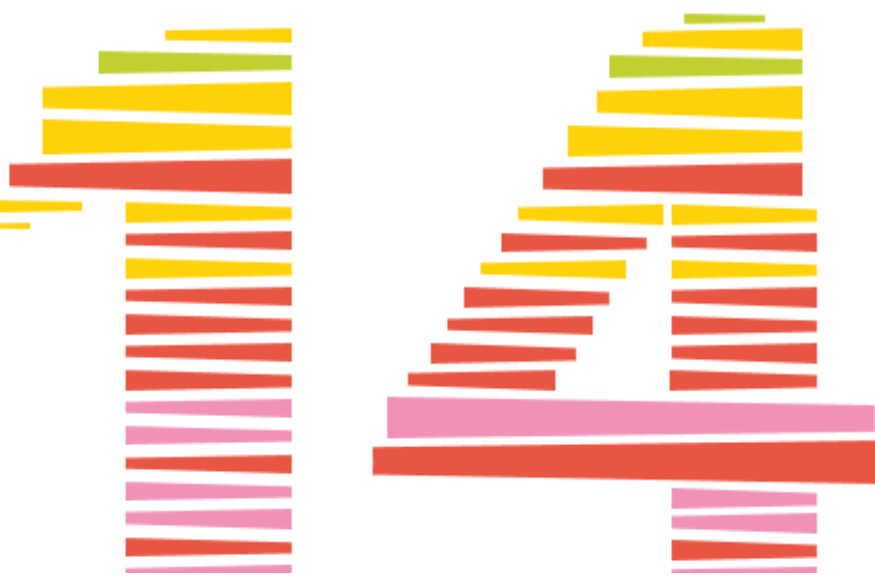




# Consolidated Management Report



# Consolidated Management Report

## 2014 NOS

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# Management Report



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# Introduction



# Message from the CEO

The past year has been a remarkable one. A review of the many milestones that we have achieved and surpassed is evidence that we are on the right track and encourages us to keep up the intense pace of growth and continuous innovation.

Against a challenging backdrop, NOS has reinforced its leadership position in innovation and service delivery, in the quality and coverage of its next generation network and in its range of convergent and integrated service offers for both the consumer and business segments.

This has been achieved in the midst of a merger. We have successfully integrated the teams from two organizations with minimal turbulence or cultural shocks and have established the foundations of a new culture – a culture of leadership and ambition.

Our new brand, NOS, was born in May 16 in a campaign that has proven to be one of the most successful brand launches ever in the Portuguese market with almost 100% brand awareness after just six months and more than 90% association of the new brand with all core service territories.

Business continuity was secured with very marginal impact on service quality; we implemented a completely new market approach based on a radically different mix of products and service offers and we have built a reputation in the business market with a leading brand image recognized by all stakeholders.

We have achieved very significant operational results across all of our strategic growth axes which has led to growth in market share of RGUs of more than 1p.p.. I would like to highlight in particular the growth in the convergent customer base to over 385 thousand subscribers which already represent almost 30% of our customer base, the very material increase in mobile subscribers of more than 12% driving market share growth of close to 2.5p.p., the reversal of the negative trend in the Pay TV subscriber base with a return to net growth in the last quarter of the year, the very important flagship accounts won in the corporate segment.

In our audiovisuals and cinema business, we kept a strong focus on business development and service excellence and despite a negative trend in revenues, in line with lower box-office sales around the world, we posted very good relative performance in our domestic market, sustaining our leading market share in both cinema sales and distribution.

Operational progress throughout the year is reflected in sequential quarterly improvement in financial performance. In 2014, revenues declined by 3%, however, by 4Q14, the yoy decline had reduced to well under 1%. The strategic focus on achieving RGU and market share growth led to a natural deterioration in operational margin (EBITDA) due to increased commercial and growth related costs and investment, however sequential quarterly performance was again positive and the trend will continue to improve throughout the coming year.

A further measure of market recognition of our performance and strategy is that we successfully renegotiated the terms and costs of some of our debt facilities and by the end of the year had significantly reduced our cost of funds.

The numerous objectives and milestones achieved during 2014 demonstrate our strong execution capabilities and that we have established the right growth strategy to reinforce competitive position in our core domestic markets. We have already made significant investments to support that growth, which has resulted in reinforced market share and competitive position, and I am very confident that we have the best assets and team in place to continue to support our future growth ambitions.



NOS is the result of the merger of ZON and OPTIMUS, completed on August 27, 2013, the new management team having been elected on October 1.

NOS is presently a major player in the Portuguese telecommunications market, with Operating Revenues of about €1,400 million, more than 3.6 million mobile customers, around 1.5 million Pay TV subscribers and Fixed Voice customers, and approximately 1 million fixed broadband customers, totalling more than 7.6 million RGUs (of which more than 1.8 million are currently convergent RGUs).

The merger of ZON and OPTIMUS in August 2013 leveraged the results of both companies individually, strengthening their combined position in the domestic market and reinforcing their growth ambitions. The strategy set is one of strong growth and consolidation of the competitive position in the domestic market. It was defined on the basis of a combination of complementing infrastructure, greater distribution capacity, human and financial resources, and a strong potential to generate synergies.

In short, NOS is currently a Group with the capacity to invest and foster its competitiveness and that of the telecommunications industry, to generate shareholder value and to create new opportunities for its employees, customers and suppliers. A new group able to foster a sustainable growth strategy, internationalisation and efficient management, in which sharing the experience and know-how of its teams will be a decisive and fundamental factor.

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

The launch of NOS embodies the integration of all telecommunications and entertainment needs into a single, convergent point of access, based on a customer experience of total commitment and excellence. NOS was born to provide the best telecommunications and entertainment experience for everyone, everywhere, for all services, contents, devices and platforms, from television to mobile, including the Internet, telephone, cinema and convergence. The brand name focuses on the needs of a world that increasingly works in network and collaboratively.

With the launch of NOS, the teams can now focus fully on increasing sales efforts and on restructuring the operations of the entity created by the merger. All operational and commercial efforts are now directed at a single brand. To date, the results of the launch of the new brand are well above expectations with a brand awareness of nearly 100%, and association of the NOS brand with all the core services standing at more than 90%.

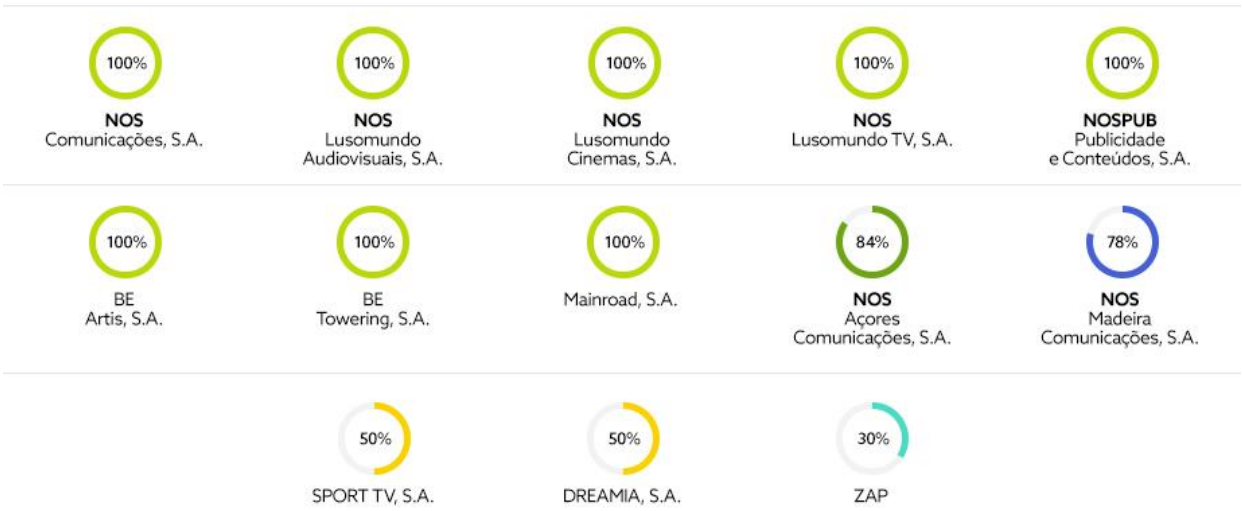
NOS has a unique set of assets that provides an extremely solid platform for its growth ambitions: our network is the most modern, in terms both of coverage and of capacity; our Pay TV offer is the most advanced, with unique features and the best user interface; and our offers tear down the barriers of the network effect.



NOS



# Companies and Businesses



## **NOS Comunicações**

NOS Communications offers latest generation fixed and mobile solutions for television, Internet, voice and data for all market segments - Residential, Personal, Business and Wholesale, and is leader in Pay TV, New Generation Broadband services and in cinema distribution and exhibition in Portugal.

NOS is an operator with convergent multi-device product offers, whose key primary goal is to provide a good user experience across the whole country. It combines the TV interface, IRIS, which has been recognised nationally and internationally by being awarded various prizes and which offered the first automatic recording system on the market, with the fastest broadband speeds (360 Mbps), better coverage (including the biggest Wi-Fi network in Portugal and in the world) and unlimited 4G mobile services across all networks.

## **NOS Lusomundo Audiovisuais**

NOS Audiovisuais operates in the audiovisual distribution market, either in Portugal as well as in the Portuguese speaking countries, namely Angola and Mozambique. It is the leading content provider and it ensures, through the management and acquisition of rights, the distribution of movies and series from independent producers and films from the majors. It holds a wide product catalogue which includes international blockbusters, Portuguese movies and the best of the independent production.

NOS Audiovisuais distributes its products to the cinema, home entertainment (video and digital, such as VOD, SVOD and EST) and TV platforms. In addition to the rights management, NOS Audiovisuais is also a DVD and Blu-Ray editor, securing its wholesale distribution in Portugal and in Portuguese speaking countries.

## **NOS Lusomundo Cinemas**

NOS Lusomundo Cinemas is the portuguese leader in cinema exhibition and alternative content exhibition in movie theatres (live and deferred exhibition of opera, ballet, theatre, football, concerts and other events), becoming the first chain in Europe and one of the first worldwide to become fully digital.

NOS Lusomundo Cinemas also leads in technology, every cinema theatre is digitally enabled with a 2k resolution in 2D, and 86 out of the 210 movie theatres it holds are also 3D enabled.

Having opened its first IMAX theatre in 2013 (Colombo Shopping Centre, with a capacity of around 400 seats), it foresees opening at least two more theatres with this state of the art technology in terms of sound and image.

## **NOS Lusomundo TV**

NOS Lusomundo TV is a programming aggregator on a linear and non-linear model, providing channels and services to other operators. Currently, the company holds in its channel portfolio the TVCine and TVSéries channels, which are a reference in its thematic. These channels are available in Portugal and in Portuguese speaking countries.

Further to the channel production, NOS Lusomundo TV also provides the pioneer subscription VOD service to other operators, which provides access to a wide content offer of a certain thematic, on an on demand format for a fixed monthly rate.

NOS Lusomundo TV also provides encoding technical services and content broadcasting to other operators and channel producers within the domestic market and in Portuguese speaking countries.

## **NOSPUB – Publicidade e Conteúdos**

Under the NOS Publicidade brand, NOSPUB manages a Pay TV advertising business and is market leader in movie, series and kids channels. The company also sells advertising space in movie theatres, both on and off screen.

NOSPUB, Publicidade e Conteúdos, S.A. also provides a number of more innovative advertising solutions such as product placement, sponsoring and complementary online presence related with content wholesale.

## **BE Artis**

BE Artis manages technological assets concerning the design, construction and management of electronic communications networks and their equipment and infrastructures.

## **BE Towering**

BE Towering's activity is the deployment, installation and management of towers and other sites for the roll-out of telecommunications equipment.

## **Mainroad**

Mainroad, leader in IT Outsourcing, is a member of the NOS Group, the most relevant communications and entertainment group in Portugal.

With a full range of IT Managed Services, Cloud Solutions, Business Continuity and Information Security supported in their own Data Centers and redundant services, Mainroad ensures maximum availability of applications, systems and networks that support critical business processes of its customers.

## **NOS Açores**

Headquartered in Ponta Delgada, NOS Azores has its own premises and agents in the nine islands of the archipelago, thus strengthening its commitment towards providing the best consumer service experience by offering the most economic multi-service packages to the people of the Azores. The company is also committed socially to the Region, encouraging the set up of potential local partnerships. By aiming to provide an alternative of excellence with a new, more complete service offering the best prices, NOS Azores contributes not only to broadening the product offer to consumers but also to democratising access to innovative products and solutions based on state of the art technology.

## **NOS Madeira**

NOS Madeira operates in the Autonomous Region of Madeira and provides: television distribution by cable, satellite or any other platform; the development, design and operation of telecommunications businesses and services, including general Internet and telephone services; and also the design, development, operation and provision of advisory, consultancy, training and other services. The company is an electronic communications network operator.

## **Sport TV**

SPORT TV is a sports Premium content TV station which broadcasts the widest choice and the most important domestic and international competitions, live and in exclusive.

Currently, SPORT TV has 5 national channels, all in HD: SPORT.TV 1, SPORT.TV 2, SPORT.TV 3, SPORT.TV 4, SPORT.TV 5 and 3 international channels: SPORT.TV ÁFRICA, SPORT.TV ÁFRICA 2 e SPORT.TV AMÉRICAS. Since August 2013 SPORT TV also provides new services to its subscribers – Multiscreen and Multiroom.

## Dreamia

The Dreamia – Serviços de Televisão, S.A. joint venture, formed and held in equal shares by the two partners NOS (through its subsidiary NOS AUDIOVISUAIS) and AMC Networks International - Ibéria, is the result of a strategic partnership for the production of children's, and movies and series channels, aimed at the Portuguese market and at Portuguese-speaking African markets. The company produces four channels:

**Biggs** is the only channel in Portugal specifically oriented for a pre-teenager audience (ages between 8 and 14).

**Panda** is an educational thematic children channel, with a programming grid exclusively dedicated to Portuguese children.

**Hollywood** which broadcasts, every month, 24 hours a day, around 300 movies.

**MOV** broadcasts 24 hours a day and its programming is based on horror, action and sci-fi movies and series

In October 2014, Dreamia reinforced its position as the main subscription channels producer in Portugal, with the launch of a new action channel **Blast**, which was integrated in the offer of ZAP, a Pay TV operator for Angola and Mozambique.

## ZAP

The ZON OPTIMUS international operation in Angola and Mozambique is a joint venture owned 30% by ZON OPTIMUS and 70% by SOCIP - Sociedade de Investimentos e Participações, SA (wholly owned by Mrs. Isabel dos Santos), with a view to developing a Pay TV offering by satellite. NOS has thus taken the first step in a wider strategy to develop its business in the African continent.

