings achieved with the renegotiation of transponder contract terms at the end of 2012.

Non-recurrent cash impacts on CAPEX and OPEX in 1H14 amounted to 17.2 and 11.8 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 was 25.9 million euros in 1H14. The payment in 1H14 of dividends over FY13 results of 62 million euros, led to an increase in Net Financial Debt of 29.5 million euros, adjusted for interest accruals and deferrals.



Pro-Forma Consolidated Balance Sheet

| Pro-Forma Balance Sheet (Millions of Euros) | 2013 restated | 1H14 |
|--|------------------|---------|
| Current Assets | 454.8 | 470.8 |
| Cash and Equivalents | 74.4 | 42.8 |
| Accounts Receivable, Net | 309.6 | 342.5 |
| Inventories, Net | 32.6 | 37.4 |
| Taxes Receivable | 11.8 | 17.7 |
| Prepaid Expenses and Other Current Assets | 26.4 | 30.4 |
| Non-current Assets | 2,443.8 | 2,400.5 |
| Investments in Group Companies | 31.6 | 31.7 |
| Intangible Assets, Net | 1,136.4 | 1,123.0 |
| Fixed Assets, Net | 1,096.8 | 1,085.5 |
| Deferred Taxes | 149.4 | 134.9 |
| Other Non-current Assets | 29.5 | 25.4 |
| Total Assets | 2,898.7 | 2,871.3 |
| Current Liabilities | 762.2 | 985.1 |
| Short Term Debt | 213.4 | 424.9 |
| Accounts Payable | 367.6 | 345.2 |
| Accrued Expenses | 129.9 | 158.4 |
| Deferred Income | 25.5 | 28.0 |
| Taxes Payable | 23.0 | 26.8 |
| Current Provisions and Other Liabilities | 2.8 | 1.7 |
| Non-current Liabilities | 1,076.2 | 852.6 |
| Medium and Long Term Debt | 928.2 | 705.7 |
| Non-current Provisions and Other Liabilities | 148.0 | 146.8 |
| Total Liabilities | 1,838.5 | 1,837.7 |
| Equity Before Non-Controlling Interests | 1,050.6 | 1,023.8 |
| Share Capital | 5.2 | 5.2 |
| Issue Premium | 854.2 | 854.2 |
| Own Shares | (2.0) | (2.6) |
| Reserves, Retained Earnings and Other | 129.8 | 123.4 |
| Net Income | 63.4 | 43.7 |
| Non-Controlling Interests | 9.6 | 9.9 |
| Total Shareholders' Equity | 1,060.2 | 1,033.6 |
| Total Liabilities and Shareholders' Equity | 2,898.7 | 2,871.3 |



Capital Structure

At the end of 1H14, Net Financial Debt stood at 969.2 million euros, representing an increase of 3.1% in comparison with the end of 2013.

Total financial debt at the end of 1H14 amounted to 1,014.0 million euros, which was offset with a cash and short-term investment position on the balance sheet of 44.9 million euros. At the end of 1H14, NOS also had 235 million euros of non-issued commercial paper programs. The all-in average **cost of NOS' Net Financial Debt was 5.22% for 1H14**.

Due to the dividends payment in the semester, Net Financial Gearing increased to 48.4% at the end of 1H14 compared with 47.0% at the end of 2013, and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.9x.

During 2Q14 NOS completed a bond issue of 100 million euros led by Banco BPI through a private offering, with a 5.5 year term. These new Notes were issued together with the purchase, for the purpose of cancellation, of the existing ZON 2010-2014 Notes issued in November 2010 in the amount of 100 million euros in a private placement also led by Banco BPI. Additionally, NOS has received in this quarter the funds relative to the new EIB loan which matures in June 2022, a total of 110 million euros.

These two financing deals completed by the end of the quarter will start to impact very favourably the all-in average cost of debt going forward.

The average maturity of NOS' Net Financial Debt is 2.1 years.

The total interest rate hedging operations in place at the end of 1H14 amounted to 232 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 56%**.

| Pro-Forma Net Financial Debt (Millions of Euros) | 2013 | 1H14 | 1H14 / 2013 |
|---|---------|---------|-------------|
| Short Term | 196.0 | 406.3 | 107.3% |
| Bank and Other Loans | 187.5 | 398.3 | 112.5% |
| Financial Leases | 8.6 | 8.0 | (6.4%) |
| Medium and Long Term | 821.7 | 607.7 | (26.0%) |
| Bank and Other Loans | 811.5 | 596.5 | (26.5%) |
| Financial Leases | 10.1 | 11.2 | 10.2% |
| Total Debt | 1,017.7 | 1,014.0 | (0.4%) |
| Cash, Short Term Investments and Intercompany Loans | 78.0 | 44.9 | (42.5%) |
| Net Financial Debt | 939.7 | 969.2 | 3.1% |
| Net Financial Gearing ⁽¹⁾ | 47.0% | 48.4% | 1.4pp |
| Net Financial Debt / EBITDA | 1.8x | 1.9x | n.a. |

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



4.8. Risks and Uncertainties for Future Periods

Economic Risks

- Economic Influences - The company is exposed to the current adverse economic climate in Portugal and consequently to a general reduction in consumption. In this context, there is a risk of the average revenue per user continuing to be affected by the high unemployment rate and the reduction in private and public consumption. NOS has carefully monitored this risk and adopted strategies that help to reduce it. It has also identified opportunities, in conjunction with the competition and technological innovation risk response strategies that are described below.
- Competition – This risk is related to the potential reduction in the prices of products and services, reduction in market share, loss of customers, increasing difficulty in obtaining and retaining customers. The management of competition risk has involved a strategy of investing in constant improvement in quality and innovation for the products and services provided, as well as diversification of supply and constant monitoring of customer preferences and/or needs. In addition, the process of operational integration of ZON and OPTIMUS businesses is a structuring factor to mitigate the risk of competition.
- Technological Innovation – This risk is associated with the need for investment in increasingly competitive businesses (multimedia services, fixed and mobile internet, and fixed and mobile voice), subject to accelerated and sometimes unpredictable changes in technology. NOS believes that having an optimized technical infrastructure is a critical success factor that helps to reduce potential failures in the leverage of technological developments. The Company has managed this risk with the aim of ensuring that the technologies and businesses in which it is investing are accompanied by a similar development in demand and consequently a rise in the use of the new services by customers.
- Business Interruption and Catastrophic Losses (Business Continuity Management) - Since the businesses of NOS are based above all on the use of technology, potential failures in technical-operational resources (network infrastructures, information systems applications, servers, etc.) may cause a significant risk of business interruption, if they are not well managed. This may imply other risks for the Company, such as adverse impacts on reputation, on the brand, on revenue integrity, on customer satisfaction and on service quality, which may lead to the loss of customers. In the electronic communications sector, business interruption and other associated risks may be aggravated because the services are in real time (voice, data/internet and TV), and customers typically have low tolerance for interruptions. Under the BCM - *Business Continuity Management* programme, NOS has implemented Business Continuity management processes that cover buildings, network infrastructures and the most critical activities that support communications services, for which it develops resilience strategies, continuity plans and actions, and incident/crisis management procedures. The continuity



processes may be periodically subject to impact and risk analysis, as well as audits, tests and simulations.

- Confidentiality, Integrity and Availability (Information Security Management) - Bearing in mind that NOS is part of a corporate group in the area of communications, audiovisual and film exhibition, its businesses make intensive use of information and of information and communication technologies that are typically subject to risks of availability, integrity, confidentiality and privacy. Under the ISM - *Information Security Management* programme, NOS set up an Information Security Committee (GRC - *Governance Risk and Compliance* Committee) that is authorized by the Executive Committee to, among other responsibilities, monitor the risks associated with security and privacy, propose rules and organize awareness campaigns. The different business units, under the supervision of the Committee, develop a plan of internal actions with the aim of consolidating information security management processes and controls. For specific issues related to the confidentiality and privacy of personal data, the company has a *Chief Personal Data Protection Officer* (CPDPO) who is responsible for compliance with laws and regulations applicable to data processing, acts in the name of the company in interaction with the national regulatory authority for data protection (CNPD - National Commission for Data Protection) and promotes the adoption of data protection principles, in line with international standards and best practices. Employees and partners assume obligations of confidentiality, secrecy and protection of personal data and must not transmit to any third parties the data to which they have access in the course of and as a result of their duties. In addition, the company has some business segments and processes related to customer management (support, billing and collection), certified to ISO 27001 - Information Security Management Systems.
- Service Fraud (Management of Telecommunications Fraud) - Customer or third party fraud is a common risk in the telecommunications sector. Perpetrators of fraud may take advantage of the potential vulnerabilities of the network process or of the communications service. In view of this situation, NOS has a team dedicated to Service Fraud and Security Management. In order to encourage secure use of communications services, it has developed various initiatives and implemented controls, including the provision of an intermodal platform with information on security risks and service fraud, as well as the continuous improvement of processes to monitor and mitigate these risks. Fraud controls are implemented to prevent anomalous situations of fraudulent use or situations of misuse (piracy) with a direct impact on revenue. NOS has also joined initiatives developed by the GSMA Association (GSMA), including the GSMA Fraud Forum and the GSMA Security Group.
- Revenue and Cost Assurance (*Enterprise Business Assurance*) - Telecommunications businesses are subject to inherent operational risks associated with the assurance and monitoring of customer revenue and costs, from a viewpoint of revenue flows and platform integrity. Billing processes perform revenue controls, with regard to invoicing quality. NOS also has a *Revenue Assurance* area that applies processes to control revenue loss (underinvoicing) and cost control with the aim of presenting a consistent chain of revenue and costs, from the



moment the customer enters our provisioning systems, involving the provision of the communications service, up to the time of invoicing and charging.

Financial Risks

- **Taxes** - The Company is exposed to changes in tax legislation and varied interpretations of the application of tax and parafiscal regulations. The Finance Department contributes to management of this risk, monitoring all tax regulations and seeking to guarantee maximum tax efficiency. This department may also be supported by tax consultants whenever the questions being analyzed are more critical and, for this reason, require interpretation by an independent entity.
- **Credit and Collections** - These risks are associated with a reduction in receipts from customers due to possible ineffective or deficient operation of collection procedures and/or changes in the legislation that regulates the provision of essential services and have an impact on the recovery of customer debts. The current adverse economic climate also significantly contributes to the worsening of these risks. They are mitigated through the definition of a monthly plan of collection actions, their follow-up and validation and the review of results. Where necessary, the procedure and the timings of these actions are adjusted to ensure the receipt of customer debts. The aim is to ensure that the amounts owed are effectively collected within the periods negotiated without affecting the financial health of the company. In addition, NOS has credit insurance and specific areas for Credit Control, Collections and Litigation Management.

Legal Risks

- **Legal and Regulatory** - Regulatory aspects are important in the telecommunications business, subject to specific rules, mainly defined by the sector regulator ICP - ANACOM (National Communications Authority). Similarly, NOS must comply with regulatory frameworks defined on a European level that have a direct effect in Portugal. In addition to specific rules related to the telecommunications sector, NOS is also subject to horizontal legislation, including competition law. The Legal and Regulatory Department assists in the management of these risks, monitoring changes in applicable laws and regulations, given the threats and opportunities they represent for the competitive position of NOS in the business sectors in which it operates.

Lisbon, 30 July 2014

The Board of Directors



5

Consolidated Financial Statements

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

(Amounts stated in thousands of euros)

| | NOTES | 2 nd QUARTER 13 REPORTED | 6M 13 REPORTED | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--|-------|--|-------------------|--|-------------------|----------------------------|---------------|
| REVENUES: | | | | | | | |
| Services rendered | | 201,549 | 406,856 | 183,807 | 371,146 | 324,855 | 647,996 |
| Sales | | 7,243 | 14,726 | 5,454 | 11,246 | 13,154 | 24,585 |
| Other operating revenues | | 1,886 | 3,407 | 1,143 | 2,366 | 6,966 | 9,738 |
| | 6 | 210,677 | 424,989 | 190,404 | 384,758 | 344,975 | 682,319 |
| COSTS, LOSSES AND GAINS: | | | | | | | |
| Wages and salaries | 7 | 13,656 | 26,988 | 12,279 | 24,135 | 18,720 | 39,775 |
| Direct costs | 8 | 60,695 | 120,289 | 53,996 | 107,928 | 100,482 | 197,205 |
| Costs of products sold | 9 | 3,392 | 6,537 | 1,177 | 2,452 | 10,887 | 22,130 |
| Marketing and advertising | | 5,181 | 10,771 | 4,493 | 9,490 | 5,889 | 12,014 |
| Support services | 10 | 13,470 | 27,570 | 12,989 | 26,617 | 21,520 | 44,117 |
| Supplies and external services | 10 | 29,627 | 58,854 | 24,130 | 47,647 | 46,237 | 93,294 |
| Other operational losses / (gains) | | 27 | 135 | 14 | 85 | 366 | 752 |
| Taxes | | 1,578 | 2,633 | 1,429 | 2,331 | 4,308 | 10,189 |
| Provisions and adjustments | 11 | 2,622 | 7,634 | 2,566 | 7,418 | 2,926 | (673) |
| Net Losses / (gains) of affiliated companies | 12 | - | - | (355) | (1,654) | (2,706) | (7,609) |
| Depreciation, amortisation and impairment losses | 13 | 48,983 | 103,628 | 46,955 | 99,600 | 86,232 | 170,103 |
| Restructuring costs | | 82 | 207 | 81 | 207 | 11,821 | 13,047 |
| Losses/(gains) on sale of assets, net | | (786) | (798) | (787) | (823) | 11 | 26 |
| Other losses/(gains), net | | 65 | 89 | 64 | 82 | 799 | 2,388 |
| | | 178,591 | 364,538 | 159,031 | 325,515 | 307,492 | 596,758 |
| INCOME BEFORE FINANCIAL RESULTS AND TAXES | | | | | | | |
| Financial costs | 14 | 7,911 | 16,141 | 6,726 | 13,634 | 8,915 | 18,588 |
| Net foreign exchange losses / (gains) | | (104) | (17) | (5) | 41 | (39) | 10 |
| Net losses/(gains) on financial assets | 15 | 514 | 525 | 515 | 525 | 347 | 929 |
| Net Losses / (gains) of affiliated companies | | 71 | 158 | - | - | - | - |
| Net other financial expenses/(income) | 14 | 4,893 | 8,733 | 4,899 | 8,763 | 4,944 | 9,827 |
| | | 13,285 | 25,540 | 12,135 | 22,963 | 14,167 | 29,354 |
| INCOME BEFORE TAXES | | | | | | | |
| Income taxes | 16 | 5,907 | 10,189 | 6,077 | 10,625 | 4,794 | 12,121 |
| NET CONSOLIDATED INCOME | | 12,895 | 24,722 | 13,161 | 25,655 | 18,522 | 44,086 |
| ATTRIBUTABLE TO: | | | | | | | |
| Non-controlled interests | | 158 | 358 | 158 | 358 | 109 | 410 |
| ZON OPTIMUS GROUP SHAREHOLDERS | | 12,737 | 24,364 | 13,003 | 25,297 | 18,413 | 43,676 |
| EARNINGS PER SHARES | | | | | | | |
| Basic - euros | 17 | 0.04 | 0.08 | 0.04 | 0.08 | 0.04 | 0.08 |
| Diluted - euros | 17 | 0.04 | 0.08 | 0.04 | 0.08 | 0.04 | 0.08 |

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 six months ended on 30 June 2014.

Accountant

The Board of Directors



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

(Amounts stated in thousands of euros)

| | NOTES | 2 nd QUARTER 13 REPORTED | 6M 13 REPORTED | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--|-------|--|-------------------|--|-------------------|----------------------------|--------|
| NET INCOME FOR THE PERIOD | | 12,895 | 24,722 | 13,161 | 25,655 | 18,522 | 44,086 |
| OTHER INCOME | | | | | | | |
| ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT | | | | | | | |
| Accounting for equity method | 23 | - | - | (82) | (192) | 267 | (8) |
| Fair value of interest rate swap | 31 | 858 | 2,061 | 858 | 2,061 | (315) | (468) |
| Deferred income tax - interest rate swap | 31 | (240) | (559) | (240) | (559) | 89 | 129 |
| Fair value of exchange rate forward | 31 | (263) | 89 | (263) | 89 | 52 | 140 |
| Deferred income tax - exchange rate forward | 31 | 88 | (13) | 88 | (13) | (16) | (39) |
| Currency translation differences | | 117 | (19) | 199 | 173 | (5) | (22) |
| OTHER COMPREHENSIVE INCOME | | 560 | 1,559 | 560 | 1,559 | 72 | (268) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 13,455 | 26,281 | 13,721 | 27,214 | 18,594 | 43,818 |
| ATTRIBUTABLE TO: | | | | | | | |
| Share owners of the company | | 13,297 | 25,923 | 13,563 | 26,856 | 18,485 | 43,408 |
| Non-controlling interests | | 158 | 358 | 158 | 358 | 109 | 410 |

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 six months ended on 30 June 2014.

Accountant

The Board of Directors



Consolidated Statement of Financial Position at 30 June 2013 and 2014 and 31 December 2013 and 30 June and 31 December 2013 Restated
 (Amounts stated in thousands of euros)

| | NOTES | 30-06-2013 REPORTED UNAUDITED | 31-12-2013 REPORTED | 30-06-2013 RESTATED UNAUDITED | 31-12-2013 RESTATED | 30-06-2014 UNAUDITED |
|--|-------|-------------------------------------|------------------------|-------------------------------------|------------------------|-------------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | 20 | 126,888 | 74,380 | 103,415 | 74,380 | 42,799 |
| Accounts receivable - trade | 21 | 133,467 | 276,630 | 122,512 | 276,630 | 310,672 |
| Accounts receivable - other | | 56,051 | 32,999 | 34,714 | 32,999 | 31,839 |
| Inventories | | 34,050 | 32,579 | 24,037 | 32,579 | 37,421 |
| Taxes receivable | 22 | 2,919 | 11,830 | 1,428 | 11,830 | 17,653 |
| Non-current assets held-for-sale | | 678 | 678 | 678 | 678 | 678 |
| Prepaid expenses | | 12,459 | 25,546 | 9,829 | 25,546 | 29,736 |
| Other current assets | | - | 199 | 58 | 199 | - |
| Derivative financial instruments | 31 | 45 | - | 45 | - | 8 |
| TOTAL CURRENT ASSETS | | 366,557 | 454,840 | 296,716 | 454,840 | 470,806 |
| NON - CURRENT ASSETS | | | | | | |
| Accounts receivable - other | | 32,812 | 5,173 | 1,852 | 5,173 | 2,711 |
| Tax receivable | 22 | - | 4,226 | 1 | 4,226 | 4,232 |
| Investments in jointly controlled companies and associated companies | 23 | 119 | 31,614 | 34,060 | 31,614 | 31,712 |
| Available-for-sale financial assets | 24 | 20,129 | 19,329 | 20,129 | 19,329 | 18,423 |
| Intangible assets | 25 | 286,257 | 1,111,107 | 316,776 | 1,136,433 | 1,123,040 |
| Tangible assets | 26 | 618,578 | 1,096,823 | 605,161 | 1,096,823 | 1,084,710 |
| Investment property | | 821 | 801 | 821 | 801 | 777 |
| Deferred income tax assets | 16 | 46,425 | 165,416 | 50,036 | 149,431 | 134,919 |
| TOTAL NON - CURRENT ASSETS | | 1,005,144 | 2,434,489 | 1,028,836 | 2,443,830 | 2,400,524 |
| TOTAL ASSETS | | 1,371,700 | 2,889,329 | 1,325,552 | 2,898,670 | 2,871,330 |
| LIABILITIES | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Borrowings | 27 | 147,974 | 213,431 | 96,181 | 213,431 | 424,918 |
| Accounts payable-trade | 28 | 145,763 | 296,823 | 145,189 | 296,823 | 284,534 |
| Accounts payable-other | | 47,180 | 70,748 | 47,429 | 70,748 | 60,684 |
| Accrued expenses | | 53,304 | 129,901 | 51,547 | 129,901 | 158,370 |
| Deferred income | | 11,268 | 25,518 | 8,425 | 25,518 | 28,040 |
| Taxes payable | 22 | 22,225 | 22,992 | 20,322 | 22,992 | 26,839 |
| Provisions for other liabilities and charges | 29 | 58 | - | 58 | - | - |
| Derivative financial instruments | 31 | - | 2,814 | - | 2,814 | 1,728 |
| TOTAL CURRENT LIABILITIES | | 427,773 | 762,227 | 369,151 | 762,227 | 985,113 |
| NON - CURRENT LIABILITIES | | | | | | |
| Borrowings | 27 | 720,259 | 928,239 | 708,072 | 928,239 | 705,748 |
| Accrued expenses | | - | 28,705 | - | 28,705 | 27,502 |
| Deferred income | | 1,136 | 2,060 | 1,136 | 2,060 | 6,334 |
| Provisions for other liabilities and charges | 29 | 8,627 | 92,429 | 27,444 | 101,770 | 95,820 |
| Deferred income tax liabilities | 16 | 2,789 | 15,456 | 7,525 | 15,456 | 15,747 |
| Derivative financial instruments | 31 | 3,989 | - | 3,989 | - | 1,422 |
| TOTAL NON - CURRENT LIABILITIES | | 736,800 | 1,066,889 | 748,166 | 1,076,231 | 852,573 |
| TOTAL LIABILITIES | | 1,164,572 | 1,829,116 | 1,117,317 | 1,838,457 | 1,837,686 |
| SHAREHOLDERS EQUITY | | | | | | |
| Share capital | 30.1 | 3,091 | 5,152 | 3,091 | 5,152 | 5,152 |
| Capital issued premium | 30.2 | - | 854,219 | - | 854,219 | 854,219 |
| Own shares | 30.3 | (1,187) | (2,003) | (1,187) | (2,003) | (2,619) |
| Legal reserve | 30.4 | 3,556 | 3,556 | 3,556 | 3,556 | 3,556 |
| Other reserves and accumulated earnings | 30.4 | 163,728 | 178,864 | 167,953 | 178,864 | 119,805 |
| Net income | | 28,414 | 10,810 | 25,297 | 10,810 | 43,676 |
| EQUITY BEFORE NON - CONTROLLED INTERESTS | | 197,603 | 1,050,598 | 198,710 | 1,050,598 | 1,023,789 |
| Non-controlled interests | | 9,525 | 9,615 | 9,525 | 9,615 | 9,855 |
| TOTAL EQUITY | | 207,128 | 1,060,213 | 208,235 | 1,060,213 | 1,033,644 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | | 1,371,700 | 2,889,329 | 1,325,552 | 2,898,670 | 2,871,330 |

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

Accountant

The Board of Directors



Consolidated Statement of Changes in Shareholders' Equity

for the Six Months ended on 30 June 2013 Restated and 30 June 2014

(Amounts stated in thousands of euros)

| NOTES | SHARE CAPITAL | CAPITAL ISSUED PREMIUM | OWN STOCKS, 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 | - | - | - | - | - | (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) |
| Acquisition of own shares | 30.3 | - | - | (998) | (3) | - | - | - | (1,001) |
| Distribution of own shares | 30.3 | - | - | 725 | 3 | - | (728) | - | - |
| Share Plan | 35 | - | - | - | - | - | 692 | - | 692 |
| Comprehensive income for the period | - | - | - | - | - | 1,559 | 25,297 | 358 | 27,214 |
| Others | - | - | - | - | - | (804) | - | - | (804) |
| BALANCE AS AT 30 JUNE 2013 (RESTATED) | 3,091 | - | (1,183) | (4) | 3,556 | 167,953 | 25,297 | 9,525 | 208,235 |
| BALANCE AT 1 JANUARY 2014 | 5,152 | 854,219 | (1,999) | (4) | 3,556 | 174,639 | 15,035 | 9,615 | 1,060,213 |
| Result appropriation | - | - | - | - | - | 15,035 | (15,035) | - | - |
| Transferred to reserves | - | - | - | - | - | (61,818) | - | (194) | (62,012) |
| Dividends paid | 18 | - | - | - | - | - | - | - | (19,202) |
| Acquisition of own shares | 30.3 | - | - | (19,165) | (37) | - | - | - | - |
| 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 | - | - | 10,911 | 21 | - | (10,932) | - | - |
| Distribution of own shares - other remunerations | 30.3 | - | - | 9,557 | 18 | - | (223) | - | 9,352 |
| Share Plan | 35 | - | - | - | - | - | 3,592 | - | 3,616 |
| Comprehensive income for the period | - | - | - | - | - | (268) | 43,676 | 410 | 43,818 |
| Others | - | - | - | - | - | (251) | - | - | (251) |
| BALANCE AS AT 30 JUNE 2014 | 5,152 | 854,219 | (2,613) | (6) | 3,556 | 119,805 | 43,676 | 9,855 | 1,033,644 |

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 six months ended on 30 June 2014.

Accountant

The Board of Directors



Consolidated Statement of Cash Flows for the Six Months ended on 30 June 2013 and 2014 and 30 June 2013 Restated

(Amounts stated in thousands of euros)

| | NOTES | 6M 13 REPORTED UNAUDITED | 6M 13 RESTATED UNAUDITED | 6M 14 UNAUDITED |
|--|-------|--------------------------------|--------------------------------|--------------------|
| OPERATING ACTIVITIES | | | | |
| Collections from clients | | 516,576 | 473,872 | 780,081 |
| Payments to suppliers | | (329,066) | (279,374) | (500,652) |
| Payments to employees | | (30,356) | (27,501) | (45,880) |
| Payments relating to income taxes | | (4,292) | (3,472) | (1,740) |
| Other cash receipts / payments related with operating activities | | (38,148) | (35,492) | (28,186) |
| CASH FLOW FROM OPERATING ACTIVITIES (1) | | 114,715 | 128,033 | 203,623 |
| INVESTING ACTIVITIES | | | | |
| CASH RECEIPTS RESULTING FROM | | | | |
| Financial investments | | - | - | 50 |
| Tangible fixed assets | | 464 | 464 | 334 |
| Loans granted | | 6,801 | 9,716 | 1,637 |
| Interest and related income | | 2,243 | 2,164 | 3,633 |
| Dividends | | 1 | 1 | 1 |
| | | 9,510 | 12,345 | 5,655 |
| PAYMENTS RESULTING FROM | | | | |
| Tangible fixed assets | | (41,988) | (40,178) | (108,600) |
| Intangible assets | | (634) | (22,950) | (13,047) |
| Loans granted | | (15) | (21) | - |
| | | (42,637) | (63,149) | (121,647) |
| CASH FLOW FROM INVESTING ACTIVITIES (2) | | (33,127) | (50,804) | (115,992) |
| FINANCING ACTIVITIES | | | | |
| CASH RECEIPTS RESULTING FROM | | | | |
| Loans obtained | | 504,602 | 475,000 | 1,661,276 |
| Subsidies | | 44 | 44 | - |
| | | 504,646 | 475,044 | 1,661,276 |
| PAYMENTS RESULTING FROM | | | | |
| Loans obtained | | (717,246) | (675,000) | (1,647,550) |
| Lease rentals (principal) | | (11,698) | (10,501) | (15,610) |
| Interest and related expenses | | (23,662) | (21,461) | (32,396) |
| Dividends | 18 | (37,273) | (37,273) | (62,013) |
| Acquisition of own shares | 30.3 | (1,001) | (1,001) | (19,202) |
| Other financial activities | | (428) | (519) | - |
| | | (791,307) | (745,755) | (1,776,771) |
| CASH FLOW FROM FINANCING ACTIVITIES (3) | | (286,663) | (270,711) | (115,495) |
| Change in cash and cash equivalents (4)=(1)+(2)+(3) | | (205,074) | (193,482) | (27,864) |
| Effect of exchange differences | | 46 | 18 | (18) |
| Treasury notes reclassified from Investments held-to-maturity | | 23,665 | 23,665 | - |
| Cash and cash equivalents at the beginning of the year | | 308,251 | 273,214 | 70,142 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 126,888 | 103,415 | 42,260 |
| Cash and cash equivalents | 20 | 126,888 | 103,415 | 42,799 |
| Bank overdrafts | 27 | - | - | (539) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 126,888 | 103,415 | 42,260 |

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the six months ended on 30 June 2014.

Accountant

The Board of Directors



Notes to the Consolidated Financial Statements as at 30 June 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 António 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 became fully independent from Portugal Telecom.

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

On 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 Madeira Comunicações, S.A. ("NOS Madeira") and NOS Açores Comunicações, S.A. ("NOS Açores").

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 June 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 the 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 six months ended on 30 June 2014 were approved by the Board of Directors and their issue authorised on 30 July 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 period 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, into 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 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, into 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), "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, by legal imposition, 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 the payment of 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 approved (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 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.
- 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 cycle) (effective for annual periods beginning on or after 1 July 2014). 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 year ended 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.

Also, during this period, 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 six months ended 30 June 2013, to the consolidated statement of financial position of 1 January 2013 and 30 June 2013, and to the consolidated statement of cash flows for the six months ended 30 June 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 tables below.