NOS has leveraged its leadership position in content production and distribution in Portugal by selling its own channels to the Angolan market, as well as those produced through joint-ventures. Focus has been put on the strength of the large number of channels in Portuguese, HD content and the innovative functionalities of the set top box.

# Strategy

The core focus of NOS' strategy is to grow its competitive position in the Portuguese market. Convergence is a key driver of market dynamics and NOS' very strong market position today and its unique set of assets and competencies are ideal to leverage that opportunity. Our strategic ambition to grow is supported by best-in-class efficiency and exceptional levels of execution that will drive margin growth and increased cash flow generation while maintaining a strong balance sheet. This will also enable us to seek opportunistic international growth opportunities or to increase shareholder remuneration.

The key levers of growth in the consumer segment - residential and personal - are to accelerate and promote convergence, consolidate leadership in Pay TV and increase competitiveness in the personal segment. We are extending our convergent offers to more segments of the fixed market and will continue to develop innovative features that strengthen the convergent value proposition. Our leadership in Pay TV will be consolidated by further expansion of our HFC and FTTH footprint, leading to an increase in our addressable market, and thus increasing our customer acquisition capacity in areas covered by our network. In addition, we are strengthening the value proposition of our DTH offers, through convergence with mobile technologies to provide more competitive and appealing service offers. Within the mobile personal segment, our aim is to increase competitiveness by promoting all-net tariff plans, and by exploiting the disruptive mobile data and social network opportunities.

In the Business segment, the core guidelines to achieve market share growth are to reinforce our integrated position in SOHOs and SMEs, and to position NOS as a credible alternative for large companies. We promote cross-selling of services over the NOS' customer base, reinforce the portfolio of fully convergent products and services for business customers, complementing our offers with ICT, Cloud and managed services.

Our strategic growth ambitions are enabled by our unmatched positioning and superior delivery capabilities. In 2014 we launched a leading, single brand, "NOS", designed to lead in ubiquitous communications, entertainment and productivity for consumers and businesses. Our value proposition is unique, providing the best convergent communications, entertainment and productivity services and the best customer experience characterized by simplicity, availability, performance and quality. Product superiority through innovation leadership, Next Generation fixed and mobile platforms and an unmatched track-record in customer service are core differentiating capabilities that will continue to be reinforced.

# 2014 Main Events

08 JAN	OPTIMUS ALIVE voted by Gigwise as one of the best top 10 Festivals in 2014
17 JAN	Movies distributed by ZON Audiovisuais receive 64 Oscar nomination
05 FEB	Launch of Cloud based Video Surveillance solution
27 FEB	2013 Earnings Announcement
28 FEB	"Strategy Day" - Strategy Announcement to the market Design M&P' 13 Awards: Optimus D'Bandada received two awards and receives honors
01 APR	ZON's Triple Play Service is voted the best of the country by the ECSI study
03 APR	Launch of new convergente satellite offers



23 APR	<p>General Shareholders' Meeting</p> <p>IMAX surpasses 100 thousand tickets sold</p>
07 MAY	<p>1Q14 Earnings Announcement</p>
12 MAY	<p>€ 100,000,000 Bond Issuance</p>
16 MAY	<p>Launch of new brand - "NOS"</p>
21 MAY	<p>NOS leads in Customer satisfaction in Portugal</p>
01 JUN	<p>NOS starts providing universal service in Portugal</p>
16 JUN	<p>NOS' Customer service awarded at the 2014 APCC Portugal Best Awards</p>

08 JUL	NOS' Customer service awarded for the 3rd consecutive year at the Contact Center World Awards
23 JUL	NOS innovates with new convergent 5P offer
24 JUL	NOS promotes TV of the future
29 JUL	NOS secures all communication of BPI Bank with a global services offer
30 JUL	1H14 Earnings Announcement
31 JUL	Fórum Algarve cinema theatre are now managed by NOS Lusomundo Cinemas
01 AUG	NOS launches new TV application: Player Youtube

11 AUG	NOS Air Show
10 SEP	NOS inaugurates Convergence and Supervision Centre
22 SEP	NOS accelerates growth with the acquisition of Mainroad
23 SEP	€ 175,000,000 Bond Issuance
28 OCT	NOS mobile network with total 4G coverage in the Azores Islands
04 NOV	NOS initiates investment project in Next Generation Network
05 NOV	9M14 Earnings Announcement NOS is the largest winner in the telecommunications sector of the "Consumer Choice" awards

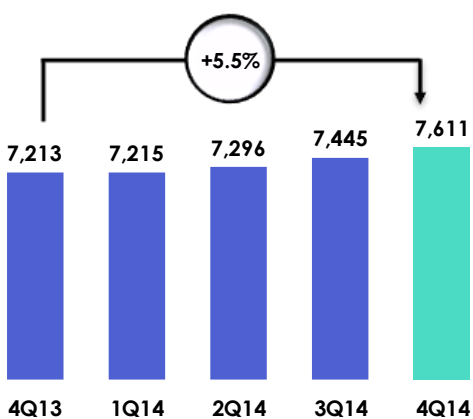
12 NOV	NOS' Festivals stand out in the second edition of the Portugal Festival Awards
18 NOV	NOS has the best Customer Service of the World for the 3rd consecutive year
21 NOV	"NOS Alive" music festival voted Consumer Choice for the third consecutive year
11 DEC	NOS' brand launch distinguished at the Marketing Awards

# 2014 in Numbers

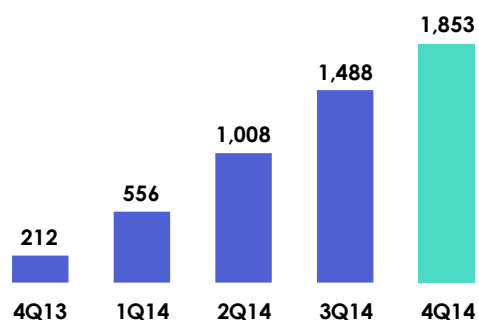
## Operational Highlights

(Thousands, Pro-Forma)

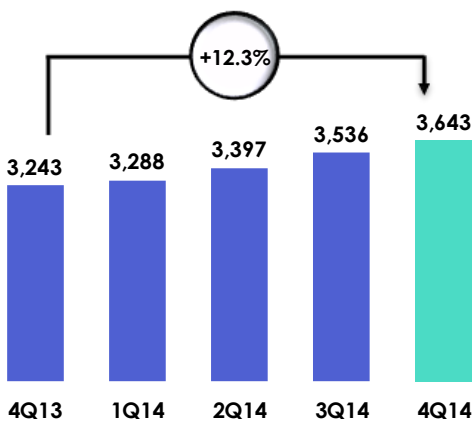
RGUs



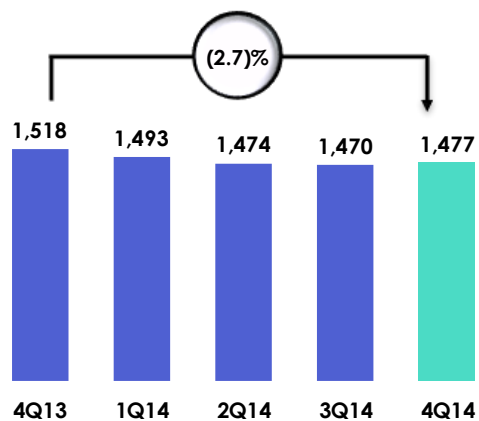
Convergent RGUs



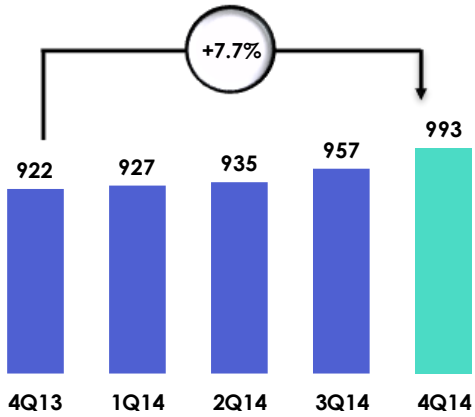
Mobile Subscribers



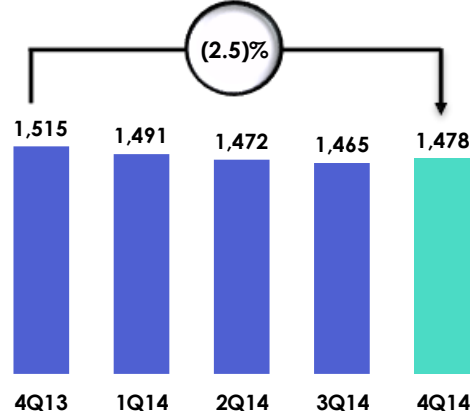
Pay TV



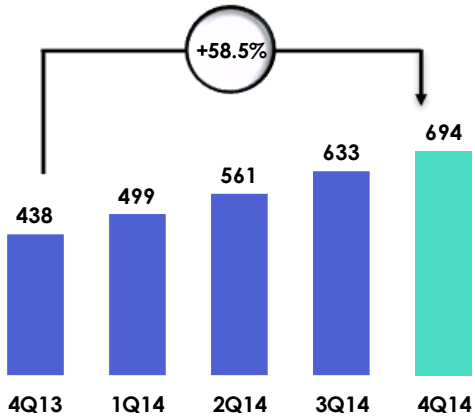
### Fixed Broadband



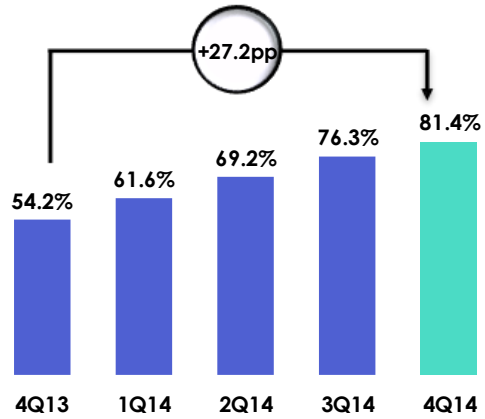
### Fixed Voice



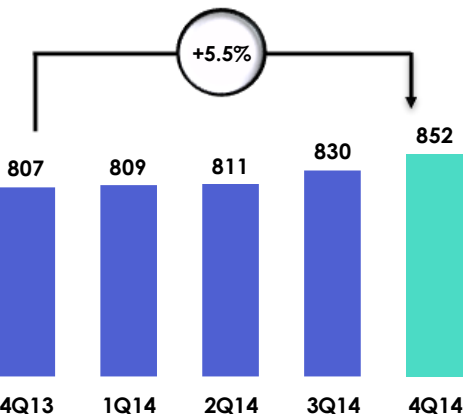
### IRIS Subscribers



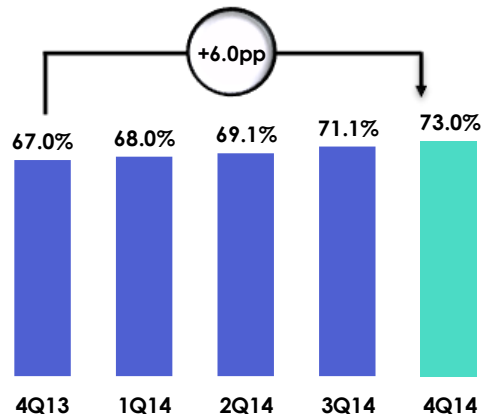
### % of 3,4&5P Subscribers (fixed access) with IRIS



### ,4&5P Subscribers (fixed access)



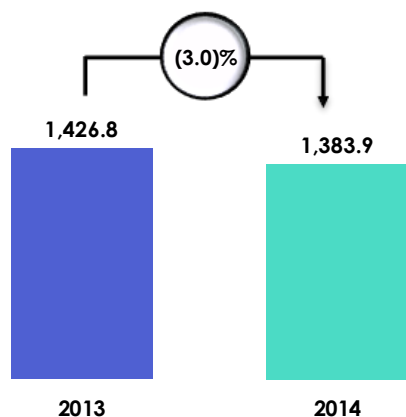
### % of 3,4&5P Subscribers (fixed access)



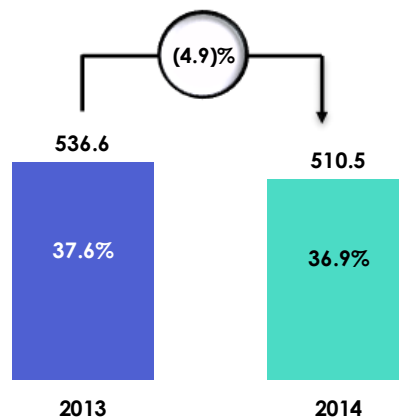
# Financial Highlights

(Thousands, Pro-Forma)

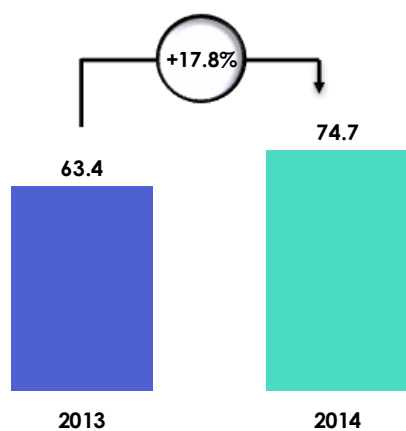
## Operating Revenues



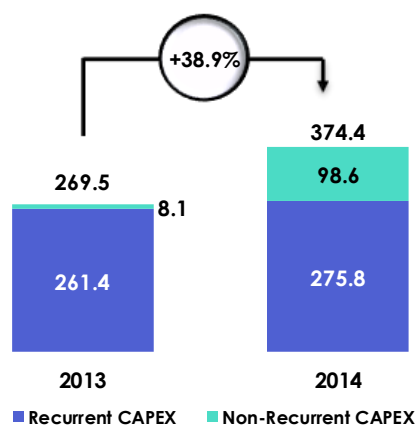
## EBITDA (EBITDA margin as % of revenues)



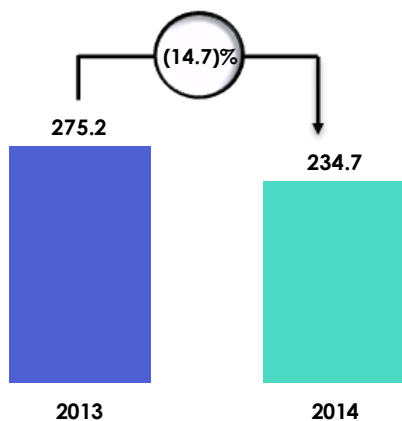
## Net Income



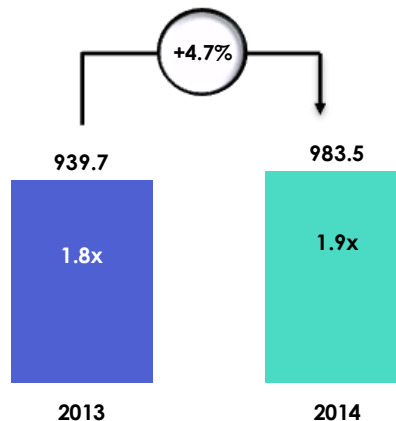
## CAPEX



## EBITDA – Recurrent CAPEX



## Net Financial Debt



# Management Team



## Miguel Almeida Chief Executive Officer

### **Qualifications:**

Degree in Mechanical Engineering by the College of Engineering of the University of Porto and an MBA by INSEAD.