**Impact of Changes in Accounting Policies
During the Six Months Ended 30 June**

| | REPORTED | JOINT ARRANGEMENTS | NET LOSSES / (GAINS) OF AFFILIATED COMPANIES | SUBSCRIBER ACQUISITION COSTS | RIGHTS ON MOVIES AND SERIES | RESTATED |
|--|----------|-----------------------|---|------------------------------------|-----------------------------------|----------|
| REVENUES: | | | | | | |
| Sales and services rendered | 421,582 | (39,190) | - | - | - | 382,392 |
| Other operating revenues | 3,407 | (300) | - | - | (741) | 2,366 |
| | 424,989 | (39,490) | - | - | (741) | 384,758 |
| COSTS, LOSSES AND GAINS: | | | | | | |
| Wages and salaries | 26,988 | (2,853) | - | - | - | 24,135 |
| Direct costs | 120,289 | 1,732 | - | - | (14,093) | 107,928 |
| Supplies and external services | 58,854 | (2,243) | - | (8,964) | - | 47,647 |
| Provisions and adjustments | 7,634 | (216) | - | - | - | 7,418 |
| Depreciation, amortisation and impairment losses | 103,628 | (25,021) | - | 8,881 | 12,112 | 99,600 |
| Other loss / (gains), net | 47,145 | (6,704) | - | - | - | 40,441 |
| | 364,538 | (35,305) | (1,654) | (83) | (1,981) | 325,515 |
| INCOME BEFORE FINANCIAL RESULTS AND TAXES | 60,451 | (4,185) | 1,654 | 83 | 1,240 | 59,243 |
| Net Losses / (gains) of affiliated companies | 158 | (1,812) | 1,654 | - | - | - |
| Net other financial expenses / (income) | 25,382 | (2,419) | - | - | - | 22,963 |
| INCOME BEFORE TAXES | 34,911 | 46 | - | 83 | 1,240 | 36,280 |
| Income taxes | 10,189 | 46 | - | 24 | 366 | 10,625 |
| NET CONSOLIDATED INCOME | 24,722 | - | - | 59 | 874 | 25,655 |
| ATTRIBUTABLE TO: | | | | | | |
| Non-controlled interests | 358 | - | - | - | - | 358 |
| NOS GROUP SHAREHOLDERS | 24,364 | - | - | 59 | 874 | 25,297 |

From these changes do not result any effects on "Other comprehensive income" recognised directly in equity in the consolidated statement of comprehensive income.



The effects of these changes on the consolidated statements of financial position are presented in the tables 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 |

Impact of Changes in Accounting Policies
at 30 June 2013

| | 30 JUNE 2013 | | | | |
|---|------------------|-----------------------|------------------------------------|-----------------------------------|------------------|
| | REPORTED | JOINT ARRANGEMENTS | SUBSCRIBER ACQUISITION COSTS | RIGHTS ON MOVIES AND SERIES | RESTATED |
| ASSETS | | | | | |
| Cash and cash equivalents | 126,888 | (23,473) | - | - | 103,415 |
| Inventories | 34,050 | (7,420) | - | (2,593) | 24,037 |
| Accounts receivable and other assets | 259,383 | (32,746) | - | (34,570) | 192,067 |
| Investments in participated companies | 119 | 33,941 | - | - | 34,060 |
| Intangible assets | 286,257 | (8,237) | 16,332 | 22,424 | 316,776 |
| Tangible assets | 618,578 | (13,417) | - | - | 605,161 |
| Deferred income tax assets | 46,425 | (638) | - | 4,249 | 50,036 |
| TOTAL ASSETS | 1,371,700 | (51,990) | 16,332 | (10,490) | 1,325,552 |
| LIABILITIES | | | | | |
| Borrowings | 868,233 | (63,980) | - | - | 804,253 |
| Accounts payable and other liabilities | 284,865 | (6,828) | - | - | 278,037 |
| Provisions | 8,685 | 18,817 | - | - | 27,502 |
| Deferred income tax liabilities | 2,789 | - | 4,736 | - | 7,525 |
| TOTAL LIABILITIES | 1,164,572 | (51,991) | 4,736 | - | 1,117,317 |
| SHAREHOLDER'S EQUITY | | | | | |
| Equity before non-controlled interests | 197,603 | - | 11,596 | (10,490) | 198,710 |
| Non-controlled interests | 9,525 | - | - | - | 9,525 |
| TOTAL EQUITY | 207,128 | - | 11,596 | (10,490) | 208,235 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | 1,371,700 | (51,991) | 16,332 | (10,490) | 1,325,552 |



The effects of these changes on the consolidated statement of cash flows are presented in the tables below.

**Impact of Changes in Accounting Policies
During the Six Months Ended 30 June 2013**

| | 30 JUNE 2013 | | | | |
|--|------------------|--------------------|------------------------------|-----------------------------|------------------|
| | REPORTED | JOINT ARRANGEMENTS | SUBSCRIBER ACQUISITION COSTS | RIGHTS ON MOVIES AND SERIES | RESTATED |
| STATEMENTS OF CASH FLOW | | | | | |
| Operating activities | 114,715 | (8,998) | 8,964 | 13,352 | 128,033 |
| Investing activities | (33,127) | 4,639 | (8,964) | (13,352) | (50,804) |
| Financing activities | (286,663) | 15,952 | - | - | (270,711) |
| CHANGE IN CASH AND CASH EQUIVALENTS | (205,075) | 11,593 | - | - | (193,482) |
| Effect of exchange differences | 46 | (28) | - | - | 18 |
| Marketable securities reclassified from Investments held to maturity | 23,665 | - | - | - | 23,665 |
| Cash and cash equivalents at the beginning of the period | 308,251 | (35,037) | - | - | 273,214 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 126,887 | (23,472) | - | - | 103,415 |

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 quarter ended 31 March 2014, the Company, in result of a revaluation of the litigations and registered deferred taxes, changed the contingent liabilities and deferred taxes. 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 31 December 2013**

| | 31 DECEMBER 2013 | | |
|---|------------------|---------------------------|------------------|
| | REPORTED | CHANGES IN THE FAIR VALUE | RESTATED |
| ASSETS | | | |
| Intangible assets | 1,111,107 | 25,326 | 1,136,433 |
| Deferred income tax assets | 165,416 | (15,985) | 149,431 |
| Other assets | 1,612,806 | - | 1,612,806 |
| TOTAL ASSETS | 2,889,329 | 9,341 | 2,898,670 |
| LIABILITIES | | | |
| Provisions | 92,429 | 9,341 | 101,770 |
| Other liabilities | 1,736,687 | - | 1,736,687 |
| TOTAL LIABILITIES | 1,829,116 | 9,341 | 1,838,457 |
| TOTAL EQUITY | 1,060,213 | - | 1,060,213 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | 2,889,329 | 9,341 | 2,898,670 |

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](#)

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 eventual impairment losses and subsidies, 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.

Amortization

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 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 irrecoverable, 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 loans.

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, DVDs and rights, are valued at the lower of their cost or net realisable value.

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

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



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 recognized 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 June 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 | 30-06-2014 |
|--------------------|------------|------------|
| US Dollar | 1.3791 | 1.3658 |
| British Pound | 0.8337 | 0.8015 |
| Mozambique Metical | 41.2000 | 41.6500 |
| Canadian Dollar | 1.4671 | 1.4589 |
| Swiss Franc | 1.2276 | 1.2156 |
| Real | 3.2576 | 3.0002 |



In the six months ended at 30 June 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 | |
| | 6M 13 | 6M 14 |
| Mozambique Metical | 39.3140 | 41.8000 |
| US Dollar | 1.3134 | 1.3703 |

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.

[Tangible and Intangible 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 Accounts Receivable

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 six months ended on 30 June 2013 and 30 June 2014, no material errors relating to previous years were recognised. During the year ended 31 December 2013 changes of accounting policies occurred, whose impacts have resulted in a restatement of the financial statements for the semester ended 30 June 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 six months ended on 30 June 2013, are not comparable with the ones for the six months ended on 30 June 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 a preliminary assessment of the fair value of assets acquired and assumed liabilities through this operation, updated during the six months ended 30 June 2014. The allocation of the acquisition price is still subject to changes until the conclusion of a period of one year from the date of acquisition, in accordance with IFRS 3 - Business Combinations. 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 Optimus Group's net assets and Goodwill identified under this transaction, updated at 30 June 2014, are 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 | 18,222 | 119,198 |
| | 1,285,025 | (298) | 1,284,727 |
| ACQUIRED LIABILITIES | | | |
| Borrowings | 452,362 | - | 452,362 |
| Accounts payable and other liabilities | 287,368 | 15,326 | 302,694 |
| Provisions | 35,224 | 46,013 | 81,237 |
| Deferred income tax liabilities | 1,142 | 10,997 | 12,139 |
| Share plan | 6,469 | 3,144 | 9,613 |
| | 782,565 | 75,480 | 858,045 |
| TOTAL NET ASSETS ACQUIRED | 502,460 | (75,778) | 426,682 |
| GOODWILL (NOTE 25) | | | 429,722 |
| 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 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 49.6 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 no significant differences between the fair value and their book value were identified.

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.

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 six months ended 30 June 2013, would be as follows:

6 Months Pro-Forma - NOS Group
For the Six Months Ended 30 June 2013

| | AMOUNT |
|--|----------------|
| REVENUES: | |
| Sales and services rendered | 700,936 |
| Other operating revenues | 7,970 |
| | 708,907 |
| COSTS, LOSSES AND GAINS: | |
| Wages and salaries | 46,969 |
| Direct costs | 199,498 |
| Supplies and external services | 84,944 |
| Provisions and adjustments | 1,595 |
| Net Losses / (gains) of affiliated companies | 1,654 |
| Depreciation, amortisation and impairment losses | 169,093 |
| Other loss / (gains), net | 95,515 |
| | 599,269 |
| INCOME BEFORE FINANCIAL RESULTS AND TAXES | 109,638 |
| Net other financial expenses / (income) | 34,652 |
| INCOME BEFORE TAXES | 74,986 |
| Income taxes | 16,524 |
| NET CONSOLIDATED INCOME | 58,462 |

The main variations occurred in the several ZON OPTIMUS 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 contributions were null at 30 June 2013.

In the six months ended on 30 June 2014, there were no significant changes in the consolidated perimeter besides the constitution of NOS Communications S.à.r.l on 15 May 2014 (Annexe A).

Additionally, 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.



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, ZON Televisão por Cabo, SGPS, S.A. ("ZON Televisão por Cabo"), NOS Açores, NOS Madeira, NOSPUB, NOS SA, NOS Lusomundo TV, ZON Finance B.V., Teliz Holding B.V..
- Audiovisual – the supply of video production services and sales, cinema exhibition and distribution and the acquisition/negociation of Pay TV and VOD (video-on-demand) rights and includes the following companies: ZON Audiovisual, SGPS, SA, 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 six months ended at 30 June 2013 and 2014 are shown below:

Results by Segment For the Three Months Ended on 30 June 2013

| | TELCO | | AUDIOVISUALS | | GROUP | |
|---|----------------------------|---------|----------------------------|---------|----------------------------|----------|
| | 2 nd QUARTER 13 | 6M 13 | 2 nd QUARTER 13 | 6M 13 | 2 nd QUARTER 13 | 6M 13 |
| Total segment revenue | 175,756 | 355,087 | 23,577 | 47,909 | 199,333 | 402,996 |
| Inter-segment revenue | (4,605) | (9,118) | (4,324) | (9,120) | (8,929) | (18,238) |
| SALES AND SERVICES RENDERED | 171,151 | 345,969 | 19,253 | 38,789 | 190,404 | 384,758 |
| OPERATIONAL INCOME BY SEGMENT | 29,466 | 57,649 | 1,907 | 1,594 | 31,373 | 59,243 |
| Net interest expense and other | 10,946 | 21,338 | 674 | 1,100 | 11,620 | 22,438 |
| Loss / (Gains) in financial assets | 500 | 500 | 15 | 25 | 515 | 525 |
| INCOME BEFORE TAXES | 18,020 | 35,811 | 1,218 | 469 | 19,238 | 36,280 |
| Income tax expense | 5,761 | 10,080 | 316 | 545 | 6,077 | 10,625 |
| NET INCOME | 12,259 | 25,731 | 902 | (76) | 13,161 | 25,655 |
| OTHER COSTS: | | | | | | |
| Depreciation, amortisation and impairment | 40,008 | 85,252 | 6,947 | 14,348 | 46,955 | 99,600 |
| Provisions and adjustments | 2,584 | 4,563 | (18) | 2,855 | 2,566 | 7,418 |
| Costs / (revenues) non-recurrent | (501) | (405) | (141) | (129) | (642) | (534) |

Results by Segment For the Three Months Ended on 30 June 2014

| | TELCO | | AUDIOVISUALS | | GROUP | |
|---|----------------------------|---------|----------------------------|---------|----------------------------|----------|
| | 2 nd QUARTER 14 | 6M 14 | 2 nd QUARTER 14 | 6M 14 | 2 nd QUARTER 14 | 6M 14 |
| Total segment revenue | 330,885 | 655,111 | 23,474 | 45,925 | 354,359 | 701,036 |
| Inter-segment revenue | (4,753) | (9,355) | (4,631) | (9,362) | (9,384) | (18,717) |
| SALES AND SERVICES RENDERED | 326,132 | 645,756 | 18,843 | 36,563 | 344,975 | 682,319 |
| OPERATIONAL INCOME BY SEGMENT | 39,519 | 86,685 | (2,036) | (1,124) | 37,483 | 85,561 |
| Net interest expense and other | 13,145 | 26,975 | 675 | 1,450 | 13,820 | 28,428 |
| Loss / (Gains) in financial assets | 336 | 906 | 11 | 23 | 347 | 929 |
| INCOME BEFORE TAXES | 26,038 | 58,804 | (2,722) | (2,597) | 23,316 | 56,207 |
| Income tax expense | 6,231 | 13,573 | (1,437) | (1,452) | 4,794 | 12,121 |
| NET INCOME | 19,807 | 45,231 | (1,285) | (1,145) | 18,522 | 44,086 |
| OTHER COSTS: | | | | | | |
| Depreciation, amortisation and impairment | 75,898 | 151,654 | 10,334 | 18,449 | 86,232 | 170,103 |
| Provisions and adjustments | 2,971 | (630) | (45) | (43) | 2,926 | (673) |
| Costs / (revenues) non-recurrent | 12,547 | 15,282 | 84 | 179 | 12,631 | 15,461 |



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 per Segment
At 31 December 2013

| | TELCO | AUDIO VISUALS | ELIMINATIONS | NOT ALLOCATED | GROUP |
|------------------------------------|------------------|----------------|------------------|----------------|------------------|
| Assets | 2,705,667 | 126,137 | (144,051) | 179,304 | 2,867,056 |
| Investment in associated companies | 29,927 | 1,687 | - | - | 31,614 |
| TOTAL ASSETS | 2,735,594 | 127,824 | (144,051) | 179,304 | 2,898,670 |
| LIABILITIES | 704,701 | 120,682 | (144,051) | 1,157,126 | 1,838,458 |
| 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) | 149,431 | 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 | - |
| | 179,304 | 1,157,126 |

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

Assets and Liabilities per Segment
At 30 June 2014

| | TELCO | AUDIO VISUALS | ELIMINATIONS | NOT ALLOCATED | GROUP |
|------------------------------------|------------------|----------------|------------------|----------------|------------------|
| Assets | 2,659,921 | 150,541 | (141,549) | 170,705 | 2,839,618 |
| Investment in associated companies | 29,304 | 2,408 | - | - | 31,712 |
| TOTAL ASSETS | 2,689,225 | 152,949 | (141,549) | 170,705 | 2,871,330 |
| LIABILITIES | 691,450 | 141,372 | (141,549) | 1,146,413 | 1,837,686 |
| INVESTMENT IN TANGIBLE ASSETS | 89,986 | 2,806 | - | - | 92,792 |
| INVESTMENT IN INTANGIBLE ASSETS | 39,268 | 13,214 | - | - | 52,482 |



At 30 June 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 June 2014

| | ASSETS | LIABILITIES |
|---|----------------|------------------|
| NOT ALLOCATED: | | |
| Deferred tax (Note 16) | 134,919 | 15,747 |
| Income tax expense (Note 22) | 15,908 | - |
| Borrowings - current (Note 27) | - | 424,918 |
| Borrowings - non current (Note 27) | - | 705,748 |
| Available-for-sale financial assets (Note 24) | 18,423 | - |
| Non-current assets held-for-sale | 678 | - |
| Investment property | 777 | - |
| | 170,705 | 1,146,413 |

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 Revenue

Consolidated operating revenue for the three months and six months ended on 30 June 2013 and 2014 are distributed as follows:

Consolidated Operating Revenue

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 13 | 6M 14 |
|--|--|-------------------|----------------------------|---------|
| SERVICES RENDERED | | | | |
| Telco i) | 169,100 | 341,876 | 310,831 | 620,233 |
| Audiovisuals and cinema exhibition ii) | 14,707 | 29,270 | 14,024 | 27,763 |
| | 183,807 | 371,146 | 324,855 | 647,996 |
| SALES: | | | | |
| Telco iii) | 1,057 | 2,154 | 8,838 | 16,520 |
| Audiovisuals and cinema exhibition iv) | 4,397 | 9,092 | 4,316 | 8,065 |
| | 5,454 | 11,246 | 13,154 | 24,585 |
| OTHER OPERATING REVENUES: | | | | |
| Telco | 994 | 1,939 | 6,463 | 9,003 |
| Audiovisuals and cinema exhibition | 149 | 427 | 503 | 735 |
| | 1,143 | 2,366 | 6,966 | 9,738 |
| | 190,404 | 384,758 | 344,975 | 682,319 |

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 revenue result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4).



7. Wages and Salaries

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

Wages and Salaries

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|-----------------|--|-------------------|----------------------------|--------|
| Remuneration | 9,948 | 19,557 | 13,971 | 30,219 |
| Social taxes | 2,025 | 4,017 | 3,983 | 8,096 |
| Social benefits | 173 | 372 | 450 | 888 |
| Other | 133 | 189 | 316 | 572 |
| | 12,279 | 24,135 | 18,720 | 39,775 |

In the six months ended at 30 June 2013 and 2014, the average number of employees of the companies included in the consolidation was 1,436 and 2,350, respectively. At the end of the six months ended at 30 June 2014, the number of employees of the companies included in the consolidation was 2,366.

The changes in these items result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4).

8. Direct Costs

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

Direct Costs

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|-----------------------------|--|-------------------|----------------------------|---------|
| Exhibition costs | 39,499 | 78,888 | 39,461 | 76,838 |
| Traffic costs | 5,537 | 11,103 | 44,299 | 87,821 |
| Capacity costs | 5,719 | 11,378 | 11,832 | 23,875 |
| Shared advertising revenues | 2,401 | 4,753 | 3,687 | 6,600 |
| Others | 840 | 1,806 | 1,203 | 2,071 |
| | 53,996 | 107,928 | 100,482 | 197,205 |

The main changes in the item telecommunications costs result mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 4).



9. Cost of Products Sold

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

Cost of Products Sold

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|------------------------|--|-------------------|----------------------------|--------|
| Costs of products sold | 1,536 | 2,771 | 10,424 | 20,065 |
| Inventories impairment | (359) | (319) | 463 | 2,065 |
| | 1,177 | 2,452 | 10,887 | 22,130 |

The main changes in the item cost of products sold result mainly from the cost of products sold (mainly mobile phones) of the companies merged on 27 August 2013 (Note 4).

10. Support Services and Supplies and External Services

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

Support Services and Supplies and External Services

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--|--|-------------------|----------------------------|--------|
| SUPPORT SERVICES: | | | | |
| Call centers and customer support | 4,767 | 9,826 | 8,199 | 16,333 |
| Commercial and technical support | 4,661 | 9,158 | 3,573 | 8,735 |
| Information systems | 2,114 | 4,194 | 3,068 | 7,647 |
| Administrative support and other | 1,447 | 3,439 | 6,680 | 11,402 |
| | 12,989 | 26,617 | 21,520 | 44,117 |
| SUPPLIES AND EXTERNAL SERVICES: | | | | |
| Maintenance and repair | 6,672 | 12,942 | 11,342 | 23,108 |
| Rentals | 5,069 | 10,496 | 10,614 | 20,969 |
| Commissions | 969 | 1,721 | 4,992 | 10,358 |
| Professional services | 3,500 | 6,981 | 4,329 | 8,819 |
| Electricity | 1,825 | 3,634 | 4,702 | 9,052 |
| Installation and removal of terminal equipment | 1,079 | 2,188 | 734 | 3,211 |
| Communications | 1,585 | 3,008 | 2,036 | 3,649 |
| Fees | 347 | 558 | 1,261 | 2,694 |
| Travel and accommodation | 385 | 675 | 820 | 1,689 |
| Other supplies and external services | 2,699 | 5,444 | 5,407 | 9,745 |
| | 24,130 | 47,647 | 46,237 | 93,294 |

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).



11. Provisions and Adjustments

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

Provisions and Adjustments

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|---|--|-------------------|----------------------------|-------|
| Provisions (Note 29) | 38 | (362) | 225 | (687) |
| Impairment of account receivables - trade (Note 21) | 2,561 | 7,815 | 2,702 | (267) |
| Impairment of account receivables - other | (32) | (32) | - | 283 |
| Debts recovery | (1) | (3) | (1) | (2) |
| | 2,566 | 7,418 | 2,926 | (673) |

12. Losses / (Gains) of Affiliated Companies

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

Losses / (Gains) of Affiliated Companies

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|------------------------------------|--|-------------------|----------------------------|---------|
| EQUITY ACCOUNTING (NOTE 23) | | | | |
| Sport TV | 1,618 | 1,917 | 1,293 | 745 |
| Dreamia | (535) | (1,112) | (296) | (632) |
| Finstar | (1,418) | (2,463) | (3,540) | (7,449) |
| Mstar | (85) | (145) | (147) | (250) |
| Upstar | (6) | (9) | (3) | (7) |
| Other | 71 | 158 | (13) | (16) |
| | (355) | (1,654) | (2,706) | (7,609) |



13. Depreciation, Amortization and Impairment Losses

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

Depreciation, Amortization and Impairment Losses

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--------------------------------------|--|-------------------|----------------------------|---------|
| INTANGIBLE ASSETS: | | | | |
| Industrial property and other rights | 15,569 | 31,577 | 34,230 | 63,566 |
| Other intangible assets | 396 | 814 | 478 | 906 |
| | 15,965 | 32,391 | 34,708 | 64,472 |
| TANGIBLE ASSETS: | | | | |
| Buildings and other constructions | 783 | 1,562 | 2,958 | 5,797 |
| Basic equipment | 25,807 | 56,633 | 43,579 | 88,753 |
| Transportation equipment | 323 | 681 | 200 | 423 |
| Administrative equipment | 3,545 | 7,295 | 4,257 | 9,583 |
| Other tangible assets | 531 | 1,037 | 529 | 1,074 |
| | 30,990 | 67,209 | 51,524 | 105,631 |
| | 46,955 | 99,600 | 86,232 | 170,103 |

The positive variations occurred in the items above relate mainly to the costs of the companies merged in 27 August 2013 (Note 4).



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

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

Financing Costs and Net Other Expenses / (Income)

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--|--|-------------------|----------------------------|---------|
| FINANCING COSTS: | | | | |
| INTEREST EXPENSE: | | | | |
| Borrowings | 6,439 | 13,605 | 8,104 | 16,702 |
| Equity swaps and derivatives | 882 | 1,754 | 975 | 1,827 |
| Finance leases | 1,500 | 2,937 | 1,530 | 3,047 |
| Other | 22 | 50 | 416 | 645 |
| | 8,843 | 18,346 | 11,025 | 22,221 |
| INTEREST EARNED: | (2,117) | (4,712) | (2,110) | (3,633) |
| | 6,726 | 13,634 | 8,915 | 18,588 |
| NET OTHER FINANCIAL EXPENSES / (INCOME) | | | | |
| Commissions and guarantees | 4,354 | 7,415 | 3,817 | 7,590 |
| Other | 545 | 1,348 | 1,127 | 2,237 |
| | 4,899 | 8,763 | 4,944 | 9,827 |

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 six months ended on 30 June 2013 and 2014, this item was composed as follows:

Losses / (Gains) in Financial Assets

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|--|--|-------------------|----------------------------|-------|
| Impairment losses of FICA Fund (Note 24) | 500 | 500 | 330 | 900 |
| Other | 15 | 25 | 18 | 30 |
| | 515 | 525 | 347 | 929 |

16. Income Tax Expense

During the six months ended at 30 June 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 restructuration, published by Law 2/2014 of 16 January, a new level to the IRC surcharge was added 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 Toweing (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 (included in the RETGS during 2014)
- Per-mar (included in the RETGS during 2014)
- Sontária (included in the RETGS during 2014)
- ZON Audiovisuais SGPS
- ZON Cinemas SGPS
- ZON Televisão por Cabo SGPS

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 June 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 financial years ended on 30 June 2013 and 2014 were as follows:

Movement in Deferred Tax Assets and Liabilities
For the Six Months Ended on 30 June 2013

| | 31-12-2012 RESTATED | DEFERRED TAXES OF THE PERIOD | | 30-06-2013 RESTATED |
|--|------------------------|---------------------------------|---------------------|------------------------|
| | | INCOME (NOTE B) | EQUITY (NOTE 31) | |
| DEFERRED INCOME TAX ASSETS: | | | | |
| Doubtful accounts receivable | 5,342 | - | - | 5,342 |
| Inventories | 1,490 | - | - | 1,490 |
| Other provision and adjustments | 27,864 | (366) | - | 27,498 |
| Intragroup gains | 15,881 | (1,232) | - | 14,649 |
| Derivatives | 1,616 | - | (559) | 1,057 |
| | 52,193 | (1,598) | (559) | 50,036 |
| DEFERRED INCOME TAX LIABILITIES: | | | | |
| Revaluation of fixed assets | 2,776 | - | - | 2,776 |
| Capitalization of subscriber acquisition costs | 4,712 | 24 | - | 4,736 |
| Derivatives | - | - | 13 | 13 |
| | 7,488 | 24 | 13 | 7,525 |
| NET DEFERRED TAX | 44,705 | (1,622) | (572) | 42,511 |



Movement in Deferred Tax Assets and Liabilities
For the Six Months Ended on 30 June 2014

| | 31-12-2013 RESTATED | DEFERRED TAXES OF THE PERIOD | | 30-06-2014 |
|--|------------------------|---------------------------------|---------------------|----------------|
| | | INCOME (NOTE B) | EQUITY (NOTE 31) | |
| DEFERRED INCOME TAX ASSETS: | | | | |
| Doubtful accounts receivable | 16,073 | (5,975) | - | 10,098 |
| Inventories | 3,216 | 784 | - | 4,000 |
| Other provision and adjustments | 81,869 | (7,319) | - | 74,550 |
| Intragroup gains | 27,876 | (1,026) | - | 26,850 |
| Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger | 5,311 | 540 | - | 5,851 |
| Derivatives | 693 | - | 92 | 785 |
| Incentives | 14,393 | (1,608) | - | 12,785 |
| | 149,431 | (14,604) | 92 | 134,919 |
| DEFERRED INCOME TAX LIABILITIES: | | | | |
| Revaluation of fixed assets | 1,415 | (1,127) | - | 288 |
| Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger | 13,134 | 693 | - | 13,827 |
| Derivatives | - | - | 2 | 2 |
| Other provision and adjustments | 907 | 723 | - | 1,630 |
| | 15,456 | 289 | 2 | 15,747 |
| NET DEFERRED TAX | 133,975 | (14,893) | 90 | 119,172 |

At 30 June 2014, the deferred tax assets related to the other provisions and adjustments are mainly due: i) impairments and acceleration of amortizations beyond the acceptable fiscally and other adjustments in tangible and intangible assets, amounted to 58.4 million euros; ii) temporary differences generated with adjustments of conversion to IAS/IFRS at 31 December 2009, amounted to 3.5 million euros; and iii) other provisions amounted to 12.6 million euros.

At 30 June 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 June 2014 no deferred tax assets in the amount of 13.8 million euros were recognized related to: i) tax losses of 10.2 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 3.3 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 the 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 June 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 was deemed likely. Tax benefits, related to deductions from taxable income, are considered 100%, and in some cases, their full acceptance is conditional upon the approval of the authorities that grants such tax benefits.