### **Professional Experience:**

Member of the Board of Directors and Executive

Director of Sonaecom, SGPS, S.A.;

CEO of Optimus – Comunicações, S.A.;

Chairman of the Board of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações,

Be Towering – Gestão de Torres de

Telecomunicações and Per-Mar, Sociedade de Construções;

Member of the Board of Directors of PCJ – Público, Comunicação e Jornalismo; Público – Comunicação

Social, Sonaecom – Sistemas de Informação, SGPS,

Optimus, SGPS; of Sontaria Empreendimentos

Imobiliários and WeDo Consulting – Sistemas de Informação.

He was also Executive Board Member of Optimus with responsibility for Marketing and Sales and Head of Marketing of Modelo Continente, SGPS.





José Pedro Pereira da Costa  
**Vice-President**  
**CFO**

**Qualifications:**

Degree in Business Management and Administration by the Portuguese Catholic University and an MBA by INSEAD.

**Professional Experience:**

Executive Member of The Board of Directors – CFO of ZON Multimédia, SGPS;  
Board Member of the Portugal Telecom Group, CFO of PT Comunicações, PT.COM and PT Prime;  
Executive Vice-President of Telesp Celular Participações;  
Member of the Executive Committee of Banco Santander de Negócios Portugal, as Head of Corporate Finance;

Began his professional activity at McKinsey & Company in Portugal and Spain.



Ana Paula Marques  
**Executive Board Member**

**Qualifications:**

Degree in Economics by the College of Economics of the University of Porto and an MBA by INSEAD.

**Professional Experience:**

Executive Board Member of Optimus – Comunicações with responsibility over Residential, Customer Service, Logistics and Handset Management;  
President of APRITEL (Association of the Operators of Electronic Communications).  
Previously Head of Marketing and Sales of the Personal Mobile Business Unit of Optimus. During her time with Optimus she was also Head of Marketing and Communication, as well as Head of The Data Business Unit.

Started her career at the Marketing Department of Procter & Gamble.



## André Almeida

### Executive Board Member

#### **Qualifications:**

Degree in Engineering and Industrial Management by the Superior Technical Institute of Lisbon (IST) and an MBA by INSEAD, Henry Ford II Award.

#### **Professional Experience:**

Executive Member of the Board of ZON TVCabo, ZON Lusomundo Audiovisuais, ZAP Angola and ZAP Moçambique, responsible for Business Development, International Business, Planning and Control and Corporate Finance of ZON Multimédia;  
Executive Board Member of ZON TVCabo responsible for Product and Marketing;  
Head of Business Development of Fixed Business at PT;  
Head of Strategy and Business Development at PT and Head of Project at PT SGPS;  
Associate of The Boston Consulting Group.



## Manuel Ramalho Eanes

### Executive Board Member

#### **Qualifications:**

Degree in Business Management by the Portuguese Catholic University and an MBA by INSEAD.

#### **Experiência Profissional:**

Executive Board Member of Optimus – Comunicações, SA with responsibility over the areas of Corporates and Operators;  
Headed at Optimus the areas of Residential Fixed Business, Central Marketing and Data Services, Personal Sales, Small Businesses and Business Development.

Started his career at McKinsey & Co.

# NOS 2014

# Residential Segment

## Convergence

### 2014 Highlights

The year under review was one of consolidation of the convergent offerings of fixed and mobile services in the Portuguese market, the penetration of the 4P/5P bundles reaching about 29% of households with subscribed packages<sup>1</sup>, a threefold increase of the number of customers who opted for a bundled solution, including mobile and fixed services in single a telecommunications operator.

The convergent offering by NOS made a very good contribution to this movement, its convergent customer base up eightfold last year, to stand at 385 thousand customers in December.

The growth of convergence had a very substantial impact on the mobile market, with the integrated post-paid segment achieving a market share close to 25%, via customers with unlimited mobile and all-net tariffs included in convergent offers. This massive subscription and the excellent performance of NOS in this segment, enabled a significant increase of its share of the mobile market, reaffirming its position as the benchmark operator position in the Mobile Telecommunications market in Portugal.

The impact of these movements towards fixed-mobile convergence was clearly reflected in the profile and typology of the NOS customer databases, with a growing weight of 4P and 5P customers in the Subscription TV and mobile segments. The expectation is that the penetration of these offers in the customer bases will lead to a rate of subscription of package deals never seen in Portugal.

At the base of this massive subscription is an excellent value proposition, and NOS has built a package including its best services, in all fixed and mobile telecommunication segments. NOS Quatro is the best entertainment and communications pack on the market, combining in a single invoice and in a single integrated customer experience the best selection of 3P, anchored on the TV IRIS platform, with the best 4G experience on the NOS mobile network, including 2 mobile cards with practically unlimited calls and SMS and 200 MB of data per card, at a monthly cost of €79.99. Customers can also subscribe to 1 or 2 mobile cards additional to the convergent bundle for only €7.5/month.

The NOS convergent offer underwent major development early in 2014, with the launch of a 4P offer under Satellite technology, allowing, as from last March, bundles to be marketed with all the fixed and mobile telecommunications services, in a single package and with a single invoice throughout the whole of Mainland Portugal. This release – together with 2P/3P packages – in satellite coverage areas where previously it was only possible to provide isolated offers, constituted a giant step towards strengthening and increasing the attractiveness of the offer, having created the conditions for the launch of a new operator, now under the aegis of a single brand – NOS.

The launch of the brand enabled the creation of conditions for all the interest generated by the birth of a new telecommunications operator to be achieved through increased awareness of the convergent offers, supported by the merger of the networks and services.

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<sup>1</sup> Source: Telecommunications Barometer, November 2014

With the increased demand generated by the NOS launch campaign, and with the clear objective of addressing the leadership in the convergent segment, a new type of offer was announced – Quatro Light – with a 3P mainstream service having fewer TV channels, 30 Mbps fixed internet, and only one associated mobile card. This package had a very attractive entry price (€49.99), which led to a strong a large number of subscriptions by 3P homes. Subscriptions were massive both by this customer base, and also by new NOS customers. Following this release, convergent services sales increased sharply compared to the monthly average since their launch, confirming the success of the plan in attracting a great number of new customers and accounting for a significant proportion of customers subscribing to convergent offers.

With the growing sophistication of telecommunications customers, increasingly digital and having greater need for access to data on the move, a new convergent service was launched before the summer – the CINCO – including Mobile Broadband in addition to the 4P services – increasing the offer of data on mobile cards – 500 MB – for a more effective and efficient segmentation.

In September the convergent offer was extended to a different target of the telecommunications market, with the launch of the DOIS and TRÊS packages that included all-net mobile cards, but with a limit on calls and without data. These offers were aimed at increasing the share of the mobile market by adding this service to a number of large customers in the NOS customer base, customers who only subscribed to Subscription TV (1P) or combined it with fixed voice (2P), and did not therefore have the NOS mobile service; in this way they were able to enjoy the advantages provided by the inclusion of all the services under a single operator.

Cinema has always been a high-value asset for the company and has maintained its strategic role at NOS, which due to its attractiveness in general and especially with youngsters enabled the launch of a themed 4P package – Quatro Cinema – providing most cinema-loving customers with a high-value proposition through the addition of cinema tickets and TV Cine channels to the other Telco services, providing the simplicity and convenience of the convergent solutions.

At the year-end the strategy employed at the end of 2013 was resumed, involving investment in an advertising campaign supported by handsets, involving both instalments for the higher values and novelties on entry-level prices in the smartphone category. This focus on communication and provision of handsets, associated with the convergentes customer profile, led to increased penetration of smartphones in the customer base.



## Innovation is IRIS

The role of innovation at NOS is central to the delivery of the services provided by the company and is also a commitment to quality and to meeting the needs of customers – and the most visible face of that commitment is IRIS.

### IRIS: The revolution

Launching a range of triple-play or quadruple-play contents is not enough. The experience must be consistent and harmonised across the various platforms available to the customer.

With IRIS, NOS customers have an interface, a way to use the service and to consume contents that is unique, complete, efficient and a true 'eye candy'. This experience has evolved since its launch in 2011. What was available and marked the market in its most elementary version involved intelligent management of recordings, a smart search engine, a simple and intuitive portal bringing together every aspect of the TV service on a single line and a powerful recommendations engine that makes user experience increasingly individual and adapted to the user. Lastly, for a definitive customisation and due to a number of really innovative offers: a store of premium contents and channels that NOS customers can call: Their TV experience.

### IRIS: My TV

The commitment to customisation of the service was reinforced with features that have changed the market once again:

- Timewarp, the benchmark of content customisation that allows customers to see the programs they like, without being dependent on times – this is a factor determinant to customer satisfaction, one that has earned NOS several awards;

- TV apps, already part of the day-to-day mobile world, are now present in the world of TV. The apps allow access to exclusive contents over and above those typically available via the web, extending access to those contents to an even more universal audience: from the youngest to oldest, from soccer to music, everything is accessible through the remote control;
- The IRIS mobile Apps supplement what can be seen on the Set Top Box with personal contents via IRIS Share, or add control over the service with IRIS Remote – and many more apps will be available in 2015.

### IRIS: An integrated experience

Making IRIS reach every room in Portugal is the result of a network, services, offers and equipment architecture operating in an efficient, complementary and above all entertaining manner. An IRIS installation is also the result of exercises in complementarity and studies to improve service-use experience. The IRIS innovation team has been successful in constantly revolutionising the market with a new integrated experience of access to the services through:

- The IRIS Remote, a truly simple and intuitive remote control;
- The NOS HUB, as the name implies, is the centre of the entire network at the customer's home. Be it wired or wireless, connection to all the equipment at the user's home is provided, securely, by a home gateway created specifically to improve user experience and to simplify sharing among members of the household;

- Because not only at home is there a need for content consumption, NOS WiFi provides access to the Internet and a better experience in access the IRIS apps and sites, at no cost. This service was again a revolution in the market: the Community WiFi;
- The NOS Card provides discounts on various services and stores in the marketplace, in addition to providing access to the country's best cinemas: the NOS Cinemas;
- nPVR, a recording service via any Set Top Box, stores contents in the cloud that are therefore available on all platforms where IRIS is present;
- Download-to-Own, a pioneering service in the Portuguese market, allows customers to buy their favourite films in a solely digital format.

### IRIS: TV everywhere

In the wake of its four years of evolution that began with the Set Top Box, IRIS now goes a great deal further:

- On the Web, with a portal adapted to format of a browser, but with the option to also take the TV portal experience to the Internet, including all contents and customisations;
- On the most popular mobile platforms: Android, iOS and Windows Phone, again with the customised contents on all these platforms.

Today, IRIS really is everywhere, be it via the cable network, fibre, satellite or when you are moving around, via the apps that provide access to the customer's offer portfolio, supported seamlessly by the mobile offering.

### IRIS 2014:

#### The best TV experience, even better

The year under review was another year of exceptional product innovation at NOS. From the user interface, through the presence on more platforms, culminating in raising the level of customisation of the services delivered. Some examples include:

- IRIS Online is now available at the Windows Store for Windows 8 (and later) – the tactile experience was not yet available in Windows and it now is – reaching more customers through access to the contents available at IRIS;
- IRIS Online now has the ability to have Timewarp as well. Seven days of broadcasting are now available on all platforms where IRIS is present, providing added convenience for customers;
- The Timewarp function is now available on another 25 channels, strengthening the NOS leadership in this offer;
- IRIS on the Set Top Box has achieved a unique level of optimisation of the customers' experience. Moving on to the 3.3 version with a clear focus on increasing interactivity with customers, IRIS 3.3 allows more and better recommendations, a simpler interface and fewer steps for customers to find the content they are looking for – an experience that was already customised but has come to be truly unique;
- The Web enters IRIS in force: With one more stride, IRIS provides access to a huge library of videos freely available on the Internet. Through this upgrade, one can now create interactive, personalised channels, the customer's preferred contents via PC, Tablet and Smartphone that now come to be available via the room's large screen: the TV;
- IRIS has been enriched with 26 new apps thought up and designed to meet the content and information needs of the most demanding customers.

The success of the IRIS service can be seen in the exponential growth of use of the service by customers, and, at the end of 2014, the bar of 140 million interactions with the service per day was surpassed.



### IRIS: A prize-winning service

For all the arguments presented earlier, the market experimented, used and expressed satisfaction with IRIS, and, over the years, it has received several awards.

In 2011, the Janus Design Award by the Institut Français du Design and the Best User Interface Award by the TV of Tomorrow Show in San Francisco.

In 2012 the IRIS Online apps also won the Best TV On The Move Service award at the TV Connect Conference in London.

Awarded in 35 countries, the Product of the Year is elected by consumers through market research that evaluates the attractiveness of the service, the level of use and the degree of satisfaction – in 2013 it was awarded to IRIS. It was again awarded in 2014 for the Download-to-Own service.

To crown all the experience of use of the service, NOS won the annual study conducted by Consumer Choice as the favourite provider of Portuguese consumers in 2015 in the Quadruple Play, Mobile Telecommunications and Entertainment & Information categories.





## IRIS Bundles

IRIS, the NOS cloud-based multi-device and multi-screen TV interface is one of the key drivers of the NOS TV and entertainment strategy, currently the default interface of all its offerings.

### IRIS – Performance of the best 3P, 4P and 5P service bundles

The year was one of record growth of IRIS, with 256 thousand net additions, achieving a fixed customer base penetration in 3,4&5P of 81.4%, compared with 54.2% at the end of 2013. IRIS has become the TV service by default of all the NOS offers, its use massified by more than 140 million interactions per day and more than 90 thousand simultaneous streams in peak hours, associated with the TV Timewarp and Restart services.

The highest customer satisfaction and loyalty levels provided by the innovative IRIS interface, combined with the reliability and speed of the Internet Broadband and Fixed and Mobile Voice services led to yet another year of great growth of the IRIS bundles.

The successful launch of the NOS brand also made a major contribution to the growth of 3P and 4P customers, bringing together the Group's offer under a single brand, with direct impact on the performance of commercial channels and on the focus of operational efforts.

The dimension and success of the launch campaign had a positive impact on customer evaluation of the offer and products, seen in an almost 100% brand awareness and a brand association with the core services greater than 90%, reflected in the commercial success of the 3P, 4P and 5P services, the latter by the TV IRIS offer based on the IRIS platform.

### The best TV offer: Channels and Apps

The NOS offer of TV channels continued to evolve during 2014, the aim being to continue to offer the market's best contents. So, in 2014, 16 new channels were added, 6 of which in High Definition. In addition to these, 3 temporary channels were also launched, associated with limited-duration events or programmes.