Under the terms of 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 six months ended on 30 June 2013 and 2014, the reconciliation between the nominal and effective rates of tax was as follows:

Reconciliation Between the Nominal and Effective Tax Rates

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|---|--|-------------------|----------------------------|---------------|
| Income before taxes | 19,238 | 36,280 | 23,316 | 56,207 |
| Statutory tax rate | 26.5% | 26.5% | 24.5% | 24.5% |
| ESTIMATED TAX | 5,098 | 9,614 | 5,713 | 13,771 |
| Permanent differences i) | (94) | (438) | (542) | (1,831) |
| Underestimated/ (Overestimated) corporate tax | 537 | 537 | (2,744) | (2,744) |
| Fiscal benefits ii) | (325) | (650) | (579) | (938) |
| State surcharge | 453 | 906 | 1,529 | 2,424 |
| Autonomous taxation | 217 | 434 | 426 | 687 |
| Provisions (Note 29) | - | - | 852 | 852 |
| Others | 191 | 222 | 139 | (100) |
| INCOME TAX | 6,077 | 10,625 | 4,794 | 12,121 |
| Effective Income tax rate for the period | 31.6% | 29.3% | 20.6% | 21.6% |
| Income tax | 5,314 | 9,003 | (3,507) | (2,772) |
| Deferred tax | 763 | 1,622 | 8,301 | 14,893 |
| | 6,077 | 10,625 | 4,794 | 12,121 |

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

Permanent Differences

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|-------------------------|--|-------------------|----------------------------|---------|
| Equity method (Note 12) | (355) | (1,654) | (2,706) | (7,609) |
| Other | - | - | 494 | 134 |
| | (355) | (1,654) | (2,212) | (7,475) |
| | 26.5% | 26.5% | 24.5% | 24.5% |
| | (94) | (438) | (542) | (1,831) |

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 six months ended on 30 June 2013 and 2014 were calculated as follow:

Net Earnings Per Share

| | 2 nd QUARTER 13 RESTATED | 6M 13 RESTATED | 2 nd QUARTER 14 | 6M 14 |
|---|--|-------------------|----------------------------|-------------|
| Net income attributable to equity holders of the parent | 13,003 | 25,297 | 18,413 | 43,676 |
| Number of ordinary shares outstanding during the period (weighted average) | 308,697,535 | 308,734,745 | 514,431,496 | 514,382,606 |
| Basic earnings per share - euros | 0.04 | 0.08 | 0.04 | 0.08 |
| Diluted earnings per share - euros | 0.04 | 0.08 | 0.04 | 0.08 |

In the presented three months and six months ended on 30 June 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 149 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 June 2014

| | LOANS AND ACCOUNTS RECEIVABLE | AVAILABLE- FOR-SALE FINANCIAL ASSETS | INVESTMENTS HELD-TO- MATURITY | DERIVATIVES |
|---|-------------------------------------|---|-------------------------------------|--------------|
| ASSETS | | | | |
| Cash and cash equivalents (Note 20) | 42,799 | - | - | - |
| Accounts receivable - trade (Note 21) | 310,672 | - | - | - |
| Accounts receivable - other | 27,465 | - | - | - |
| Available-for-sale financial assets (Note 24) | - | 18,423 | - | - |
| TOTAL FINANCIAL ASSETS | 380,936 | 18,423 | - | - |
| LIABILITIES | | | | |
| Borrowings (Note 27) | - | - | - | - |
| Accounts payable - trade (Note 28) | - | - | - | - |
| Accounts payable - other | - | - | - | - |
| Accrued expenses | - | - | - | - |
| Derivatives financial instruments (Note 31) | - | - | - | 3,150 |
| TOTAL FINANCIAL LIABILITIES | - | - | - | 3,150 |

| | OTHER FINANCIAL LIABILITIES | TOTAL FINANCIAL ASSETS AND LIABILITIES | NON FINANCIAL ASSETS AND LIABILITIES | TOTAL |
|---|-----------------------------------|---|---|------------------|
| ASSETS | | | | |
| Cash and cash equivalents (Note 20) | - | 42,799 | - | 42,799 |
| Accounts receivable - trade (Note 21) | - | 310,672 | - | 310,672 |
| Accounts receivable - other | - | 27,465 | 7,085 | 34,550 |
| Available-for-sale financial assets (Note 24) | - | 18,423 | - | 18,423 |
| TOTAL FINANCIAL ASSETS | - | 399,359 | 7,085 | 406,444 |
| LIABILITIES | | | | |
| Borrowings (Note 27) | 1,130,666 | 1,130,666 | - | 1,130,666 |
| Accounts payable - trade (Note 28) | 283,108 | 283,108 | 1,426 | 284,534 |
| Accounts payable - other | 60,684 | 60,684 | - | 60,684 |
| Accrued expenses | 158,370 | 158,370 | - | 158,370 |
| Derivatives financial instruments (Note 31) | - | 3,150 | - | 3,150 |
| TOTAL FINANCIAL LIABILITIES | 1,632,828 | 1,635,978 | 1,426 | 1,637,404 |

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 June 2014, this item was composed as follows:

Cash and Cash Equivalents

| | 31-12-2013 RESTATED | 30-06-2014 |
|-------------------|------------------------|------------|
| Cash | 1,085 | 897 |
| Deposits | 13,093 | 37,876 |
| Other deposits i) | 60,202 | 4,026 |
| | 74,380 | 42,799 |

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

21. Accounts Receivable – Trade

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

Accounts Receivable – Trade

| | 31-12-2013 RESTATED | 30-06-2014 |
|---|------------------------|------------|
| Trade receivables | 216,374 | 244,775 |
| Doubtful accounts for trade receivables | 180,609 | 180,322 |
| Unbilled revenues | 60,030 | 65,686 |
| | 457,013 | 490,783 |
| Impairment of trade receivable | (180,383) | (180,111) |
| | 276,630 | 310,672 |

Impairment of Accounts Receivable

The summary of movements in impairment adjustments is as follows:

Impairment of Accounts Receivable

| | 6M 13 RESTATED | 6M 14 |
|-----------------------------------|-------------------|---------|
| AS AT JANUARY 1 | 131,763 | 180,383 |
| Increases and decreases (Note 11) | 7,815 | (267) |
| Receivables written off and other | 73 | (5) |
| AS AT JUNE 30 | 139,651 | 180,111 |



22. Taxes Payable and Receivable

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

Taxes Payable and Receivable

| | 31-12-2013 | | 30-06-2014 | |
|-----------------------------------|------------|------------|------------|------------|
| | RESTATED | RECEIVABLE | PAYABLE | RECEIVABLE |
| CURRENT | | | | |
| Value-added tax | 2,337 | 17,954 | 902 | 20,551 |
| Income taxes | 9,065 | - | 15,908 | - |
| Social Security contributions | - | 1,957 | - | 2,835 |
| Personnel income tax withholdings | - | 2,107 | - | 3,237 |
| Other | 428 | 974 | 843 | 216 |
| | 11,830 | 22,992 | 17,653 | 26,839 |
| NON CURRENT | | | | |
| Tax authorities (Note 34.3) | 7,705 | - | 7,640 | - |
| Provision | (3,479) | - | (3,408) | - |
| | 4,226 | - | 4,232 | - |
| | 16,056 | 22,992 | 21,885 | 26,839 |

At 31 December 2013 and 30 June 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 | 30-06-2014 |
|------------------------------------|------------|------------|
| | RESTATED | |
| Estimated current tax on income i) | (7,365) | (1,640) |
| Payments on account | 12,838 | 12,868 |
| Withholding income taxes | 2,856 | 3,636 |
| Other | 736 | 1,044 |
| | 9,065 | 15,908 |

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 | 30-06-2014 |
|--|------------|------------|
| | RESTATED | |
| Income taxes | (6,148) | (1,553) |
| Change in the consolidation scope (Note 4) | (1,500) | - |
| Other | 283 | (87) |
| | (7,365) | (1,640) |



23. Investments in Jointly Controlled Companies and Associated Companies

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

Investments in Jointly Controlled Companies and Associated Companies

| | 31-12-2013 RESTATED | 30-06-2014 |
|--|------------------------|----------------|
| INVESTMENTS - EQUITY ACCOUNTING | | |
| Sport TV | 29,769 | 29,147 |
| Dreamia | 1,687 | 2,395 |
| Finstar | (13,466) | (6,122) |
| Mstar | (321) | (179) |
| Upstar | 53 | 67 |
| Distodo | (125) | (122) |
| Canal 20 TV, S.A. | 5 | 5 |
| ZON II | 50 | 50 |
| ZON III | 50 | - |
| East Star | - | 36 |
| Big Picture 2 Films | - | 12 |
| | 17,702 | 25,289 |
| ASSETS | 31,614 | 31,712 |
| LIABILITIES (NOTE 29) | (13,912) | (6,423) |

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

Investments in Jointly Controlled Companies and Associated Companies Movements

| | 6M13 RESTATED | 6M14 |
|--------------------------------------|------------------|---------------|
| AS AT JANUARY 1 | | |
| Gain / (loss) for the year (Note 12) | 1,654 | 7,609 |
| Dissolutions | - | (50) |
| Acquisitions | - | 36 |
| Changes in equity i) | (192) | (8) |
| AS AT JUNE 30 | 15,001 | 25,289 |

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 six months ended at 30 June 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) 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 – June 2014
Amounts Stated in Thousands of Euros

| ENTITY | ASSETS | LIABILITIES | REVENUE | NET INCOME | % OWNED | GAIN/(LOSS) TO THE GROUP |
|---------------------|---------|-------------|---------|------------|---------|--------------------------|
| Sport TV | 112,544 | 54,251 | 55,986 | (1,489) | 50.00% | (745) |
| Dreamia | 13,364 | 8,573 | 2,384 | 1,265 | 50.00% | 632 |
| Finstar | 42,429 | 62,836 | 91,066 | 24,831 | 30.00% | 7,449 |
| Mstar | 8,394 | 8,990 | 7,055 | 832 | 30.00% | 250 |
| Upstar | 38,776 | 38,554 | 26,496 | 23 | 30.00% | 7 |
| Distodo | 74 | 317 | 213 | 6 | 50.00% | 3 |
| Canal 20 TV, S.A. | 66 | 57 | - | - | 50.00% | - |
| ZON II | 50 | - | - | - | 100.00% | - |
| East Star | 137 | 17 | - | - | 30.00% | - |
| Big Picture 2 Films | 2,288 | 2,227 | 3,138 | 63 | 20.00% | 13 |

24. Available For Sale Financial Assets

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

Available For Sale Financial Assets

| | 31-12-2013 RESTATED | 30-06-2014 |
|---|------------------------|------------|
| Investment fund for cinema and audiovisuals | 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. ZON OPTIMUS 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 six months ended at 30 June 2014.

25. Intangible Assets

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

Intangible Assets

| | 31-12-2013 RESTATED | 30-06-2014 |
|---|------------------------|------------|
| ACQUISITION COST | | |
| Industrial property and other rights | 1,346,936 | 1,380,038 |
| Goodwill | 605,220 | 605,220 |
| Other intangible assets | 11,942 | 14,908 |
| Intangible assets in-progress | 24,011 | 23,475 |
| | 1,988,109 | 2,023,641 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES | | |
| Industrial property and other rights | 841,751 | 889,379 |
| Other intangible assets | 9,925 | 11,222 |
| | 851,676 | 900,601 |
| | 1,136,433 | 1,123,040 |

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

- (1) A net amount of 69,794 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 165,409 thousand euros, mainly related to the investment, net of depreciation, made in the development of the UMTS network by NOS SA, including: (i) 49,505 thousand euros related to the license, (ii) 16,541 thousand euros related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii)



5,080 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) 81,486 thousand euros related with the programme "Initiatives E"; and the net amount of 8,567 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 102,944 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 3,591 thousand euros corresponding to the valuation of the license in the fair value allocation process resulting from the merger (Note 4). At 30 June 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 41,083 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 26,270 thousand euros and 19,740 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 | 30-06-2014 |
|--------------|------------------------|------------|
| Telco | 528,619 | 528,619 |
| Audiovisuals | 76,601 | 76,601 |
| | 605,220 | 605,220 |

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

* EBITDA = Operational result + Depreciation and amortization

The negative growth rate, in the period of 5 years, used for NOS LM Audiovisuais 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 June 2014, 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 six months ended at 30 June 2014, this item was composed as follows:

Tangible Assets

| | 31-12-2013 RESTATED | 30-06-2014 |
|---|------------------------|------------|
| ACQUISITION COST | | |
| Land | 1,244 | 1,244 |
| Buildings and other constructions | 289,570 | 290,244 |
| Basic equipment | 2,145,368 | 2,182,988 |
| Transportation equipment | 10,848 | 11,031 |
| Tools and dies | 1,226 | 1,227 |
| Administrative equipment | 289,813 | 298,990 |
| Other tangible assets | 39,886 | 40,632 |
| Tangible assets in-progress | 29,193 | 53,587 |
| | 2,807,148 | 2,879,943 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | |
| Buildings and other constructions | 130,827 | 143,056 |
| Basic equipment | 1,271,571 | 1,333,142 |
| Transportation equipment | 4,228 | 4,650 |
| Tools and dies | 1,204 | 1,209 |
| Administrative equipment | 264,817 | 274,368 |
| Other tangible assets | 37,678 | 38,808 |
| | 1,710,325 | 1,795,233 |
| | 1,096,823 | 1,084,710 |

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 170.8 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 679 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 June 2014, amounted to 167.3 million euros and 172.6 million euros, and their net book value as of those dates amounted to 113.4 million euros and 111.6 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 June 2014, total net value of these costs amounted to 13.2 million euros. The amount capitalised in the semester ended at 30 June 2014 amounted to 1 million euros.

27. Borrowings

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

Borrowings

| | 31-12-2013 RESTATED | 30-06-2014 | | |
|---------------------------------------|------------------------|----------------|---------|----------------|
| | CURRENT | NON CURRENT | CURRENT | NON CURRENT |
| LOANS - NOMINAL VALUE | 184,969 | 813,945 | 397,589 | 603,625 |
| Debenture loan | 157,100 | 340,000 | 397,050 | 100,000 |
| Commercial paper | 20,000 | 375,000 | - | 300,000 |
| Foreign loans | - | 98,945 | - | 203,625 |
| National loans | 3,609 | - | - | - |
| Bank overdrafts | 4,260 | - | 539 | - |
| LOANS - ACCRUALS AND DEFERRALS | 2,484 | (2,406) | 733 | (7,107) |
| FINANCIAL LEASES | 25,978 | 116,700 | 26,596 | 109,230 |
| Long Term Contracts | 17,426 | 106,559 | 18,587 | 98,052 |
| Other | 8,552 | 10,141 | 8,009 | 11,178 |
| | 213,431 | 928,239 | 424,918 | 705,748 |

During the six months ended at 30 June 2014, the average cost of debt of the used lines was approximately 4.96% (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.

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 organized 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.

The amount of 271 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item Loans - accruals and deferrals.

27.2. Commercial Paper

The Company has borrowings of 300 million euros, in the form of commercial paper contracted with three banks, corresponding to four programs, earning interest at market rates. Grouped commercial paper programmes with maturities over 1 year totaling 300 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 6,208 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 829 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 5,546 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 June 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 | 30-06-2014 |
|---|------------------------|----------------|
| Until 1 year | 28,123 | 29,051 |
| Between 1 and 5 years | 67,506 | 63,950 |
| Over 5 years | 78,907 | 74,391 |
| | 174,536 | 167,392 |
| Future financial costs | (31,858) | (31,566) |
| PRESENT VALUE OF FINANCE LEASE LIABILITIES | 142,678 | 135,826 |

Financial Leases – Present Value

| | 31-12-2013 RESTATED | 30-06-2014 |
|-----------------------|------------------------|------------|
| Until 1 year | 25,978 | 26,596 |
| Between 1 and 5 years | 50,322 | 46,276 |
| Over 5 years | 66,378 | 62,954 |
| | 142,678 | 135,826 |

All bank borrowings (with the exception of ZON Multimédia bonds 2012-2015 and the new IEB 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 | | | 30-06-2014 | | |
|------------------|------------|-----------------|-----------------------------|-----------------|-----------------|-----------------------------|
| | RESTATED | UNTIL 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | UNTIL 1 YEAR | BETWEEN 1 AND 5 YEARS |
| Debenture loan | 155,052 | 338,928 | - | 397,678 | - | 99,101 |
| Commercial paper | 16,159 | 373,678 | - | - | 293,792 | - |
| Foreign loans | (220) | 98,932 | - | - | 149,507 | 54,118 |
| Internal loans | 12,202 | - | - | 105 | - | - |
| Bank overdrafts | 4,260 | - | - | 539 | - | - |
| Financial Leases | 25,978 | 50,322 | 66,378 | 26,596 | 46,276 | 62,954 |
| | 213,431 | 861,861 | 66,378 | 424,918 | 489,575 | 216,173 |



28. Accounts Payable - Trade

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

Accounts Payable - Trade

| | 31-12-2013 RESTATED | 30-06-2014 |
|---------------------------|------------------------|------------|
| Suppliers current account | 296,715 | 283,108 |
| Advances from customers | 108 | 1,426 |
| | 296,823 | 284,534 |

29. Provisions and Adjustments

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

Provisions

| | 31-12-2013 RESTATED | 30-06-2014 |
|--|------------------------|------------|
| Litigation and other - i) | 16,530 | 41,076 |
| Financial investments - ii) | 13,912 | 6,423 |
| Dismantling and removal of assets - iii) | 14,509 | 14,523 |
| Contingent liabilities - iv) | 34,931 | 11,725 |
| Contingencies - other - v) | 21,887 | 22,073 |
| | 101,770 | 95,820 |

- i) The amount under the item "Litigation and other" corresponds to provisions to cover the legal and tax claims of which stand out:
 - a. 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. The Board of Directors believes to obtain a favorable decision;
 - b. 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).

- c. 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 received in January 2014). 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;
- d. 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, and the company has initiated the corresponding appeal.

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. 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.

- 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 six months ended on 30 June 2013 and 2014, movements in provisions were as follows:

Provisions - Movements
2013

| | 31-12-2012 RESTATED | INCREASES | DECREASES | OTHER | 30-06-2013 RESTATED |
|-----------------------------------|------------------------|-----------|-----------|-------|------------------------|
| Litigation and other | 3,920 | - | (362) | - | 3,559 |
| Financial investments | 21,540 | (2,481) | - | - | 19,059 |
| Dismantling and removal of assets | 4,910 | - | (26) | - | 4,884 |
| | 30,371 | (2,481) | (388) | - | 27,502 |

Provisions - Movements
2014

| | 31-12-2013 RESTATED | INCREASES | DECREASES | OTHER | 30-06-2014 |
|-----------------------------------|------------------------|-----------|-----------|----------|------------|
| Litigation and other | 16,530 | 1,644 | (1,325) | 24,227 | 41,076 |
| Financial investments | 13,912 | - | (7,489) | - | 6,423 |
| Dismantling and removal of assets | 14,509 | 341 | - | (327) | 14,523 |
| Contingent liabilities | 34,931 | - | - | (23,206) | 11,725 |
| Contingencies - other | 21,887 | 500 | (154) | (160) | 22,073 |
| | 101,770 | 2,485 | (8,968) | 534 | 95,820 |

At 30 June 2014, the amount recorded under the heading "Other" in the amount of 534 thousand euros corresponds mainly to the utilization of provisions made for indemnizations to workers of 3,219 thousand euros and reclassifications of accrued costs **is relation to which can't be estimated with certainty** when will the expense occur, in the amount of 1,567 thousand euros.

Additionally, during the six months ended at 30 June 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 24 million euros.

Also during the six months ended at 30 June 2014, with the submission of the income tax return, an amount of 2.6 million euros related to tax contingencies previously deducted to the deferred tax assets was reclassified to provisions.

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

Provisions and Adjustments - Net Movements

| | 6M 13 RESTATED | 6M 14 |
|--------------------------------------|-------------------|----------------|
| Provisions and adjustments (Note 11) | (362) | (687) |
| Interests - dismantling | (26) | 341 |
| Other non-recurrent costs / (gains) | - | 500 |
| Income tax (Note 16) | - | 852 |
| Financial investments (Note 12) | (2,481) | (7,489) |
| PROVISIONS AND ADJUSTMENTS | (2,869) | (6,483) |



30. Shareholders' Equity

30.1. Share Capital

At 31 December 2013 and 30 June 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 June 2014 are:

Principal Shareholders

| | 31-12-2013 | | 30-06-2014 | |
|--|--------------------|-----------------|--------------------|-----------------|
| | NO.OF SHARES | % SHARE CAPITAL | NO.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% |
| Fundação José Berardo e Metalgest - Sociedade de Gestão, SGPS, SA ⁽³⁾ | 17,999,249 | 3.49% | 17,999,249 | 3.49% |
| Joaquim Alves Ferreira de Oliveira ⁽⁴⁾ | 14,955,684 | 2.90% | 14,955,684 | 2.90% |
| Sonaecom, SGPS, SA ⁽⁵⁾ | 37,489,324 | 7.28% | 11,012,532 | 2.14% |
| Morgan Stanley | - | - | 10,392,627 | 2.02% |
| Espírito Santo Irmãos, SGPS, SA | 15,455,000 | 3.00% | - | - |
| TOTAL | 366,876,060 | 71.22% | 335,279,596 | 65.08% |

- (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 "Fundação José Berardo" holds 14,013,761 shares representing 2.72% of the share capital of the Company. In turn, the Metalgest - Sociedade de Gestão, SGPS, S.A. holds 3,985,488 shares representing 0.774% of the share capital of the Company. The position of the "Fundação José Berardo" is reciprocally attributed to Metalgest - Sociedade de Gestão, SGPS, S.A..

- (4) 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.
- (5) **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, 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 June 2014 there were 531,262 own shares, representing 0.1031% of the share capital (31 December 2013: 403,382 own shares, representing 0.0783% of the share capital).



Movements in the semesters ended on 30 June 2013 and 2014 were as follows:

Own Shares

| | QUANTITY | VALUE |
|---|-------------|----------|
| BALANCE AS AT 1 JANUARY 2013 | 401,523 | 914 |
| Acquisition of own shares | 307,465 | 1,001 |
| Distribution of own shares | (309,704) | (728) |
| BALANCE AS AT 30 JUNE 2013 | 399,284 | 1,187 |
| BALANCE AS AT 1 JANUARY 2014 | 403,382 | 2,003 |
| Acquisition of own shares | 3,691,471 | 19,202 |
| 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 | (2,102,399) | (10,932) |
| 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 JUNE 2014 | 531,262 | 2,619 |

During the six months ended on 30 June 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 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' 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 of 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 Reserves

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 June 2014, NOS had reserves which by their nature are considered distributable in the amount of approximately 186 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 5,858 thousand Dollars (31 December 2013: 7,550 thousand Dollars), the fair value amounts to a loss of about 8 thousand euros (31 December 2013: a negative amount of 132 thousand euros) which **is stated in liabilities as a contra entry in shareholder's equity**.

31.2. Interest Rate Derivatives

At 30 June 2014, NOS had contracted four interest rate swaps totaling of 332 million euros (31 December 2013: 257.5 million euros), with maturities expire in 2014 (3 swaps in the amount of 257.1 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 3.2 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

| NOTIONAL | 31-12-2013 | | | |
|-----------------------|------------|-------------|-------------|-------------|
| | 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 June 2014

| NOTIONAL | 30-06-2014 | | | |
|-----------------------|------------|-------------|-------------|-------------|
| | ASSETS | | LIABILITIES | |
| | CURRENT | NON CURRENT | CURRENT | NON CURRENT |
| Interest rate swaps | 332,050 | - | - | 1,728 1,422 |
| Exchange rate forward | 4,305 | 8 | - | - |
| | 336,355 | 8 | - | 1,728 1,422 |

Movements during the six months ended on 30 June 2013 and 2014 were as follows:

Derivative Financial Instruments - Movements
2013

| | 31-12-2012 | RESULT | EQUITY | 30-06-2013 |
|----------------------------------|------------|--------|--------|------------|
| Fair value interest rate swaps | (6,051) | - | 2,061 | (3,989) |
| Fair value exchange rate forward | (45) | - | 89 | 45 |
| CASH FLOW HEDGE | | | | |
| DERIVATIVES | (6,095) | - | 2,151 | (3,945) |
| Deferred income tax liabilities | - | - | (13) | (13) |
| Deferred income tax assets | 1,616 | - | (559) | 1,057 |
| DEFERRED INCOME TAX | 1,616 | - | (572) | 1,044 |
| | (4,479) | - | 1,579 | (2,901) |

Derivative Financial Instruments - Movements
2014

| | 31-12-2013 | RESULT | EQUITY | 30-06-2014 |
|----------------------------------|------------|--------|--------|------------|
| Fair value interest rate swaps | (2,682) | - | (468) | (3,150) |
| Fair value exchange rate forward | (132) | - | 140 | 8 |
| CASH FLOW HEDGE | | | | |
| DERIVATIVES | (2,814) | - | (328) | (3,142) |
| Deferred income tax liabilities | - | - | (2) | (2) |
| Deferred income tax assets | 693 | - | 92 | 785 |
| DEFERRED INCOME TAX | 693 | - | 90 | 783 |
| | (2,121) | - | (238) | (2,359) |



32. Guarantees and Financial Undertakings

32.1. Guarantees

At 31 December 2013 and 30 June 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 | 30-06-2014 |
|---------------------------|------------------------|------------|
| Financial institutions i) | 100,193 | 210,464 |
| Tax authorities ii) | 31,219 | 27,359 |
| Anacom iii) | 24,000 | - |
| Other iv) | 19,660 | 18,301 |
| | 175,072 | 256,124 |

- i) At 31 December 2013 and 30 June 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 June 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 June 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 June 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 six months ended at 30 June 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, Finibanco and BFA, totaling 1,818 million AKZ, 817 million AKZ, 20 million AKZ and 1,286 million AKZ, respectively, NOS signed four 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 888 million AKZ.**

In addition to the guarantees required by the Tax Authorities were set up sureties for the current fiscal processes. The Sonaecom 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 | | | | 30-06-2014 | | | |
|---|------------------------|-----------------|------------------|-----------------|----------------------|-----------------|------------------|-----------------|
| | 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 | 4,864 | 36,163 | 85,080 | 36,095 |
| Telecommunication towers and rooftops | 8,240 | 5,920 | 15,207 | 13,511 | 9,183 | 4,256 | 13,231 | 10,877 |
| Equipment | - | 101 | 249 | 56 | - | 97 | 249 | 57 |
| Vehicles | - | 2,397 | 4,201 | - | - | 2,012 | 3,172 | - |
| | 12,693 | 52,799 | 147,507 | 59,647 | 14,047 | 42,527 | 101,731 | 47,028 |

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, 83% are subject to cross-default clauses, 94% to pari passu clauses, 44% to ownership clauses and 72% to negative pledge clauses.

In addition, approximately 40% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA and 9% 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 June 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 Ambrães, S.A. |
| Aegean Park, S.A. | Casa da Ribeira - Hotelaria e Turismo, S.A. |
| Agepan Eiweiler 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 |
| Aguas 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. | Citorres - Sociedade Imobiliária, S.A. |
| Alpêssego - Soc. Agrícola, S.A | Coimbrashopping - Centro Comercial, S.A. |
| Andar - Sociedade Imobiliária, S.A. | Colombo Towers Holding, BV |
| Apor - Agência para a Modernização do Porto | Companhia de Pesca e Comércio de Angola (Cosal), SARL |
| Aqualuz - Turismo e Lazer, Lda | Companhia Térmica Hectare, ACE |
| Arat inmebles, S.A. | Companhia Térmica Tagol, Lda. |
| ARP Alverca Retail Park,SA | Contacto Concessões, SGPS, S.A. |
| ArrábidaShopping - Centro Comercial, S.A. | Contibomba - Comérc. Distr. Combustíveis, S.A. |
| Aserraderos de Cuellar, S.A. | Contimobe - Imobil.Castelo Paiva, S.A. |
| Atelgen-Produção Energia, ACE | Continente Hipermercados, S.A. |
| Atlantic Ferries - Tráf.Loc,Flu.e Marít, S.A. | Contry Club da Maia-Imobiliaria, S.A. |
| Avenida M - 40 B.V. | Cooper Gay Swett & Crawford Lt |
| Avenida M - 40, S.A. | Craiova Mall BV |
| Azulino Imobiliária, S.A. | Cronosaudé - Gestão Hospitalar, S.A. |
| BA Business Angels, SGPS, SA | CTE-Central Termoeléct. do Estuário, Lda |
| BA Capital, SGPS, SA | Cumulativa - Sociedade Imobiliária, S.A. |
| Banco BPI, SA | Darbo S.A.S |
| BB Food Service, S.A. | Deutsche Industrieholz GmbH |
| Beralands BV | Digitmarket - Sistemas de Informação, S.A. |
| Bertimóvel - Sociedade Imobiliária, S.A. | Discovery Sports, SA |
| BHW Beeskow Holzwerkstoffe | Distodo - Distribuição e Logística, Lda. |
| Big Picture 2 Films, SA | Dortmund Tower GmbH |
| Blackrock, Inc. | Dos Mares - Shopping Centre B.V. |
| Bloco Q - Sociedade Imobiliária, S.A. | Dos Mares - Shopping Centre, S.A. |
| Bloco W - Sociedade Imobiliária, S.A. | Dreamia - Serviços de Televisão, S.A. |
| Boavista Shopping Centre BV | Dreamia Holding B.V. |
| BOM MOMENTO - Comércio Retailista, SA | East Star Ltd |
| Caixa Geral de Depósitos, SA | Ecociclo - Energia e Ambiente, S.A. |
| Caixanet - Telecomunicações e Telemática, SA | Ecociclo II |