The channels launched in 2014 constitute an ongoing focus on and investment in Portuguese contents, of which the following are highlighted:

The "TVI Direct" channel is produced by the Media Capital Group (holder of the leading open-access channel in Portugal, TVI), and its aim is to broadcast round the clock images of the reality shows produced by this generalist TV channel. In 2014 it broadcast the 5th edition of Secret Story ("Casa dos Segredos"), allowing NOS customers to follow the reality show that has the biggest audience of Portuguese television.

The Sporting TV channel was a major addition to the offer of channels, reinforcing the focus on and investment in Portuguese contents, bringing to the pay TV landscape the only major Portuguese club that did not yet have its own television channel. Focused on the dissemination of contents related with sports events of Sporting Clube de Portugal, Sporting TV broadcasts live various sports competitions in which the club's athletes or teams take part, as well as information and programmes of a more general nature, related with Sporting Clube de Portugal. Sporting TV channel is available in SD and HD.

As for the temporary channels, emphasis is given to the launch of the NOS Alive channel in SD and HD, and also to the RTP Toca a Todos channel. The NOS Alive channel broadcast directly the NOS Alive festival, sponsored by NOS, strengthening the association between the NOS brand, products and services and music. The RTP Toca a Todos channel resulted from the association between NOS and an RTP solidarity initiative for the purpose of raising funds for the fight against child poverty, which involved the disclosure of NOS through the distribution of the RTP Toca a Todos programme to all its customers.

During 2014 apps were also launched for the IRIS platform on TV to increase the value of the IRIS service for customers and of the TV content through interactive apps, showing how flexible and future-proof the IRIS platform continues to be, maintaining a leadership marked as the best User Interface and best TV experience of the market.

The various launches increased use of apps by IRIS customers, ensuring that at this time more than 50% already access the apps on a recurrent basis:

The Secret Story 5 app launched in parallel with the TVI Direct channel allowed IRIS customers to follow the reality show even more closely, and in a dynamic and interactive way. Through this app customers were able to follow in detail all the movements of competitors, 24 hours a day, choosing one of four cameras installed in the various rooms of the house, or the Multicam function exclusive to NOS that allows all the rooms of the house to be viewed at the same time on the same screen. The TV app also had various contents with information on the competitors as well as news and videos showing the best up-to-the-minute moments of the house.

In sports-related content, the TV Mundial Interativo app was launched, allowing the viewing of the world's most important football competition, providing news, results, statistics and the history of previous World Cups.

Innovation again appeared with the provision of an online mode allowing real-time monitoring of all events during the course of the game.

Based on the same features, August saw the release of the First League app, that allows one to follow the biggest national football competition. With this app, interactivity and personalisation are even greater: users can set their favourite team and bet on the final result, comment on key moments and see the outcome of the game.

The Youtube Player app was one of the most successful releases of the app area, allowing customers to access content available online via their TV conveniently and as part of the entertainment experience. This app made it possible to access, via the big screen, the Youtube channels and online content related to specific TV contents, in particular in several sports programmes.

In addition to the apps directly available via the IRIS platform in the set top box in the customer's home, NOS has increased the range of apps available for its customers through other devices, in particular, the IRIS Online app that allows customers to access the IRIS services on other devices that were made available this year for the Android operating system.

Also in the field of multi-device apps, the NOS Telephone app, exclusive to the market, which allows landline calls to be made via a smartphone, brought about innovations in 2014, allowing users to use it not only on a WiFi network, but on any 3G/4G network.

This year the NOS card has been widely recognised internationally, winning the Contact Center World Awards prizes in the following categories: "Best Loyalty Programme in the EMEA region" in July 2014 and "World's Best Loyalty Programme" in November 2014. The NOS Card is increasingly a fundamental benefit of the NOS offer and one that embodies the commitment to and focus on its customers' loyalty. The NOS Card enables NOS customers to benefit from several exclusive advantages, including offering 2 cinema tickets for the price of 1, which was added to in July with the possibility of its beneficiaries also buying 2 tickets for the NOS Alive festival for the price of 1.

Taking advantage of the good performance of the Subscription TV customer base in the second half (following the dissipation of the effect of the remedies imposed by the Competition Authority within the scope of the merger), of the very considerable value proposition of the NOS offerings released after the birth of a new brand and leveraged by its Next Generation Networks, the Broadband and Fixed Voice customer bases also recorded a significant improvement of their performance both on the HFC platform and on the DTH platform.

In 2014 there were 70.8 thousand net additions to the Fixed Broadband customer base, while the Fixed Voice customer base declined by 37.3 thousand, though in 4Q14 net additions amounted to 13.1 thousand, the first increase since 2Q13 – a significant improvement of the performance, especially in the second half of 2014.

NOS

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## Wireless Technology

### DTH

Satellite business was a field in which the merger clearly showed its potential to generate value and greater capacity to deliver solutions that meet the needs of the market. The combination of satellite technology with 2G (for voice services) and 4G (for data services) technologies allowed a relevant part of the market to be addressed with 2P and 3P package solutions, causing NOS to attract customers not only through market-share gains, but also as a result of the growth of the market itself.

The strategy employed included competitive pricing, no installation costs, and diversity and relevance of the television contents. In the 3P packages the broadband Internet speed – up to 40 Mbps – was also a factor of differentiation compared to the competition in the market not covered by HFC or FTTH networks – possible only due to being supported by a latest-generation 4G network.

The release of this offering was underpinned by a segmented, highly sales-oriented above-the-line communication campaign. Another of the fundamental axes of success was the ability to use existing sales channels, without cannibalising resources of the operations dedicated to the fixed infrastructure, growing these channels to the extent of the possibilities opened up by a broader portfolio generating greater commercial productivity.

The installation and customer service teams were segmented in relation to the fixed-network operations, and were covered by a plan of adjustment to the new reality of the DTH segment.

In fact, over the past few years the DTH customer base had decreased substantially, and not only was this decline halted but it was actually reversed, growing at an increasing pace in almost every month of 2014. Most of that growth was caused by the arrival of new NOS customers, while the up-sell movements seen in the existing customer bases also contributed made a contribution. This segment is thus going through a good period from the point of view of results, not only in terms of the evolution of customer base, but also of the evolution of revenue per customer, in that the introduction of the packaged offerings provides significantly more revenue per customer compared to the revenue generated by the 1P offering portfolio of Subscription TV via satellite.

### Voice

The isolated fixed voice business performed in line with the market trend, which has been reduced by the increased penetration of bundled products.

A positive aspect for this market segment is the increased penetration of fixed telephone service by 1 p.p., through the bundled products, which has resulted in an increase of minutes of traffic, both inbound and outbound.

The strategy followed in this segment was based on maintaining a simple value proposition that entails effective savings for customers who currently pay a subscription for the fixed-voice service, driven by a promotional plan consistent with this stance. Of the 2014 initiatives emphasis is also given to the strong focus on customer-base satisfaction, involving exchange of equipment campaigns which, together with other initiatives, has allowed significant part of the customer base to renew their loyalty.

Also underscored is the significant subscription by this customer base to packaged products, attracting a part of the customers who had Subscription TV services with other operators, providing a very significant increase of revenues.

## Broadband

The year under review was a year of consolidation of the fixed broadband services based on 4G technology, launched under the wÖw brand in April 2013, taking advantage of the excellence of the NOS technological infrastructure. This offer brought innovation to the market and was very well received by consumers, allowing relevant market niches to be explored, and also, above all, to places to be reached where the HFC infrastructure was not available.

It was thus possible to provide almost universal coverage of the territory, including the Azores and Madeira archipelagoes, taking advantage of enlargement of the 4G network in those regions, one of the components of the plan calling for investment in the NOS technological infrastructure throughout 2014.

The value proposition designed for this product remained unchanged throughout the year, continuing its focus on three main benefits – a simple and instant setup, speeds up to 100 Mbps and the possibility to make use of the fixed service in 3 different locations, which the customer himself can configure. Also implemented was a continuous promotional plan, taking advantage of some of the seasonality of this segment, which enabled very good sales performance. As a result, the customer base of this business grew very significantly.

Continuing to focus on innovation and customer satisfaction, new equipment was introduced which, in addition to bringing new features and enabling real-time monitoring of the service, also brought about a greater ability to capture the radio signal, with a direct impact on customer satisfaction. As a result of these and other initiatives, the satisfaction index measured by GfK was 8.1 (C-SAT), comparing very favourably with competing services, based on copper technologies, and with a market in which that indicator stands at 6.7.

# Personal Segment

A record year due to the launch of the new brand and consequent new approach to the market, 2014 was marked in this segment by a thorough review of the value propositions for the customers. The main events in the various areas of activity of this segment are now highlighted.

## Mobile offering

Three new offers were released in 2014, underpinned by multimedia advertising campaigns:

- The new TODOS tariff, directed at a segment that prizes communications with all networks with a low monthly commitment, introduced two innovations relevant to user experience: the transition of unused minutes and SMS to the following months and the possibility of the customer opting between monthly recharges and a monthly bill.
- The new LIVRES tariff for customers having few communication need or prefer solutions with no commitment arises from bringing together the discount and the no mandatory recharge offerings, which now provides the best rate on the market (8 cents per minute), with no minimum recharge obligation.
- The new MAIS tariff, which introduced major alterations to the Tribal segment by replacing the TAG tariff and extending the unlimited communications of the tribal segment to the entire NOS network (fixed and mobile), significantly increasing the attractiveness of the product. For this reason the advertising campaign had as its main message the scope of the benefit: "talk without limit to 5 million of the NOS network".

For high-value customers having intensive communication needs, the SMART tariff continued to have the best proposal of the market, adding free calls to all networks and abundant Internet, and the offer of a data card allowing multi-device use.

The youth segment continued to be a major focus, through an ongoing multimedia communication plan, promotional campaigns and sales initiatives directed at the target market, with concrete results in terms of market-share growth.

A fundamental part of this programme is the WTF tariff, an innovative product, directed at more sophisticated communications and reflected in an offer with unlimited call applications, abundant data (up to 2GB) and a package of minutes/SMS ensuring carefree traditional communications. In 2014 the competitiveness of this tariff was further strengthened by the reduction of monthly subscriptions, introduction of new apps and unlimited SMS to all networks.

All market segments were also targeted by a major focus on management of the customer base, underpinned by a more sophisticated CRM strategy and by several promotional campaigns throughout the year, entailing their progressive adaptation and suiting the means of contact to the customer profiles, thus contributing to greater satisfaction, involvement and lifetime of customers with NOS.

## Mobile internet

In mobile Internet 2014 dictated massification of the fourth generation technology with the conversion of all the prepaid and post-paid Kanguru offering to 4G. In this way customers need just one item of compatible equipment to take advantage of the full potential of latest-generation technology.

The summer was marked by the release of a new offer to explore the space of complementarity. For those who already have a fixed Internet access and need additional access for use on the move, a more attractive value proposition came to be available, with a lower monthly charge, additional discounts on equipment and shorter loyalty periods.

Also during the summer, for occasional users, the market's first campaign was launched with unlimited prepaid-tariff traffic, allowing carefree use during holidays by charging €15.

Lastly, the launch of innovative promotional campaigns helped to strengthen the position of the product on the market: the sale of the Kanguru 4G Hotspot under an instalment plan or the Christmas campaign with the offer of equipment for customers having fixed Internet, are examples of this.

### Equipments and channels

During the year a consistent strategy was implemented with a view to contributing to greater sophistication of the customer base's handsets, most notably the massification of smartphones, further accelerated by the entry price reduction (from €49.9 for 3G and €99.9 for 4G smartphones).

Several activities were also carried out involving equipment, directed at driving the sale of NOS products and services: discounts on subscription to the tariffs of the mobile offering, launch of the instalments plan and promotions to attract integrated customers and to encourage cross-selling, as well as the creation of exclusive Dual SIM offers to attract custom in the Youth segment.

In the sales channels, emphasis is given to the release of the new brand, entailing the complete replacement of the advertising and the overhaul of all the equipment packaging and of the cards, as well as the strategic growth plan between the partners to increase market share and to launch new card-sale formats.

### Value and services

In this area, emphasis is given to the services integration process. This called for the development of integrated personal-product solutions in NOS residential invoices of every type and the creation of a remote sales operation, aiming to boost the growth of this integration and the development of forms of integration in retail.

To contribute to the stabilisation of revenues of the segment several measures were implemented during the year: introduction of price and promotions management measures (such as the Duplicator campaigns), development of solutions enabling continuity of customer communications (such as the offer of balance in roaming) and alteration of the customer activation experience, with the goal of offering greater flexibility on their entry.

In Business Intelligence, the focus was on a recurrent proactive retention programme using forecasting models, which has resulted in major reductions in disconnections of the bases addressed. In parallel, the recurrent recharging incentive plan was optimised and tools for the overall assessment of campaigns were created.

Lastly, in services, we would highlight the partnership with Orange Spain to offer better roaming prices to our customers, the fostering of services such as calling rings with campaigns associated with the main national festivals and improved Internet experience on the mobile phone through more robust activation mechanisms and greater abundance of the offer.



### Experience and loyalty

The launch of the new brand was accompanied by implementation of a plan to communicate and relate with customers of very broad scope, ranging from communication of the brand to relational activities such as offer of points, cinema tickets and other benefits.

In terms of customer experience, emphasis was given to the mapping of the experience of the major products, the implementation of a plan to communicate with customers in distance-selling and the systematic generation of knowledge about customers, relevant both to improving the use experience and to the ongoing improvement of the retention plans.

Lastly, we would highlight the many measures in the area of retention, both in the Mobile service and also in Mobile Internet, contributing both to the stabilisation of the base and to its upsell to integrated and bundled services.

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# Business Segment

In the business segment, 2014 consolidated NOS as the market's main alternative, through an integrated, convergent approach to the needs of companies under a single brand, with dedicated teams and a convergent, state of the art network architecture. These competitive advantages ensured consistent leadership of the movement of Portuguese companies to more efficient solutions that induce greater productivity.

The growth of the share in small and medium enterprises (SMEs) exerted a powerful leverage effect on convergence and on the NOS infrastructure itself. The end of 2014, nearly 50% of business customers already had integrated fixed-mobile offerings. A major contribution to this growth was made by the launch of integrated and convergent solutions, with which SMEs benefit from all the services needed to grow their business – voice, Internet, television, and cloud data solutions. This integrated offering was launched to meet the current day-to-day demands of businesses, allowing an increase of their mobility and productivity at prices that are very competitive in the marketplace.

Also in respect of medium-sized businesses the emphasis is likewise on the growing number of business customers with more sophisticated communication needs – in the field of data networks, managed voice and dedicated Internet services – that rely on deliverability and dedicated monitoring of these solutions by the specialised NOS teams.