RELATED PARTIES

| | |
|--|---|
| Efanor Investimentos, SGPS, S.A. | Imomuro - Sociedade Imobiliária, S.A. |
| Efanor Serviços de Apoio à Gestão, S.A. | Imopenínsula - Sociedade Imobiliária, S.A. |
| El Rosal Shopping, S.A. | Imoplamac Gestão de Imóveis, S.A. |
| Emfísico Boavista | Imoponte - Soc. Imobiliária, S.A. |
| Empreend. Imob. Quinta da Azenha, S.A. | Imoresort - Sociedade Imobiliária, S.A. |
| Enerlousado-Recursos Energéticos, Lda. | Imoresultado - Soc. Imobiliária, S.A. |
| Equador & Mendes, Lda | Imosedas - Imobiliária e Serviços, S.A. |
| Espimaia - Sociedade Imobiliária, S.A. | Imosistema - Sociedade Imobiliária, S.A. |
| Estação Viana - Centro Comercial, S.A. | Imosonae II |
| Estevão Neves - SGPS, SA | Impaper Europe GmbH & Co. KG |
| Euroresinas - Indústrias Químicas, S.A. | Implantação - Imobiliária, S.A. |
| Farmácia Seleção, S.A. | Infofield - Informática, S.A. |
| Fashion Division Canárias, SL | Infosystems - Sociedade de Sistemas de Informação, S.A. |
| Fashion Division, S.A. | Infratroia, EM |
| Feneralt-Produção de Energia, ACE | Inparsa - Gestão Galeria Comercial, S.A. |
| Filmes Mundáfrica, SARL | Inparvi SGPS, S.A. |
| FINSTAR - Sociedade de Investimentos e Participações, SA | Integrum - Energia, SA |
| Fozimo - Sociedade Imobiliária, S.A. | Integrum ACE, SA |
| Freccia Rossa - Shopping Centre S.r.l. | Integrum Colombo Energia, S.A. |
| Friengineering International Ltda | Integrum Engenho Novo - Energia, S.A. |
| Fundação José Berardo | INTEGRUM II - ENERGIA, S.A. |
| Fundo de Invest. Imobiliário Imosede | INTEGRUM III - ENERGIA, S.A. |
| Fundo I.I. Parque Dom Pedro Shop.Center | Integrum Martim Longo - Energia, S.A. |
| Fundo Invest. Imob. Shopp. Parque D. Pedro | Interlog - SGPS, S.A. |
| Fundo Investimento para Cinema e Audiovisual | Invesauda - Gestão Hospitalar S.A. |
| Gaiashopping I - Centro Comercial, S.A. | Ioannina Development of Shopping Centres, SA |
| Gaiashopping II - Centro Comercial, S.A. | Isoroy SAS |
| 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 |
| Guimarãeshopping - Centro Comercial, S.A. | Libra Serviços, Lda. |
| Harvey Dos Iberica, S.L. | Lidergraf - Artes Gráficas, Lda. |
| Hercos Consultoria de Riscos e Corretora de Seguros Ltda | Loop5 Shopping Centre GmbH |
| HighDome PCC Limited | Loureshopping - Centro Comercial, S.A. |
| Iberian Assets, S.A. | Lusitânia - Companhia de Seguros, SA |
| Igimo - Sociedade Imobiliária, S.A. | Lusitânia Vida - Companhia de Seguros, SA |
| Iginha - Sociedade Imobiliária, S.A. | Luz del Tajo - Centro Comercial S.A. |
| Imoareia - Invest. Turísticos, SGPS, S.A. | Luz del Tajo B.V. |
| Imobiliária da Cacela, S.A. | Madeirashopping - Centro Comercial, S.A. |
| Imoclub - Serviços Imobiliários, S.A. | Maiashopping - Centro Comercial, S.A. |
| Imoconti - Soc. Imobiliária, S.A. | Maequipa - Gestão Florestal, S.A. |
| Imodivor - Sociedade Imobiliária, S.A. | Mainroad - Serviços em Tecnologias de Informação, S.A. |
| Imoestrutura - Soc. Imobiliária, S.A. | Marcas do Mundo - Viag. e Turismo Unip, Lda |
| Imoferro - Soc. Imobiliária, S.A. | Marcas MC, ZRT |
| Imohotel - Emp. Turist. Imobiliários, S.A. | Marina de Tróia S.A. |



RELATED PARTIES

| | |
|---|--|
| 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 Éboli B.V. |
| MDS Consultores, S.A. | Plaza Éboli - Centro Comercial S.A. |
| MDS Corretor de Seguros, S.A. | Plaza Mayor Holding, SGPS, SA |
| MDS Malta Holding Limited | Plaza Mayor Parque de Ocio 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. | Plysortol, 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 International 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 Deustchland Gmbh | Project Sierra 6 BV |
| PantheonPlaza BV | Project Sierra 7 BV |
| Paracentro - Gest.de Galerias Com., S.A. | Project Sierra 8 BV |
| Pareuro, BV | Project Sierra 9 BV |
| Park Avenue Develop. of Shop. Centers S.A. | Project Sierra Brazil 1 B.V. |
| Parque Atlântico Shopping - C.C., S.A. | Project Sierra Charagionis 1 S.A. |
| Parque D. Pedro 1 B.V. | Project Sierra Four, SA |
| Parque D. Pedro 2 B.V. | Project Sierra Germany Shop. Center 1 BV |
| Parque de Famalicão - Empr. Imob., S.A. | Project Sierra Germany Shop. Center 2 BV |
| Parque Principado SL | Project Sierra Spain 1 B.V. |
| Pátio Boavista Shopping Ltda. | Project Sierra Spain 2 - Centro Comer. S.A. |
| Pátio Campinas Shopping Ltda | Project Sierra Spain 3 - Centro Comer. S.A. |
| Pátio Goiânia Shopping Ltda | Project Sierra Spain 3 B.V. |
| Pátio Londrina Empreend. e Particip. Ltda | Project Sierra Spain 6 B.V. |
| Pátio Penha Shopping Ltda. | Project Sierra Spain 7 B.V. |
| Pátio São Bernardo Shopping Ltda | Project Sierra Three Srl |
| Pátio Sertório Shopping Ltda | Project Sierra Two Srl |



RELATED PARTIES

| | |
|--|--|
| Promessa Sociedade Imobiliária, S.A. | Sierra Developments, SGPS, S.A. |
| Prosa – Produtos e serviços agrícolas, S.A. | Sierra Enplanta Ltda |
| Público – Comunicação Social, S.A. | Sierra European R.R.E. Assets Hold. B.V. |
| Puravida – Viagens e Turismo, S.A. | Sierra GP Limited |
| Racionaliz. y Manufact. Florestales, S.A. | Sierra Investimentos Brasil Ltda |
| RASO - Viagens e Turismo, S.A. | Sierra Investments (Holland) 1 B.V. |
| RASO, SGPS, S.A. | Sierra Investments (Holland) 2 B.V. |
| Rio Sul – Centro Comercial, S.A. | Sierra Investments Holding B.V. |
| River Plaza Mall, Srl | Sierra Investments SGPS, S.A. |
| River Plaza, BV | Sierra Management Germany GmbH |
| Rochester Real Estate, Limited | Sierra Management Italy S.r.l. |
| Ronfegen-Recursos Energéticos, Lda. | Sierra Management Romania, Srl |
| RSI Corretora de Seguros Ltda | Sierra Management Spain – Gestión C.Com.S.A. |
| S.C. Microcom Doi Srl | Sierra Management, SGPS, S.A. |
| Saphety – Transacciones Electronicas SAS | Sierra Portugal, S.A. |
| Saphety Brasil Transações Eletrônicas Ltda. | SII – Soberana Invest. Imobiliários, S.A. |
| Saphety Level – Trusted Services, S.A. | SIRS – Sociedade Independente de Radiodifusão Sonora, S.A. |
| Saúde Atlântica – Gestão Hospitalar, S.A. | SISTAVAC, S.A. |
| SC – Consultadoria, S.A. | SKK – Central de Distr., S.A. |
| SC – Eng. e promoção imobiliária,SGPS, S.A. | SKK SRL |
| SC Aegean B.V. | SKKFOR – Ser. For. e Desen. de Recursos |
| SC Assets SGPS, S.A. | Sociedade de Construções do Chile, S.A. |
| SC Finance BV | Société de Tranchage Isoroy S.A.S. |
| SC Mediterraneum Cosmos B.V. | Socijofra – Sociedade Imobiliária, S.A. |
| SC, SGPS, SA | Socioloures – Soc. Imobiliária, S.A. |
| SCS Beheer, BV | Soconstrução BV |
| SDSR - Sports Division 2, S.A. | Sodesa, S.A. |
| Selfrio,SGPS, S.A. | Soflorin, BV |
| Selifa – Empreendimentos Imobiliários, S.A. | Soira – Soc. Imobiliária de Ramalde, S.A. |
| Sempre à Mão – Sociedade Imobiliária, S.A. | Solinca - Eventos e Catering, SA |
| Sempre a Postos – Produtos Alimentares e Utilidades, Lda | Solinca - Health and Fitness, SA |
| Serra Shopping – Centro Comercial, S.A. | 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. | SOLSWIM-Gestão e Expl. Equip. Aquáticos,SA |
| SGC, SGPS, SA | Soltroia – Imob.de Urb.Turismo de Tróia, S.A. |
| Shopping Centre Parque Principado B.V. | Somit Imobiliária |
| Siaf – Soc. Iniciat.Aprov.Florestais - Energia, S.A. | SONAE - Specialized Retail, SGPS, SA |
| SIAL Participações Ltda | Sonae Capital Brasil, Lda |
| Sierra Asia Limited | Sonae Capital,SGPS, S.A. |
| Sierra Asset Management – Gest. Activos, S.A. | Sonae Center II S.A. |
| Sierra Berlin Holding BV | Sonae Center Serviços, S.A. |
| Sierra Central S.A.S | Sonae com – Sistemas Informação, SGPS, S.A. |
| Sierra Charagionis Develop.Sh. Centre S.A. | Sonae Financial Services, S.A. |
| Sierra Charagionis Propert.Management S.A. | Sonae Ind., Prod. e Com.Deriv.Madeira, S.A. |
| Sierra Corporate Services Holland, BV | Sonae Indústria – SGPS, S.A |
| Sierra Development Greece, S.A. | Sonae Industria de Revestimentos, S.A. |
| Sierra Developments Germany GmbH | Sonae Indústria Manag. Serv, SA |
| Sierra Developments Holding B.V. | Sonae Investimentos, SGPS, SA |
| Sierra Developments Italy S.r.l. | Sonae Novobord (PTY) Ltd |
| Sierra Developments Romania, Srl | Sonae RE, S.A. |
| Sierra Developments Spain – Prom.C.Com.SL | Sonae Retailho Espana – Servicios Gen., S.A. |



RELATED PARTIES

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



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

Transactions For the Six Months Ended on 30 June 2013

| | SALES AND SERVICES RENDERED | SUPPLIED AND EXTERNAL SERVICES | INTEREST INCOME | OTHER OPERATING REVENUES |
|--|-----------------------------------|--------------------------------------|-----------------|--------------------------------|
| SHAREHOLDERS | | | | |
| Banco BPI | 1 | - | (3,244) | - |
| JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES | | | | |
| Big Picture 2 Films | 10 | 1,358 | - | - |
| Distodo | 1 | 340 | - | - |
| Dreamia Holding BV | 168 | - | 102 | - |
| Dreamia SA | 2,248 | 790 | - | - |
| Finstar | 354 | - | - | - |
| Fundo Investimento para Cinema e Audiovisual | 3 | - | - | - |
| Fundação Colecção Berardo | - | 20 | - | - |
| Sport TV | 64 | 29,846 | - | - |
| Upstar | 5,220 | - | 833 | - |
| OTHER RELATED PARTIES | | | | |
| Banco Espírito Santo | - | 18 | (4,813) | - |
| | 8,069 | 32,354 | (2,309) | - |



Balances
at 31 December 2013

| | ACCOUNT RECEIVABLE TRADE | ACCOUNT RECEIVABLE OTHER | ACCOUNT PAYABLE TRADE | ACCOUNT PAYABLE OTHER | ACCRAULS AND DEFERRALS ASSETS | ACCRAULS 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 Audiovis | - | - | - | 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 Espírito Santo | 146,659 | 41,933 | - | 131 | 1,142 | |
| | 243,106 | 41,933 | - | 515 | 1,142 | |



Transactions
For the Six Months Ended on 30 June 2014

| | SALES AND SERVICES RENDERED | SUPPLIED AND EXTERNAL SERVICES | INTEREST INCOME | OTHER OPERATING REVENUES |
|--|-----------------------------------|--------------------------------------|-----------------|--------------------------------|
| SHAREHOLDERS | | | | |
| Banco BPI | - | 10 | (2,295) | - |
| Sonaecom | 32 | 71 | - | (17) |
| JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES | | | | |
| Big Picture 2 Films | 6 | 1,807 | - | - |
| Distodo | - | 97 | - | 1 |
| Dreamia Holding BV | 168 | - | 114 | - |
| Dreamia SA | 1,752 | 28 | - | 282 |
| Finstar | 331 | - | - | - |
| Mstar | 5 | - | - | - |
| Sport TV | 87 | 23,977 | - | 2 |
| Upstar | 3,715 | (229) | 119 | 218 |
| ZAP Media | 114 | - | - | - |
| OTHER RELATED PARTIES | | | | |
| Continente Hipermercados | 144 | 26 | - | - |
| Digitmarket | 20 | 573 | - | - |
| Mainroad | 174 | 1,545 | - | 515 |
| MAXMAT | 102 | - | - | - |
| MDS-Corrector Seguros | 104 | 60 | - | - |
| Modalfa | 113 | - | - | - |
| Modelo Continente Hipermercados | 1,890 | (252) | - | 81 |
| Raso - Viagens e Turismo | 62 | 963 | - | 1 |
| Saphety Level | 49 | 293 | - | - |
| Sierra Portugal | 660 | 458 | - | - |
| Sistavac | 102 | 47 | - | - |
| Sonae Center Serviços II | 517 | 33 | - | - |
| Sonae Indústria PCDM | 180 | - | - | - |
| SPINVEST-E-Promoção Imobiliária | - | 134 | - | - |
| Sport Zone | 187 | - | - | - |
| We Do Consulting | 209 | 2,336 | - | - |
| Worten | 2,027 | 1,339 | - | - |
| Other related parties | 817 | 146 | - | 19 |
| | 13,567 | 33,462 | (2,062) | 1,102 |