The quality and scope of the products and services portfolio, combined with a very dynamic commercial performance, led to double-digit growth in the average number of services per customer. Also noted is the relevant optimisation in every aspect of the operation, from the sales process to the activation and installation of services, as well as the increasing and systematic integration of business processes. The operating model was thus a strategic factor in 2014, with a successful focus on reducing disconnections, on improving delivery and service times and on the efficiency of the commercial management model. As a result, NOS received the 3rd consecutive Best Customer Service award and was the great winner of the annual "Consumer Choice" study.

In the field of Large Companies and Public Administration, NOS returned solid revenue growth in every segment, having acquired a significant number of new customers and provided a fully integrated offering to a growing percentage of customers. This year, NOS became an essential reference particularly through a very significant presence in Banking through new customers such as BPI, Montepio and CGD. The year was also marked by the affirmation of NOS among major public institutions such as the Health Ministry.



# SOMOS O BPI E ESCOLHEMOS A NOS

As maiores e melhores empresas escolhem a NOS. O BPI, por exemplo, conta com a NOS e com a sua rede de última geração para ligar todos os seus balcões em tempo real. Um serviço que oferece a robustez, dedicação e a inovação que as melhores empresas merecem.



The excellent results in the business segment were based on the ongoing improvement of the customer experience – in particular the strengthening and enlargement of the mobile phone consumption-data control – and the capacity to deliver complex, high-quality, robust voice and data solutions. With regard to mobile communications, the emphasis is on the improvement of the offerings of voice and data plans offers for larger carefree consumption. Business customers having the television service also benefited from the increase of the IPTV offering in the fibre optic business scenarios to more than 100 TV channels with an increase of the HD offering, entertainment, premium contents and tourism sector.

The IT area was the one that recorded greatest growth in 2014. On the one hand, the marketing of Cloud applications saw frank growth, driven by new services such as Mailboxes, Video Surveillance in the Cloud, Billing and MailPro, among others. Additionally, the possibility of business customers have their computing needs (including virtual machines) housed in the NOS Cloud was further increased. In response to the increasing concerns of companies, centralised Security solutions were also provided, based on market-leading solutions located in the NOS data centres. The offer of Mobile Device Management (MDM) for the management of mobile devices was also strengthened, based on the leading AirWatch solution, in keeping with information security concerns, particularly in mobility, and with the growing trend of BYOD (Bring Your Own Device).

On the other hand, NOS accelerated its growth through the acquisition of Mainroad, the leading company in the provision of outsourcing services and information technologies, thus reinforcing its position in the business market. In 2014 this operation allowed NOS customers to be offered a more diversified, in-depth offering of Cloud Computing, Business Continuity and IT Managed Services, supported by its own state-of-the-art data centres. With this operation, NOS has made its mark in a new category that is increasingly relevant and necessary for large enterprises and public institutions, as well as SMEs, and for their professionals, helping to ensure that they become increasingly competitive and helping them to expand their business and boosting the country's economy.

In Wholesale, too, the NOS performance exceeded expectations, recording the best year ever. Despite the regulatory pressure on termination and roaming prices, it proved possible to achieve record revenues and profit on the offer, with double-digit growth compared to 2013.

Also noteworthy is the very positive impact of the rebranding on the corporate positioning of NOS. Benefiting from the strong exposure and awareness of the NOS brand, NOS Empresas established a solid relationship with the corporate targets through directed and differentiating communication activity and an advertising campaign that disclosed some of the largest business customers under the banner: "The best companies choose NOS".



# Distribution Strategy

The NOS distribution channels – Door-to-Door Sale, Distribution Network, Telemarketing, Web and Loyalty – focused in 2014 on full assimilation and operationalisation of the integrated fixed-mobile business processes and portfolios, boosted by the launch the "NOS" brand.

It retained as the key objective the acquisition of new higher-value services, not only for new customers, but through cross-selling directed at the existing bases. Special attention was paid to convergent services that had remarkable success in every channel.

The year under review also saw the launch of the new brand, which called for adaptation of the entire sales force. With special emphasis on the review process, on the new commercial approach to potential and current customers, and on the growth of teams in order to increase pace of attracting new customers.

The "learning" work, which began at the end of 2013 after the merger, was implemented in full in all the channels in 2014, so that the new brand could be launched using well-prepared teams.

With regard to the NOS retail business, in addition to the ongoing strategy to ensure better attendance quality, remarkable work was done in the relaunch of our stores to ensure that on the day of launch of the new brand, they were absolutely ready in visual terms and in terms of processes. This goal was achieved not only at our own chain of stores, but also at the franchised stores and multi-operator stores.

The stores played key role in the assimilation by the consumers that the merger had in fact resulted in better service, greater capillarity and ultimately a more robust, enlarged offering and better value proposition.

A major contribution to this was the fact that the teams from each of the companies that gave rise to NOS were also integrated and even crossed over, with the aim of creating a single NOS *modus operandi*. The results of the sales of the distribution network in the second half of 2014, confirmed the correctness of the strategy and the prior preparation of the channels for so strategic an event as the launch of the NOS brand.

At the end of 2014 the process of optimisation and rationalisation of the partners of the NOS stores was finalised, giving rise to a more agile, flexible and efficient structure in operational and cost terms.

This process of optimisation and rationalisation of partners was thought up transversely and also took place in the Loyalty and Inbound and Outbound Telemarketing areas, which will surely allow operational and financial improvement of the commercial area as a whole in 2015.

The number of salespersons of our door-to-door sales channel, "strengthened" by bringing together the mobile and the fixed components, increased significantly to approximately 1,400, a growth of over 30% in this important channel, which is critical to attracting new customers.

The focus on convergent packages, the strengthening of the sale-quality control mechanisms and the greater focus on the methodology of action were successful in increasing the average numbers attracted per channel, with all its inherent advantages. This increase of personnel was also crucial to addressing new areas of growth of the network during the last quarter of 2014.

In parallel, door-to-door sales teams were introduced in the satellite segment, which was determinant to the reversal of the downward trend of sales of this product, turning the Satellite TV convergent packages into one of the company's great successes in 2014.

In the telephone channels, too, there was a material increase of allocation that allowed us to grow in attracting new custom and also, with particular emphasis, to increase cross-selling between the fixed and mobile customer bases. The gradual introduction of the multi-offer and multi-category approach to these channels allowed greater efficiency and greater optimisation at the time of the contact with the customers.

With effect as from the second half of 2014, the entire commission policy of the various sales channels was redesigned, logically reconciling the bigger NOS portfolio. In addition to the competitiveness factor, this new commission scheme simplified and integrated the fixed and mobile ranges in a practical manner, understandable by partners and salespersons alike. The variable-incentive schemes of the in-house personnel were also harmonised to ensure that the new company culture was quickly assimilated.

This new commission scheme implemented transversely across all the channels, allied to the very positive trend in sales of the more "reactive" channels (result of the successful launch of a single brand), resulted in a reduction of the average cost per customer attracted.

During 2014, efforts continued to improve the sales' quality, encouraging subscriptions with portability and direct debit across all the channels, with environmental gains, greater convenience for customers and greater efficiency for NOS.

The loyalty area increased its process of ongoing improvement, the aim of which was to provide greater end-to-end control of the process. The use of support tools that improve interaction with customers and simplify the task of the operator, and the use of the extended portfolio, enabled more positive interactions geared towards greater customer satisfaction.

The year under review was one of structural changes in the commercial area. The alteration of processes, the design and implementation of new commission schemes, the rationalisation and optimisation of the number of partners with clear operational and cost benefits, and the focus on effectiveness and efficiency ensured and extremely good second half, providing prospects of a very solid foundation to meet the opportunities and threats of 2015.

# Communication Strategy

During the early months 2014 the company prepared the launch of a new brand that would represent the convergent future of telecommunications. This work, which involved hundreds of employees and partners, resulted in the launch of NOS in May 2014. However, support still had to be provided for the business under the existing brands, and this required a great effort of the teams. The general features of the strategy drawn up and implemented throughout 2014 are now addressed.

## **January to May 2014: Business support**

During this period it was decided to maintain a simplified strategy to support company's main products under the existing ZON and OPTIMUS brands. The investment was optimised, in that continuation of the construction and strengthening of the brands that were soon to disappear was not a goal.

Thus, during this period, the strategy involved: 1) support for the convergent ZON 4i product, with a significant effort to continue to speed attracting new custom in this key product of turnover acceleration and growth, 2) continuation of minimal support for the other products and services in order to maintain their awareness factor and interest, though in a short-term reasoning. As a result of this strategy, attracting custom for the convergent product remained at a very high level, while the rest of the business maintained its performance thanks to adjustments to the offer and to communication very close to the moments of decision and purchase.

During this period activation actions were reduced to the contractual minimum and alterations of the dates of several events to the second half were negotiated, which would then accommodate the new brand.

## **January to May 2014: Development of the new brand**

During the period of continued focus on the main business priority, all the work of development and preparation for the launch of the new brand was carried out.

During this period a broad working group was set up, co-ordinated by the Brand and Communication team, whose task was to draft the strategy and the plan for the implementation of the new brand. 21 multidisciplinary teams were set up, which analysed all the contact points of the new brand, proposing a detailed transition plan for each of these contact points.

## **May to August 2014: Launch of NOS**

The launch phase of the new NOS brand took place during this period. The main objectives were: 1) to quickly create awareness of the new NOS brand; 2) to associate this new brand with the various telecommunication areas – TV, Internet, Telephone, Mobile Phones and, secondarily, Cinema; and 3) to make the transition from the old brands as soon as possible though protecting the recipe, that is, to ensure the maintenance of the different forms of endorsement of the previous brands, ZON and OPTIMUS, so as to ensure that the transition phase would be as clear as possible to customers.



The launch plan was very ambitious and required alteration of all the supports, from the buildings to the sales-vehicles fleet, not forgetting the stores, cinemas, uniforms, materials of all kinds and, of course, a huge public-relations campaign and advertising on all the media. Emphasis is given to the brand launch event on May 16, commemorated with major event with direct TV coverage at Lisbon's Praça do Município. The brand activation events, in particular the music festivals that took place during this period, were renamed and all the decoration and merchandising were changed to the new brand.

### September to December 2014

During this period a start was made to the consolidation of the launch of the new NOS brand, entailing a continuation of the major presence on the ground and in advertising, in support of the new TV features and 3 new mobile voice tariffs. The year-end saw the launch of the Christmas campaign, based on a combination of smartphones and of our convergent product, now called Quatro.

### Results

The results constitute a new case study for launch of new brands in Portugal. The NOS launch was the launch of the greatest growth of awareness of the last 15 years, shattering previous records. The NOS brand achieved a total awareness of more than 90% in just 3 months. Even more relevant was the achievement of the second goal of association of the brand with the business areas. Indeed, the association with TV, Internet, Telephone and Mobile Phone exceeded 85% in the first three months and 90% in the first five months, long before the date scheduled in the business plan. Lastly, in the evaluation of the emotional and functional attributes most valued by consumers, NOS was able not only achieve figures identical to those of the competition, but is already the leader in some of these attributes.

### The brand chosen by consumers

In 2014 NOS stood out as one of the most innovative companies for consumers in Portugal, particularly in the development of its convergent products that combine TV, Internet, Telephone and Mobile Phone. This distinction attests to the commitment of this new brand to deliver differentiating products and services that meet the needs of its customers and is the result of "Consumer Choice" evaluation, the project that has the greatest coverage of choices in Portugal.

# Há mais em nós



# The Most Sophisticated Next Generation Network

In 2014 a start was made to an in-depth process of transformation of NOS' transport networks, caused not only by the need for convergence of the OPTIMUS and ZON networks but also by the need for expansion leveraged by traffic growth and commercial success.

These networks, comprising the fibre-optic assets and circuits of the two companies that gave rise to NOS, are converging towards a single national network, the merger giving rise to a unique network of greater coverage, availability and capacity, while the operating costs associated therewith are simplified and optimised.

## Access networks

In terms of the access networks, NOS has a fixed network and a mobile network, both of which are latest generation and provide national coverage. The fixed network uses P2P, FTTH and HFC technologies. Supported on fibre-optic and coaxial, it has a high capillarity and capacity. The mobile network, likewise latest generation, uses 4G/3G and 2G technology with national coverage providing voice and data services.

The various NOS Access Networks provide a varied range of services both to the residential and to the business market, with features and quality of service tailored to the needs of each segment in several locations.

- HFC – a network covering more than 3.2 million homes passed enabling the provision of high-speed Internet services (through EuroDOCSIS 3.0), fixed voice (using voice over IP), television (analogue and digital), on-demand video services and nPVR. At the same time it enables the provision of data services to the business market through the Business Services over DOCSIS (BSoD) technology.

- FTTH – an access network of growing coverage using GPON technology, the capacity of which is 2.5 Gbps per installed port and 1.25 Gbps for a 1:32 network split providing the same services as the HFC network.
- 4G/3G and 2G – mobile networks with national coverage, which support the voice and data service for the residential and business segments. Since the Mobile Networks are a traditionally shared medium, the NOS Mobile Network also allows the provision of dedicated circuits for applications highly demanding in service quality and guaranteed rate (GBR – Guaranteed Bit Rate). The Next Generation 4G Network enables download speeds of up to 150Mbps and already covers 90% of the Portuguese population when outdoors.

The fast growth of data and video consumption and the continuous demand for quality of service, allied to the strategy of investing in bundled products leverage the ongoing development of the NOS Access networks, particularly their technological evolution and growth of coverage, with a focus on the High Speed Access Networks, including HFC/FTTH, FO and 4G, better suited to the needs of the market and to optimisation of the investment.

In particular in HFC, during 2014 NOS implemented convergent EQAM, DOCSIS and VoD, generating efficiency synergies efficiency between both services. NOS is also preparing the plan for the implementation of the future new generation of DOCSIS – DOCSIS 3.1 – in conjunction with Cable Labs. This new protocol, very similar to that used in LTE (4G) mobile network, will support more aggressive modelling such as QAM1024 and QAM4096 and allows for different levels of organisation in the spectrum in terms of downstream and upstream frequencies, ensuring capacities of up to 10Gbit/s in the downstream and approximately 2Gbit/s in the upstream.

FTTH, defined as the fixed-network option for Greenfield areas, is undergoing sharp growth, with state-of-the-art technology, which will enable future evolution to 10Gbit/s.

In terms of the mobile network, NOS continues its major focus on the development of the LTE (4G) network, and offerings were launched that take greater advantage of high availability and performance of this network, including offerings of fixed services over mobile technology. There has thus been sharp traffic growth in this technology, in line with or greater than that found on identical networks in other countries, and there is a need to increase the capacity of the 4G network in 2014.

### Transport / broadcast network

The fibre-optic rings that support the transport network are lit using Dense Wavelength Division Multiplexing (DWDM) technology using 10G and 100G interfaces, which enable an aggregate capacity available on the backbone three times greater than that of the previous year.

ZON and OPTIMUS owned DWDM transport networks passing through the major cities of the country, hiring fibre pairs from the commodities suppliers. In many of these cities there was an overlap of infrastructures and complementarities in others.

By the end of 2014 NOS already had a fibre optic infrastructure on DWDM, the only one in the South of the country, and it is implementing the most modern equipment and features of this technology. By the end of the third quarter of 2015 the entire the country will be integrated into a unified architecture and infrastructure.

The transport network is closely articulated with the Core IP network and, in addition to the delivery of connectivity and capacity, it provides additional guarantees at network resilience and availability level, ensuring high standards of performance in interconnection between service platforms and access networks.

### IP/MPLS Network

The IP backbone resulting from the consolidation of the backbones inherited from the two companies that gave rise to NOS is also undergoing transformation, ensuring at all times a technologically advanced own network of great capacity and nationwide coverage. The design in accordance with best practices will be maintained in order to provide a portfolio of services designed to meet the needs imposed by the residential and business markets, regardless of the access network used, fixed or mobile.

It currently extends to more than 80 points of presence, covering all the major cities of the country and 3 international sites (Madrid, London and Angola).

The aggregate sum of the circuits that support the NOS IP network has grown by 30% per year, whereas the interconnection capacity with other domestic and international operators for the exchange of IP traffic grew by 25% in 2014. Each point of presence currently has a minimum redundant connection capacity to the network core.

In terms of its interconnection with international IP traffic providers (Internet) the network is structured in such a manner as to deliver traffic in two locations with redundant infrastructure, one in Lisbon and the other in Porto. This allows the balancing of traffic and high availability of the service, because these two points ensure service redundancy in case of failure of one of them.

According to the architecture defined and designed in 2014, the IP network capillarity is also extended to a set of network points that act as traffic and links aggregators.

This architecture, known as seamless MPLS, is intended to extend residential or business mobile services termination to the more capillary network, optimising the processes of provision and fault tracking, optimising the performance provided and increasing the level of redundancy.

The IP network consolidation and expansion processes will continue to be developed during 2015.

There are also CDNs (Content Delivery Networks) of several content suppliers/aggregators so that NOS customers have fast, efficient access to the most popular contents.

The NOS IP network is already prepared to support the IPv6 protocol, and all of these interconnections already support IPv6 traffic.

### **Vídeo distribution network**

NOS also has an advanced multi-platform and multi-device video distribution network able to support a growing number of channels and innovative services. In 2014, the linear offer of TV via digital cable occupied 22 Transport Streams corresponding to more than 1 Gbit/s of SD, HD channels and digital services.

In 2014, as in 2013, there has been an increase in the volume of traffic generated by non-linear television services (nPVR, and RestartTV VoD) services. A few numbers illustrate the success of these features:

- More than unique 14,700 carriers for on-demand services, an annual increase of 63%; Due to the sharp growth of nPVR, and RestartTV VoD services, the NOS network supports a total of over 400Gbps of on-demand TV Traffic, in more than 82,000 streams simultaneously, served by a CDN with 16 access points distributed from north to south of the county and in the Atlantic islands, so as to remove pressure on the backbone;
- Over 2 petabytes of nPVR archive in operation 24 hours a day, 7 days a week in a state-of-the art cloud architecture;
- More than 1.4 million playout requests per day have been achieved, an increase of almost 60% compared to the 2013 figures.

The focus on service quality, resilience and capacity has enabled NOS to maintain the lead in non-linear television.

### **Next generation data centre**

The services that NOS provides to its Customers are increasingly dependent on infrastructure housed in the Data Centres and, in the technologically demanding and competitive market in which NOS operates, it is essential to ensure a high level of efficacy and reliability in the means of support for the services.

During 2014, due to the transformation and consolidation of the networks transferred from OPTIMUS and ZON, the infrastructure of the data centres has evolved in order to meet the needs of capacity and offer of services.



With the recent acquisition of Mainroad, the process of transformation of the data centres is being overhauled and a start will be made to its implementation during 2015. The objective of this consolidation continues to be to provide NOS with a redundant infrastructure of high availability and performance capable of supporting the service, network and business customer platforms, as required by the company's present and future offer of the company for all segments in which it operates.

### **Convergence of the cable voice platform to IMS/AS [DC]**

As a result of the merger process, a start was made in 2014 to the project for the consolidation of the control platforms of the voice service of the HFC/FTTH access network based on a latest-generation IP multimedia system (IMS). This ensures total convergence of the voice service, regardless of the access network, of the terminal used and of the type of offer (residential or business), optimising the technical resources of NOS.

This architecture follows the best market recommendations for the technological evolution of the communications services in the medium and long term, ensuring investment protection, reducing time-to-market and making the introduction of new services to the offer more flexible.

### **Evolution of the mobile voice platforms**

During 2014 an architecture was designed to support the highly-scalable mobile voice service, based on a solution that allows virtualisation of the core functions of the network, optimising capacity management and ensuring evolution to future technologies (VoLTE).

### **Contact centre**

The NOS Comunicações Contact Centre is a structure crucial to the construction and maintenance of a solid relationship of trust with its customers. The large customer base requires great contract-processing capacity, automation of attendance processes and flexibility to adapt to change, while requiring cost reduction in contacts with the customers.

In 2014 NOS Comunicações defined the strategy for the consolidation of the contact centre infrastructures resulting from the merger, and a start was made to the defined execution plan, scheduled for finalisation in 2015. The objectives of the consolidation involve reduction of operating costs and standardisation of processes and operations.

Consolidation of the platforms includes adaptation of attendance capacity according to the needs in the new reality of NOS; the development of new features to ensure the implementation of the new procedures established; and migration of the contact-centre operation attendance and management teams to the unified infrastructure; at the same time it will be subject to full technological renovation.

Universal service – development of innovative voice and data solutions using satellite access technology, both fixed and mobile, to ensure national coverage and service. Ensuring control of consumption, regardless of the access and technology.

DTH – development of the 3P (TV, voice and net) fixed convergent offering using wireless technology, satellite for TV and mobile technology for voice and data.

## Conclusion

The rapid growth of data and video consumption, customer demand for ever better service quality and the need to make the service available anywhere in a transparent manner are growing challenges for all operators.

NOS is therefore focusing on technological evolution and on the enlargement of the coverage of its high-speed access networks, notably HFC/FTTH, FO and 4G, undoubtedly the best suited to the increasing demands of the market and to optimisation of the investment.

The diversity of Access Networks, with different footprints, allows NOS to optimise its offer, selecting the means of access best suited to the service required by customers and to the location, besides promoting the provision of convergent 2P/3P/4P/5P fixed-mobile products.



# Information Systems

In 2014, the Information Systems played and will continue to play a key and strategic role in the achievement of the objectives of NOS.

Their contribution was relevant in the following areas:

- Increase of customer satisfaction and improvement of their experience during the various stages of their life cycle, achieved by focusing on operational excellence (application-availability, transaction-processing quality and effectiveness in support-service management);
- Provision of innovative and differentiating offerings on the market, especially the convergent offering, among many others, through various access technologies (FTTH, HFC, DTH and mobile) and services (TV, Internet, voice, applications), entailing extracting maximum value from the combination of functions and unification of information systems;
- Greater effectiveness of the operational teams (customer service, retention, back-offices and administrative) supported by simplification and automation of Information Systems processes;
- Delivery of the synergies planned, through organisational, procedural and applicational optimisation within the scope of the information systems and of their transformation and unification programme.

## Information systems transformation and unification programme

### The vision

Digital trends are driving the evolution of traditional network operators towards becoming operators that provide integrated digital services. Likewise, the information systems follow this trend, seeking to develop their capabilities to provide:

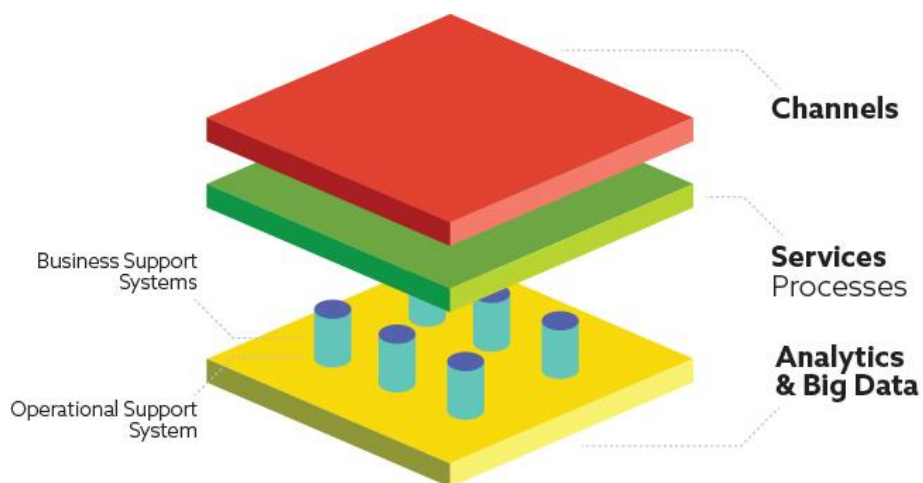
- Identical customer experience across the various channels;
- State-of-the-art analytics in order to foster better customer experience;
- Development of evolved channels, eCommerce and social models;
- Sharp focus on self-service;
- Evolution of the IoT ecosystem;
- Leverage in cloud services.

Based on this vision, since 2013 the information systems have been implementing a vast unification and transformation programme based on a Systems Master Plan and its roadmap. The aim is to ensure delivery of the capabilities necessary to and strategic for the NOS business and operational areas, while creating a convergent architecture, following the principles of applicational decoupling and ensuring future agility and the creation of a lean IT.

### The customer at the centre

In the pursuit of higher customer satisfaction and better customer experience, detailed knowledge of their characteristics and products and services subscribed and to be subscribed, and of their tendencies and preferences, opinions and actions, CRM plays a fundamental role for NOS, which is why the information systems are primarily focused on the design and implementation of applications supporting this area.

The aim is to deliver a flexible CRM architecture allowing high evolutionary agility, its components, where appropriate, based on the best items available in the marketplace, underpinned by a service oriented architecture (SOA architecture) that enhances the reuse of business processes and rules throughout the various customer-interaction channels.



# Leadership in Customer Satisfaction

Leading in customer experience and satisfaction through the service delivered daily.

In 2014 our main concern was the delivery of an experience of excellence to our customers during the integration process, through greater proximity of the teams. For the third straight year we were considered the World's Best Customer Service Customer by the Contact Center World, a feat never before achieved. We also won the gold medal in the Best Technological Innovation in the World category, reflecting the ongoing commitment by NOS to develop solutions that improve our customers' experience.

### Getting to know the customers' experience to improve the service

For NOS, customer feedback is one of the main sources of information for the design and implementation of improvements in the operations. To complement the voice of the customer (VoC) programme, the Benchmark Experience has been designed and implemented, whereby we assess throughout its life cycle, using a mystery-customer panel, the experience delivered in the various contacts with the telecommunications companies. The insights provided by this study have not only determined opportunities for improvement in the various service channels, but also bring together best industry practices that are being incorporated to improve interactions with customers.

### Proximity to promote the quality of customer service operations

With the start to the integration process, the focus is on maintaining the quality of service to which we have accustomed our customers. To this end, the teams were strengthened and technical and comportmental training and coaching courses were increased in order to respond to our customers, ensuring a contact experience of excellence. During this process, proximity to the operational teams was also increased to ensure greater and better communication between areas in order to maintain the quality of information and speed up decision making.

Operations supervision capacity was strengthened through the establishment of a single transverse team which, round-the-clock, 7 days a week, oversees the technical infrastructure of the network and information systems that support our contact centre operations. This team monitors all technical incidents impacting on the services, ascertaining the details of the areas affected and the severity of the events, and ensuring that the situation is resolved quickly and effectively through the internal escalation process. This team monitors the estimated resolution time, transmitting this status to the customer service teams so that, if necessary, the most up-to-date information is provided proactively or reactively to those customers affected by the incident. In this way, it is possible to ensure that the conditions for the delivery of a service of excellence are in place.

### **Simplifying decision making and operational improvement through monitoring**

The existence of a single overview of the performance of the operations is essential to the control of the experience delivered to customers. Over the past year, the monitoring model was redesigned to allow decisions to be taken effectively and the performance of our operations to be challenged.

Accordingly, a monitoring model was implemented which, based on a unique client key, comprises a set of transverse metrics calculated in the same manner and supported by comparable sources of information. A monitoring infrastructure was constructed at 3 levels: (1) real-time information to continuously monitor the performance of the operations, (2) monitoring centred on the customer to ensure that the metrics incorporate the customer's lifecycle, regardless of the communication channel, and (3) a structured VoC programme designed to obtain the customer's perspective of the evaluation of the service in terms of processes, people and effort.

### **Culture centred on the customer as service differentiation factor**

In 2014 one of the first measures taken was to define a unique service vision and culture. Since NOS is an organisation focused on the customers, we believe that our culture must incorporate their expectations and that our values must be reflected in behaviour that differentiates us from the other organisations. The conduct expected of the NOS contact managers is set out in the service guidelines, in particular active listening, empathy, clear communication and assertiveness in the contact with the customer.

The new service guidelines were the basis for the review of the model of evaluation of the contact managers. This model aims to ensure the efficiency, quality and customer-proximity of the NOS teams. A new single evaluation grid was designed and a centralised team of auditors was set up to evaluate the performance of the contact managers and the quality of the service they deliver, using transverse criteria and demand levels. This single model allows us to invest in the evolution of the contact managers, determining specific technical and comportmental training that, addressed individually or collectively, foster a performance of excellence. This was undoubtedly a fundamental step in the model of development of our teams.

### **Recognition of excellence in the customer service industry**

NOS seeks to play a major role in its industry at national and international level, and, in 2014, it continued to play an active role on national and international conferences. Sharing best practices and collecting experiences of similar organisations in and outside the NOS business sector, its objective also includes joint preparation in the sense of addressing the challenges of the customer service areas.

At international level, participation in the prestigious Contact Center World conference granted NOS the unprecedented opportunity to win, for the third consecutive time, the award for Best Customer Service in the World, having won for the fourth straight time the Best Customer Service In Europe, Middle East and Africa award. NOS also won, for the second time, the gold medal in the Best Technological Innovation in the World category. At domestic level, NOS was considered the Best Customer Service in Portugal in the Telecommunications category by the Portuguese Contact Centres Association (APCC).

As a customer-service organisation, every daily effort is directed at providing a service of excellence to foster customer satisfaction. To this end, there is also a feeling of great satisfaction in that the study of the European Customer Satisfaction Index (ECSI) considered NOS to be the leader in customer satisfaction in mobile phone, fixed phone and pay TV.







# Cinemas

NOS Lusomundo Cinemas is the leader of the film-exhibition market in Portugal.