Balances
at 30 June 2014

| | ACCOUNT RECEIVABLE TRADE | ACCOUNT RECEIVABLE OTHER | ACCOUNT PAYABLE TRADE | ACCOUNT PAYABLE OTHER | ACCRAULS AND DEFERRALS ASSETS | ACCRAULS AND DEFERRALS LIABILITIES |
|--|--------------------------|--------------------------|-----------------------|-------------------------|-------------------------------|------------------------------------|
| SHAREHOLDERS | | | | | | |
| Sonaecom | 31 | - | 93 | - | 458 | 21 |
| JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES | | | | | | |
| Big Picture 2 Films | 6 | - | 296 | - | - | 124 |
| Distodo | 3 | - | 10 | - | - | - |
| Dreamia Holding BV | 2,185 | 600 | - | - | 58 | - |
| Dreamia SA | 1,780 | 3,924 | 2,260 | - | 69 | 107 |
| Finstar | 5,055 | 2,007 | - | - | - | 331 |
| Mstar | 1 | - | - | - | - | - |
| Fundo Investimento para Cinema e Audiovisual | - | - | - | 17,500 | - | - |
| Sport TV | 174 | 46 | 20,418 | - | 7 | 3,315 |
| Teliz | (1) | (1) | - | - | - | - |
| Upstar | 6,363 | 717 | 214 | - | 684 | - |
| ZAP Media | 311 | - | - | - | - | - |
| OTHER RELATED PARTIES | | | | | | |
| Digitmarket | 11 | (6) | 607 | - | 209 | (469) |
| Mainroad | 664 | (20) | 262 | - | 19 | 12 |
| Modelo Continente Hipermercados | 777 | 6 | 137 | 4 | 359 | 82 |
| Raso - Viagens e Turismo | 32 | - | 178 | - | 48 | 10 |
| Sierra Portugal | 224 | 188 | (362) | 127 | 1,331 | 8 |
| Sonaecenter II | 126 | 5 | 87 | - | 83 | (17) |
| We Do Consulting | 104 | (222) | 477 | - | 305 | 7 |
| Worten | 3,066 | (293) | 372 | 195 | 99 | 1,007 |
| Other related parties | 631 | 41 | 288 | 27 | 522 | (13) |
| | 21,543 | 6,992 | 25,337 | 17,853 | 4,251 | 4,525 |
| | | | | | | |
| | BORROWINGS | FINANCIAL APPLICATIONS | DERIVATIVES ASSETS | DERIVATIVES LIABILITIES | FINANCIAL LEASES | |
| Banco BPI | 155,886 | - | - | - | 133 | - |
| Upstar | - | 42 | - | - | - | - |
| | 155,886 | 42 | - | - | 133 | - |

Additionally, during the six months ended on 30 June 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 (two appeals are pending to the Constitutional Court presented in two proceedings by the C.M Lisboa) 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 and 2012) for carrying on the business of Electronic Communications Services Networks Supplier in the amounts, respectively, of (i) 1,087 thousand euros, 2,325 thousand euros, 3,580 thousand euros and 3,447 thousand euros; (ii) 42 thousand euros, 79 thousand euros, 123 thousand euros and 113 thousand euros; (iii) 55 thousand euros, 109 thousand euros, 169 thousand euros and 156 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: 1/3 in the first year, 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 28.9 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 euro.



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 June 2014, damages charged but not received by NOS, SA, NOS Madeira and NOS Açores amount to a total of 107,872 thousand euros. In the six months ended 30 June 2014 were received and recorded in the income statement 3,145 thousand euros.

34.8. Interconnection Tariffs

At 30 June 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 June 2014, the unvested plans are:

| | NUMBER OF SHARES |
|----------------------|------------------|
| SENIOR PLAN | |
| Plan - 2012 | 154,894 |
| Plan - 2013 | 166,283 |
| STANDARD PLAN | |
| Plan - 2009 | 604 |
| Plan - 2010 | 65,039 |
| Plan - 2011 | 135,538 |
| Plan - 2012 | 197,344 |
| Plan - 2013 | 263,951 |
| OPTIMUS PLAN | |
| Plan - 2011 | 4,327 |
| Plan - 2012 | 1,516,207 |
| Plan - 2013 | 1,172,506 |



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

| | SENIOR PLAN | STANDARD PLAN | PLANO OPTIMUS |
|--|-------------|---------------|---------------|
| BALANCE AS AT 31 DECEMBER 2013 | 583,000 | 921,859 | 4,041,865 |
| MOVEMENTS IN THE YEAR: | | | |
| Vested | (185,835) | (306,937) | (1,609,627) |
| Cancelled / elapsed / corrected ⁽¹⁾ | (75,988) | 47,554 | 260,802 |
| BALANCE AS AT 30 JUNE 2014 | 321,177 | 662,476 | 2,693,040 |

(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 June 2014, the outstanding responsibility related to these plans is 9,350 thousand euros and is recorded in reserves.

The costs recognised in previous years and in the semester ended at 30 June 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 six months | (8,563) |
| Costs recognised in the six months and others | 3,616 |
| TOTAL COST OF THE PLANS (REGISTERED IN RESERVES) | 9,350 |

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

36. Subsequent Events

Until the approval of this document, no 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 30-06-2014 | EFFECTIVE 30-06-2014 |
| NOS, SGPS, S.A. | Lisbon | Management of investments | | | | |
| Be Artis – Concepção, 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 Espanha, 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% |
| NOS Açores Comunicações, S.A. | Ponta Delgada | Distribution of television by cable and satellite and operation of telecommunications services in the Azores area | NOS SA | 84% | 84% | 84% |
| NOS Communications S.à.r.l | Luxembourg | Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related | NOS | - | 100% | 100% |
| NOS Comunicações, S.A. (a) | Maia | Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialisation of products and equipments of electronic communications | NOS | 100% | 100% | 100% |
| NOS Lusomundo Audiovisuais, S.A. | Lisbon | Import, distribution, commercialization and production of audiovisual products | NOS | 100% | 100% | 100% |
| NOS Lusomundo Cinemas, S.A. | Lisbon | Movies exhibition and commercialization of other public events | NOS | 100% | 100% | 100% |
| NOS Lusomundo TV, Lda. | Lisbon | Movies distribution, editing, distribution, commercialization and production of audiovisual products | ZON Audiovisuais SGPS S.A. | 100% | 100% | 100% |
| NOS Madeira Comunicações, S.A. | Funchal | Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area | NOS SA | 78% | 78% | 78% |
| NOS PUB, Publicidade e Conteúdos, S.A. | Lisbon | Commercialization of cable tv contents | Televisão por Cabo | 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. | Amstelveen | Management of group financing activities | NOS | 100% | 100% | 100% |
| ZON Audiovisuais, SGPS S.A. | Lisbon | Management of investments | NOS Audiovisuais | 100% | 100% | 100% |
| ZON Cinemas, SGPS S.A. | Lisbon | Management of investments | NOS Cinemas | 100% | 100% | 100% |
| ZON FINANCE B.V. | Amsterdam | Management of group financing activities | NOS SA / NOS | 100% | 50% / 50% | 100% |
| ZON Televisão por Cabo, SGPS, S.A. | Lisbon | Management of investments | NOS SA | 100% | 100% | 100% |
| ZON TV Cabo Portugal, S.A. (a) | Lisbon | Distribution of television by cable and satellite and operation of telecommunications services | NOS | 100% | - | - |

a) During the six months ended at 30 June 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..



B) Associated Companies

| COMPANY | HEAD OFFICE | ACTIVITY | SHARE HOLDER | PERCENTAGE OF OWNERSHIP | | |
|--|-------------|---|----------------------------|-------------------------|----------------------|-------------------------|
| | | | | EFFECTIVE 31-12-2013 | DIRECT 30-06-2014 | EFFECTIVE 30-06-2014 |
| Big Picture 2 Films, S.A. | Oeiras | Import, distribution, commercialization and production of audiovisual products | ZON Audiovisuais SGPS S.A. | 20.00% | 20.00% | 20.00% |
| Canal 20 TV, S.A. | Madrid | Production, distribution and sale of contents rights for television films | NOS | 50.00% | 50.00% | 50.00% |
| Distodto - Distribuição e Logística, Lda. ("Distodto") | Lisbon | Stocking, sale and distribution of audiovisuals material | NOS Audiovisuais | 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% | 100.00% | 100.00% |
| 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 30-06-2014 | EFFECTIVE 30-06-2014 |
| Dreamia Holding B.V. | Amsterdam | Management of investments | ZON Audiovisuais SGPS S.A. | 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. | 0.00% | 30.00% | 30.00% |
| FINSTAR - Sociedade de Investimentos e Participações, S.A. | Luanda | Distribution of television by satellite, operation of telecommunications services | Teliz Holding B.V. | 30.00% | 30.00% | 30.00% |
| MSTAR, SA | Maputo | Distribution of television by satellite, operation of telecommunications services | NOS | 30.00% | 30.00% | 30.00% |
| 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 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 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 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 | - | 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 30-06-2014 | EFFECTIVE 30-06-2014 |
| 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.



Limited Review Report Prepared by Auditor Registered in CMVM



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Limited Review Report on the Half Year Consolidated Financial Information Prepared by an Auditor Registered with the Securities Market Commission (CMVM)

(Translation of a report originally issued in Portuguese)

Introduction

1. In accordance with the Portuguese Securities Market Code (CVM), we present our limited review report on the consolidated financial information included in the Management Report and in the consolidated financial statements of NOS, S.G.P.S., S.A., for the six month period ended 30 June 2014, comprising of: the consolidated statement of financial position (which shows total assets of 2.871.330 thousand Euros and total equity holders of 1.033.644 thousand of Euros, including a consolidated net profit attributable to equity holders of the parent of 43.676 thousand Euros), the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, and the notes.
2. The amounts in the consolidated financial statements, as well as those in the additional financial information, are extracted from the respective accounting records of the companies included in the consolidation, subsequently adjusted in the consolidation process as disclosed in the Note 2 to the consolidated financial statements.

Responsibilities

3. The Company's Board of Directors is responsible for:
 - (a) the preparation of consolidated financial information which present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated shareholder's equity and the consolidated cash flows;

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Contribuinte N.º 505 988 283 - C. P. Comercial de Lisboa sob o mesmo número - Sede: Av. da Repúblca, 90 - 6.º - 1600-206 Lisboa
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- (b) the preparation of historical financial information in accordance with International Financial Reporting Standards as adopted by the European Union, for the Interim Financial Reporting (IAS 34) and which is complete, true, current, clear, objective and licit, as required by the CVM;
- (c) the adoption of appropriate accounting policies and criteria;
- (d) the maintenance of appropriate systems of internal control; and
- (e) informing of any significant matters which have influenced the activity, financial position or results.

4. Our responsibility is to verify the financial information included in the documents referred to above, namely if it is complete, true, current, clear, objective and licit, as required by the CVM, for the purpose of issuing an independent and professional report based on our work.

Scope

5. Our work was performed with the objective of obtaining moderate assurance about whether the financial information referred to above is free from material misstatement. Our work was performed in accordance with the technical standards and directives of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas") planned according to the objective, and consisted:

- a) principally of enquiries and analytical procedures to review:
 - (i) the reliability of the assertions included in the financial information;
 - (ii) the appropriateness of the accounting principles adopted, considering the circumstances, and their consistency;
 - (iii) the appropriateness, or not, of the going concern principle;
 - (iv) the presentation of the consolidated financial information; and
 - (v) as to whether the consolidated financial information is complete, true, current, clear, objective and licit; and
- b) of substantive tests of unusual significant transactions.

6. Our work also included the verification of the consistency of the consolidated financial information included in the Management Report with the remaining documents referred to above.



7. We believe that the work carried out provides a reasonable basis for the issue of this Limited Review Report on the half year consolidated financial information.

Conclusion

8. Based on the work, which was performed with the objective of obtaining a moderate level of assurance, nothing has come to our attention that causes us to believe that the consolidated financial information for the six month period ended 30 June 2014 of NOS, S.G.P.S., S.A., is not free from material misstatements that affect its conformity with the International Financial Reporting Standards as adopted by the European Union for Interim Financial Reporting (IAS 34), and that is not complete, true, current, clear, objective and licit.

Report on other requirements

9. Based on the work, nothing has come to our attention that causes us to believe that the consolidated financial information included in the Management Report is not consistent with the consolidated financial information for the period.

Porto, 30 July 2014

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas (nº 178)
Represented by:

(signed)

Ricardo Filipe de Frias Pinheiro (ROC nº 739)

6

Statement under the terms of Article 246, Paragraph 1, c), of the Securities Code

In accordance with Article 246, paragraph 1, c) of the Securities Code, the Board of Directors of NOS, SGPS, SA, whose name and roles are listed below, declare that, to their knowledge:

- a) The first half 2014 accounts, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, **the company's financial** situation and results, as well as those of the companies included in its consolidation perimeter;
- b) The management report faithfully portrays the important events occurred in First Half 2014 and its impact on the accounts and, when applicable, contains a description of the main risks and uncertainties for the following six months.

Jorge Brito Pereira
(Chairman of the Board of Directors)

Miguel Nuno Santos Almeida
(Chairman of the Executive Committee)

José Pedro Faria Pereira da Costa
(Member of the Executive Committee)

Miguel Veiga Martins
(Member of the Executive Committee)

Manuel Ramalho Eanes
(Member of the Executive Committee)

André Nuno Malheiro dos Santos Almeida
(Member of the Executive Committee)

Ana Paula Garrido de Pina Marques
(Member of the Executive Committee)



Ângelo Gabriel Ribeirinho dos Santos Paupério
(Member of the Board of Directors)

António Bernardo Aranha da Gama Lobo Xavier
(Member of the Board of Directors)

António Domingues
(Member of the Board of Directors)

Catarina Eufémia Amorim da Luz Tavira
(Member of the Board of Directors)

Fernando Fortuny Martorell
(Member of the Board of Directors)

Isabel dos Santos
(Member of the Board of Directors)

Joaquim Francisco Alves Ferreira de Oliveira
(Member of the Board of Directors)

Lorena Solange Fernandes da Silva Fernandes
(Member of the Board of Directors)

Maria Cláudia Teixeira de Azevedo
(Member of the Board of Directors)

Mário Filipe Moreira Leite da Silva
(Member of the Board of Directors)

Rodrigo Jorge de Araújo Costa
(Member of the Board of Directors)