The core business of NOS Lusomundo Cinemas is to show films, and it was one of the world's first operators to install digital projection in all its cinemas, with due regard for the DCI (Digital Cinema Initiatives) specifications, with 2k and 4k resolution. In addition to the commercial showing of films, it also exhibits alternative sports, music and dance content, live or recorded in 2D or 3D. The sound of the cinemas is state-of-the-art (Dolby Digital 7.1). In some of its cinemas it has HFR (High Frame Rate) technology, which provides more immersive, sharper and more realistic images by increasing the number of frames per second (from 24 to 48), ensuring an exceptional cinema experience and full customer satisfaction.

About 40% of NOS Lusomundo cinemas are equipped with digital 3D REAL D projection. In 2013 the company inaugurated Portugal's first IMAX cinema using digital technology at the Colombo Cinema. This release is part of a policy to be at the forefront of technology and differentiation, and the plan calls for the opening of a second IMAX cinema in 2015 in the greater Porto area. IMAX is a unique and immersive cinema experience, an enveloping "concept" of cinema and a system that provides powerful emotions, allowing you to see, hear and feel more. By the end of 2014, the IMAX cinema achieved a total of 276 thousand spectators in its first 18 months of operation.

In August 2014, NOS Lusomundo Cinemas opened in the city of Faro its 30th "multiplex" cinema complex with 5 screens, at the Forum Algarve Shopping Mall. Innovation and the ability to always be at the forefront of technology has contributed to the success and leadership of the cinema market in Portugal, with a market share in 2014 of more than 60% by number of tickets sold and by box-office takings.

With 30 "multiplex" complexes and 214 cinemas spread geographically around the country, the current business model is based on integration in the mix of the offer at shopping malls, constituting one of their anchor stores, with a very powerful exterior and interior image.

In technological terms NOS Lusomundo Cinemas has introduced numerous platforms that enable better service and customer service quality:

- i. At the point of sale, box office/bar, EPOS (Electronic Point of Sale) with EFTPOS (Automatic Payment Terminals/ ATM);
- ii. Kiosks that allow ticket collection, booking and purchases and provide bar products using debit or credit cards, shortening the traditional box-office queues;
- iii. Call Centre;
- iv. MTicketing/bCode (applications for mobile devices that allow tickets to be bought, crossing and selling promotions with the respective terminals at the cinemas);

- v. NOS Cinemas (box office on the IRIS platform, which, besides the possibility of buying tickets, provides information on the films being shown, allows you to watch the respective trailers and consult showing times and seating arrangements at each cinema);
- vi. Corporate site with store and use of social networks, among others.

Internationally, NOS Lusomundo Cinemas is present in Mozambique through the firm Lusomundo Mozambique, the local film exhibition company operating in this market for several years. In 2012 it concluded its operational overhaul (shutting down old cinemas) and made a start to a new cycle of expansion in a new format, with the opening of new cinemas at the Maputo Shopping Mall (June 2012). In July 2014 Lusomundo Mozambique inaugurated its second cinema complex with three screens in the city of Matola, at the Parque dos Poetas Shopping Mall.

The number of tickets sold by NOS Lusomundo Cinemas decreased by 7.9% in 2014 to about 7.3 million, in a year of falling ticket sales on the market as a whole, leading to a market share of tickets sold by NOS Lusomundo Cinemas of 60.3%. In terms of gross ticket revenue, the market share of NOS Lusomundo Cinemas stood at 61.6% .

The most successful films shown in 2014 were "The Hunger Games: The Revolt - Part 1", "Lucy", "The Madagascar Penguins," "The Hobbit: The Battle of Five Armies" and "Rio 2".

### 2014 indicators (Portugal):

- 30 Multiplex Complexes
- 214 cinemas (100% Digitised)
- 84 3D cinemas
- About 40,000 Seats
- 1 IMAX Cinema
- 81 HFR (High Frame Rate) Cinemas, latest generation in viewing terms
- 187 Cinemas with Dolby 7.1 sound
- 55 Sales Kiosks
- About 7,300,000 Tickets Sold / Year
- About 303 Films Exhibited / Year
- About 330,000 Cinema Sessions / Year
- About 480 Employees



# Audiovisuals

The year under review was marked by a decrease in the film distribution market in Portugal, with gross box-office takings of €62.7 million, 4.3% less than in 2013 and a 3.8% decrease in the number of spectators compared to the previous year. Nevertheless, NOS Lusomundo Audiovisuais maintained its leadership of the film distribution business in 2014, with a market share of 56.9% by spectators and 57.2% by revenue, with 7 of the Top 10 films by gross revenues and with 160 premieres (vs. 207 in 2013), with emphasis on "Lucy", with more than 309,000 spectators and gross revenues of €1.6 million.

Also underscored is the fact that in 2014 NOS Lusomundo Audiovisuais came to distribute the Warner film catalogue, which included films such as "Interstellar" and "Edge of Tomorrow", to which were added the catalogues of Disney, Universal, Paramount and independent producers. The company continued to focus on the distribution of Portuguese films, including "Os Maias – Cenas da Vida Romântica" and "Virados do Avesso", with 115,000 and 107,000 tickets sold, respectively.

According to GfK studies, the overall market revenues of Home Video distribution business fell once again, this time by 18.5%, due in part to the growth of digital technologies, changing consumer habits and piracy. As for NOS Lusomundo Audiovisuais, the decline stood at 19.3%.

Regarding Management Rights and television, the company has remained focused on the production and marketing of the TV Cine and TV Series channels while continuing to develop the market for digital on-demand services, including, notably, TVOD (Transactional Video On Demand) Download-to-Own and SVOD (Subscription Video On Demand). In 2014, as a result of the process of adjustment of the commercial conditions with national distributors, which resulted in a reduction of the TV Cine selling price at the end of 2013, there was a negative impact on the company's revenue compared to the previous year, which is expected to be offset by revenue growth through an increase of subscribers. In terms of customer base, the TV Cine and TV Series channels recorded significant growth both in the domestic market and in the Portuguese-speaking countries of Africa.

Also noteworthy is the investment in 2014 in the infrastructure of the Multimedia Production Centre, in order to be able to deliver new channels, including BLAST, which started to be broadcast on October 31, 2014.

With regard to Dreamia, emphasis is given to the ongoing leadership of the Hollywood channel in Pay TV services and the launch of the new BLAST action channel in the last quarter of 2014, included in the offerings of operator ZAP in Angola and Mozambique. As for revenue, the Panda, Biggs and Hollywood channels are underscored, with growths of 5%, 18% and 7% respectively, compared to the previous year.



ZAP has been in operation in the Angolan and Mozambican markets since 2010. It is a joint venture in which NOS has a 30% stake and SOCIP - Sociedade de Investimentos e Participações, SA, an Angolan firm, 70%. ZAP operates in the pay TV markets of Angola and Mozambique, supported by DTH technology via the Eutelsat W7 satellite.

In 2014, as in recent years, Angola and Mozambique were markets where economic growth was strong. According to the latest IMF estimates (October 2014), the real GDP of Angola and Mozambique in 2014 are set to have grown by 3.9% and 8.3%, respectively, which compare with 6.8% and 7.1% in 2013. This strong growth has been reflected in the appearance of an increasingly large middle class with an appetite and purchasing power for pay-television services.

The pay-television market has naturally accompanied the growth of the economies of these countries, and ZAP is one of its main drivers, thanks to the provision of innovative products specially designed for the various segments of these markets, to a communication suited to local realities and to a business-oriented approach to the growth targets of the operation, aspects having strong foundations on local resources and on synergies with the NOS operation in Portugal.

In product terms, ZAP currently offers customers in these markets three packs of channels: ZAP Mini, with about 50 channels, ZAP Max, with about 100 channels, and ZAP Premium, with about 130 channels (including 14 in HD) at a price of around USD 15, USD 30 and USD 60 per month, respectively.

ZAP has continually sought to increase its offer of channels. In 2014, it released a number of channels highly relevant for the Angolan and Mozambican markets, in particular BLAST, CMTV, Cubavision, SIC Caras, Sporting TV, STV Notícias e 1Music, reflecting its strategy of differentiation of its channels through the predominance of Portuguese language channels and the exclusive offer of key content, such as the Portuguese Football League (through the Sport TV África and Benfica TV channels) and the ZAP Novelas, ZAP Viva and +Novelas channels (produced by ZAP specifically for these markets).

In 2014, ZAP inaugurated its studios in Angola thereby starting its own production of programmes for the ZAP channels, among which the "Estrada da Vida" interview programme, the "O Que Elas Pensam" talk show and the "ZAP News" magazine.

The strong focus on communication through advertising campaigns via TV, radio and the press allowed ZAP to continue to be one of the brands with the highest recall of the market and contributed to greater market awareness of the benefits of subscribing to a pay-television service and, in particular, of the advantages of the ZAP product.

In 2014, ZAP remained at the technological forefront of the satellite TV services markets in Angola and Mozambique, and came to provide its customers only with set top boxes having HD capability. During 2014, ZAP conceived and began to implement an FTTH network in Luanda, supporting latest-generation pay television services and Broadband Internet. This FTTH network has successfully passed a stage of tests with real customers, which will allow the commercial launch of these services at the beginning of 2015.

Increased scope of its commercial network continued to be one of ZAP's priorities during 2014. In Angola, at the end of 2014, the ZAP distribution network had a total of 32 own stores (14 in Luanda and 18 in the other provinces), 1,600 authorised agents, 27 mobile shops and around 200 door-to-door salespeople. In Mozambique, ZAP's structure at the end of 2014 involved 9 own stores (5 in Maputo and 4 in the other provinces) and about 231 authorised agents.

At the end of 2014, the ZAP team had a total of about 709 employees located in Angola and Mozambique, which has been a key pillar for the success of the growth of the operation. In addition to direct jobs, ZAP has contributed to the growth of local economies through the creation of more than 1,600 indirect jobs (call centre, door-to-door salespersons, etc.).





# Macroeconomic Environment

The year 2014 was marked by the continuation of a difficult and somewhat uncertain macroeconomic environment, following the international financial crisis that erupted in 2007 and the sovereign debt crisis in the Eurozone, which led to the implementation of an Economic and Financial Assistance Programme in Portugal, which was successfully completed in 2014.

However, this was also a year of some improvement and stabilization of the economic growth, consumer confidence and unemployment indicators, clearly following the trends which had already started in the second half of 2013, despite the austerity measures which continued to be applied, impacting both in terms of revenue and expense. These measures aim to reduce the macroeconomic imbalances, so that conditions are created for future economic growth, namely in reducing the need for external financing of the economy.

## GDP and Economic Climate Indicator 2012-2014



In 2014, Gross Domestic Product (GDP) grew by 0.9%, according to data published by the Portuguese National Institute For Statistics (INE), mainly due to the effect of an improvement in domestic demand, which was accompanied by the continuous growth of exports throughout the year.

According to INE's estimates, in 2014, GDP continued the improving trend which had begun in 2013, when it had already fallen less than in the previous year, with a drop of 1.4%. The same effects felt in 2013 continued to prevail in 2014, but with a more positive evolution. On one hand, the decline of domestic demand was reversed, which in the case of private consumption, was felt both in durable goods and non-durable goods, despite public consumption having continued its downward trajectory in 2014. On the other hand, the growth of exports accelerated in 2014 in comparison with 2013, however it accelerated less than it had in 2013. The combination of these effects enabled GDP to grow by 0.9% in 2014, which compares with a drop of 1.4% in 2013.

For 2015, the Bank of Portugal's Economic Bulletin of December 2014 points to a GDP growth of 1.5%. GDP growth in 2015 will be linked to the continuation of growth in domestic demand, mainly in terms of private consumption, which will present a similar trend to 2014. However, it is expected that public consumption will continue to decline.

Exports will continue to play a key role in the economic recovery, benefitting from an improvement in terms of trade, which should favour the continuation of surpluses in the Current and Capital Accounts.

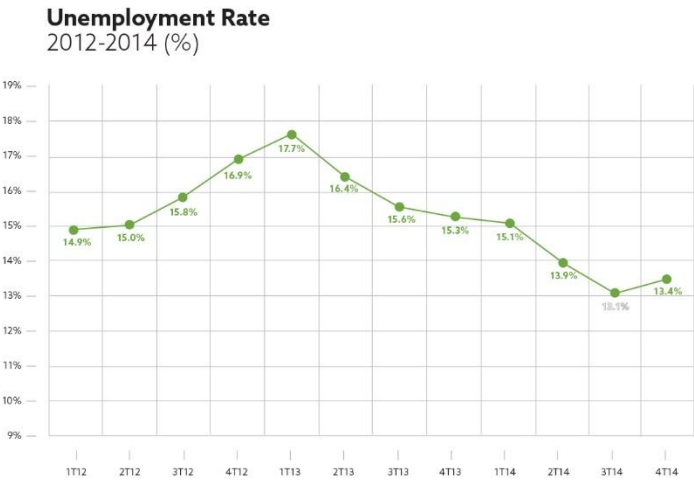
For 2016, the Bank of Portugal estimated a slight acceleration in the GDP's growth rate to 1.6%, as a result of the combination of an acceleration of the good performance of exports, with a slowdown in the growth of private consumption, which should continue to be influenced by the still high level of indebtedness of the private sector.

According to data published by INE, in 2014 the inflation rate was -0.3%, which compares with +0.3% in 2013. For the next two years, downward pressures on the level of prices should continue to be felt, both domestically and internationally, with a relevant contribution from imported energetic goods. As such, the Bank of Portugal's estimates point to a low inflation rate of 0.7% in 2015 and of 1.0% in 2016.

The unemployment rate in 2014 peaked at the end of 1Q14, when it was 15.1%. In the following quarters, we witnessed a progressive decline of the unemployment rate, which amounted to 13.1% by the end of 3Q14 but was 13.4% at the end of the year, still representing a clear recovery of almost 2pp in comparison to 15.3% at the end of 2013.

In summary, the macroeconomic environment remains challenging and marked by uncertainty, despite the clearly positive signs, such as the improvement of the unemployment rate and the GDP's growth rate.

In this context, NOS has shown a strong resilient capacity, from the beginning of the crisis until the more recent positive signs. This resilience stems from the nature of the services it provides to its customers – relatively inexpensive forms of entertainment, and communication services and access to information, which is increasingly relevant professionally, educationally and in terms of entertainment, and which therefore form an increasingly high priority in the household budget of Portuguese families.



# Sector / Regulatory Framework

The year under review was marked by the completion on May 16 of the merger of ZON TV Cabo Portugal, SA, with Optimus - Comunicações, SA, and by and the start to the provision of the universal service by NOS Comunicações, SA, on June 1, 2014.

Analysing in detail the regulatory events on the domestic market, we would highlight the following:

## **Merger of ZON and Optimus**

Following the approval in 2013 of the merger operation by Optimus SGPS, SA, and ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, SA, the merger took place on May 16, 2014, of Optimus – Comunicações, SA (Optimus) and ZON TV Cabo Portugal, SA (ZON), leading to the birth of a new telecommunications operator: NOS Comunicações, SA ("NOS").

The merger of Optimus and ZON was preceded by the authorisation to transfer ZON's numbering resources to Optimus, granted by the national regulator, ANACOM. A condition for this authorisation was the return, in the medium term, of specific numbering resources, such as one of the customer-support numbers (169x) granted to Optimus and to ZON.

This condition aimed to ensure that, as a result of the merger, NOS would not be left with a competitive advantage due to greater availability of numbering resources than its competitors.

## **Start to the provision of the universal service by NOS**

Following the award in 2013 of the universal service of connection to a public communications network at a fixed location and of telephone services accessible to the public for a period of five years, contracts with the government were signed by Optimus and ZON on February 19, and the start to the provision of the service took place on June 1, 2014, now in a post-merger context.

In providing the Universal Service, NOS views itself as the benchmark communications operator of every Portuguese, regardless of geographical location, across the length and breadth of the country. And, by providing coverage of the entire country, NOS contributes to the combat against info-exclusion, involving communities far distant from urban centres and a better balance in access to communications, providing greater equality in the service and in economic and social development opportunities in Portugal.

The provision of the universal service by NOS also demonstrates recognition of its technological and commercial capabilities in the provision of electronic communications services nationally, at a significantly lower cost, with clear benefits for all consumers, for telecommunications operators and for the country.

## Single communications market: Connected Continent initiative

At Community level, 2014 was marked by discussion of the regulatory package proposal presented by the Commission in September 2013 with a view to deepening the single telecoms market (Connected Continent). The Commission's proposal covered a wide range of topics including: i) single authorisation procedure for Europe; ii) further harmonisation and action by the Commission in the management and allocation of spectrum; iii) net neutrality, iv) roaming; v) consumer-protection measures; vi) strengthening of the Commission's regulatory intervention powers. From the time of its submission the Commission's proposal generated controversy and heated discussion, firstly because it had not been preceded by the required consultation procedures.

In April 2014 the European Parliament adopted the package on its first reading, albeit with some substantial changes. However, at the level of the European Council (approval of the Commission's proposal is subject to approval by the Parliament and the Council) the Commission's proposal has not generated consensus and throughout the year it became clear that the scope for further development of the discussion would be restricted to certain specific issues, namely roaming and network neutrality. However, even in these two topics and despite the efforts of the Italian Presidency, it did not prove possible to reach agreement within the European Council as to the adoption of new regulatory measures in these areas:

- Roaming has sparked discussion between the countries of northern and southern Europe. On the one hand, the southern countries argue that were the principle of roaming like at home (RLAH) to be applied, i.e., prices of roaming services identical to those of domestic services, wholesale prices must be safeguarded, failing which the service would be provided at a loss or such losses would have to be compensated by an increase of prices of the domestic services and/or a reduction of investment (waterbed effect). On the other hand, the countries of north and central Europe (with a negative roaming balance) have pressed for speedy adoption of RLAH.
- Network neutrality: most countries agree with the principles associated with network neutrality, but consider the need for a thorough discussion prior to the adoption of any measures.

It should also be said that towards the end of 2014 the Body of European Regulators for Electronic Communications (BEREC) issued its position on RLAH, concluding that, no matter what the implementation scenario of this measure, there are major trade-offs between the various objectives at issue: promoting the use of roaming services, protecting competition, protecting investment and protecting consumers ("There is no RLAH sweetspot").

Despite the uncertainty as to the future of the package presented by the Commission, the new Commission Recommendation on relevant markets susceptible to ex ante regulation (Recommendation) was approved in 2014.

The number of markets susceptible to ex-ante regulation was reduced from 7 to 5, and attention is drawn to the elimination of the previous markets 1 (retail markets of access to the public telephone network at a fixed location and telephone service markets provided at a fixed location) and 2 (wholesale market for call origination at a fixed location). The wholesale termination on fixed networks and termination on mobile networks markets remain unchanged, whereas in the previous broadband-associated markets there have been adjustments.

2007 Recommendation		2014 Recommendation		
Retail access to the public telephone network access in a fixed location market and telephone services in a fixed location market	1	X		Eliminated
Wholesale call origination in a fixed location market	2	X		Eliminated
Wholesale call termination in the public telephone network in a fixed location market	3	Wholesale call termination in the public telephone network in a fixed location market	1	Unchanged
Wholesale (physical) access to network infrastructure in a fixed location market	4	Local access in a fixed location market	2	Changed
Wholesale broadband access market	5	Central access for residential offers market	3a	Changed
Retail and wholesale terminal segment and transit segment of leased lines markets	6	High rate wholesale access in a fixed location market	3b	Changed
Wholesale voice call termination in individual mobile networks market	7	Wholesale voice call termination in individual mobile networks market	4	Unchanged



It should be recalled that it is assumed that the markets included in the Recommendation require regulatory intervention in all Member States, while in the other markets, national regulators have to demonstrate national characteristics that determine that additional markets must, in the Member State concerned, be subject to regulation, the Commission having veto power in respect of the definition of markets susceptible to ex ante regulation not foreseen in the Recommendation.

**Market analysis: Retail access and fixed telephone services market and wholesale call origination market in the public telephone network at a fixed location**

ICP-ANACOM concluded the analysis of the above markets and opted for deregulation of the retail access and fixed telephone services market, though transposing the existing obligations in that market to the wholesale market of origination on the public telephone network at a fixed location, where PT Comunicações was identified as having significant market power. In concrete terms, these decisions maintain the existing obligations, involving the obligation to provide the Subscriber Line Resale Offer and pre-selection, features that are still relevant, particularly for the business market.

# Operational Results

NOS is clearly delivering on its strategy to grow market share.

Convergent take-up continues to be the strongest driver of operational success and due to significant efforts to retain and increase the core pay TV customer base, NOS posted positive net adds in both the cable and DTH footprint in 4Q14.

The strong momentum from the launch of the new "NOS" brand in May 2014 provided strong support for commercial performance across all the service offer and is allowing the organization to start to implement more streamlined and focused distribution processes. NOS is one of the most well known and recognized brands in Portugal today, with over 90% total brand awareness, ranking consistently amongst the top ten brands.

## **Convergence driving very strong RGU growth with 397.5 thousand net adds to 7.6 million in total**

The total number of RGUs increased by 397.5 thousand in FY14 to 7.6 million representing one of the strongest years ever. This record performance was achieved on the back of very strong growth in the convergent customer base together with a positive inflection in Pay TV subscribers in 2H14 and a significant pick-up in broadband and fixed voice net adds.

The improved performance in Pay TV was felt in both the cable and DTH footprint and is the result of the marked operational focus on retaining customers in what is still an extremely competitive and promotion driven market.

By the end of FY14, NOS already had 1.853 million convergent RGUs, representing an additional 1,640.8 thousand convergent RGUs in the quarter. Following the brand launch in May, a number of segmented convergent offers were launched to target a wider range of audiences ranging from a low end Pay TV and mobile double play offer, NOS Dois, up to a high-end five service offer NOS CINCO, that offers high-end Pay TV (156 channels), Broadband (100 Mbps), Mobile 4G Broadband (5GB), Fixed Voice and Mobile Voice and Data (standard 500 MB per SIM card). Targeting an ever more sophisticated and mobile customer base, in 4Q14 NOS reinforced the mobile data offer within the NOS CINCO bundle with an additional 500 MB of mobile data per sim card, on top of the standard 500 MB.

Towards the end of the year the focus of NOS' marketing campaign turned to handsets, as is usual in the build up to Christmas driving a strong take-up of smartphones within convergent bundles, driving increased smartphone penetration to more than 50% of the convergent customer base.

In total, the number of mobile cards incorporated in convergent bundles grew by 642 thousand in FY14 and the average number of cards per convergent customer was 1.9.

### **Positive inflection in Pay TV base with quarterly net adds of 7.1 thousand in 4Q14 and very strong growth in broadband and fixed voice**

Following the improving trend of the past quarters, for the first time since 1Q12 NOS recorded positive Pay TV net adds of 7.1 thousand in 4Q14, a combination of net growth in the DTH base of 6.7 thousand and of 0.4 thousand in the cable base. The very encouraging turnaround in the Pay TV base was achieved due to the strong commercial activity to grow the customer base and to the very targeted and focused retention strategy. For FY14, Pay TV net losses amounted to 41.3 thousand customers, 4.0 thousand in DTH and 37.2 thousand in Fixed Access, still impacted by the merger remedies, especially at the beginning of the year.

In the DTH footprint, convergent DTH/4G offers launched in 2Q14 have been driving very positive performance as they position NOS as a much more competitive operator in regions where previously it was only able to provide satellite TV services. These offers provide customers with an integrated TV, fixed and mobile broadband and voice with the same pricing points as convergent bundles over the fixed access network.

Fixed broadband and voice customers also posted material growth in 4Q14 of 35.6 thousand and 13.1 thousand respectively, led by the strong performance of the pay TV base and by the strong 3&4P value propositions, both on the cable and the DTH platform. Full-year performance of fixed broadband was strong, with 70.8 thousand net adds to 993.0 thousand subscribers. Fixed voice performance, also still under the impact of merger remedies, amounted to the net loss of 37.3 thousand customers over FY14.

### **IRIS as a core differentiator of NOS' TV service: TV of the future**

NOS' cloud based, multi-device TV interface, IRIS, is a key driver of NOS' TV and entertainment strategy and is today the default interface for all offers. Increasing penetration of IRIS is a strategic priority as it is a key enabler of customer satisfaction and retention.

In FY14, IRIS continued to achieve very strong growth, with an additional 256 thousand customers. Total IRIS subscribers are now 693.6 thousand, representing almost 60% of the cable pay TV base and over 81% of the 3&4P customer base. Usage of IRIS is growing exponentially, with over 140 million interactions per day, over 90 thousand streams at peak time and 165 thousand unique accesses to the Youtube player.

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

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

NOS continued to improve the IRIS interface and integrate innovative new features and apps in 2014. 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 apps launched during 2Q14 were the World Cup 2014 with a complete interactive events timeline and a new games app for old favourites such as Pacman, Tron, and Sokoban, amongst others.

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

Over the past months NOS has introduced a number of upgrades and innovations to the platform, making it even more streamlined and appealing, with more personalized and unique content recommendations, faster and easier to navigate search options and availability over more platforms, including mobile apps. What started out as a TV interface within the set-top-box is now available everywhere, using an internet based portal that allows customers to access their content and personal data and using the most popular mobile platforms such as Android, iOS and Windows Phone.

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

Growth in convergent bundles continues to drive strong growth in the mobile customer base of 12.3% yoy to 3.643 million subscribers. In FY14, NOS' mobile net adds were 399.8 thousand, reflecting a net increase in the post-paid base of 560.0 thousand and a net decline in the pre-paid base of 160.2 thousand.

The momentum behind convergent take up is leading to a structural shift in market shares in the mobile market and with consumers preferring post-paid all-you-can-eat contract bundles, associated typically with 24 month loyalty periods. At the end of 2014 just 57.4% of mobile services were pre-paid, compared with 69.4% in 2013, a reduction of 12 pp yoy. The attractiveness of including mobile services into convergent bundles derives primarily from the higher mobile usage plans available, with unlimited mobile calls and sms.

Smartphone penetration is posting significant growth, as is the case of mobile data. Smartphones are now approximately 43% of the handset base at NOS and this is supporting very significant growth in mobile data traffic.

**Focus on customer activation and installation in large corporate segment, continued success in acquiring new accounts**

**Strong growth in business RGUs offset by very difficult pricing environment**

RGUs in the Business segment are performing well, up 8.4% yoy to 1,064.5 million, led by growth in Pay TV services of 24% to 85.4 thousand, of 19.8% in Fixed Broadband services to 109.2 thousand and of 6.7% in mobile services to 668.9 thousand.

In the small and mid-sized business market, almost 50% of the accounts already contract integrated fixed and mobile solutions from NOS, providing a whole range of voice, internet, TV, data and cloud based services. Additionally, more and more customers in this small business and SME segment require more sophisticated telecom services such as data network management, managed voice and internet services. NOS today is able to meet the needs of the segment with its integrated and convergent positioning, leveraging its unique combination of next generation network assets. Although posting very significant RGU growth, the pricing environment in the small and mid-sized business market remains very competitive and yoy declines in revenues per account are still too high to be offset by volume growth in services provided.

In the Corporate segment, the first of the large accounts won during 2014 are now close to activation and revenue generation. Over the coming months, additional revenues from new accounts will start to come on stream as and when their installations are completed, a process that tends to take between 6-9 months.

The integration of Mainroad, the leading IT and datacentre management company acquired in September, into NOS' B2B area is going well and already facilitating a more integrated and consistent approach to corporate clients with more IT solutions. ICT is a key area of NOS' strategy, essential to strengthen competitive position as a provider of integrated solutions for the Corporate and SME segments whilst leveraging NOS' strong convergent footprint to grow, particularly in the fixed voice, data and services markets.

### **Strong RGU and convergent penetration driving ARPU**

The strategy to drive residential convergence is delivering results not only in terms of RGU growth but also measured by the revenue generated per billing relationship, ARPU/Unique Subscriber with Fixed Access. In FY14, residential ARPU grew by 4.7% to 38.2 euros benefitting from the increased proportion of customers subscribing to higher value monthly bundled offers and despite like for like price pressure being felt in the market due to aggressive competitor promotions in the stand alone triple play market.

At the end of 2014, NOS notified customers of a price increase which became effective at the start of 2015. For example the 4P Light bundle increased from € 49.99 to €51.99.

Mobile ARPU posted a 3.7% decrease yoy to 9.3 euros, reflecting the fact that the substantial growth in post-paid convergent mobile subscribers is helping to mitigate the underlying revenue pressure felt in stand-alone mobile consumption.

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

### **Network rollout**

NOS' network rollout programme to reach an additional 500 to 550 thousand households, is on track, with the preparatory survey, licencing and infrastructure roll-out in progress. In 2014, NOS increased the number of households passed by around 80 thousand and is now poised to drive increased commercial activity in these new areas. Total households passed at the end of 2014 were 3.326 million, an increase of 2.6% yoy.

Major integration projects are well underway in terms of NOS' transport network, originated both by the need to converge ZON and OPTIMUS' networks but also by the need to expand the network due to increased traffic volumes led by the commercial success of past quarters.

The combination of assets and optic fibre circuits from the two previous companies, is leading to the development of a single, nationwide network with greater coverage, availability and capacity whilst at the same time allowing for greater cost and maintenance efficiency.



Operating Indicators ('000)	2013	2014	2014 / 2013
<b>Telco <sup>(1)</sup></b>			
<b>Aggregate Indicators</b>			
Homes Passed	3,241.8	3,325.7	2.6%
Total RGUs	7,213.0	7,610.5	5.5%
Mobile	3,243.4	3,643.2	12.3%
Pre-Paid	2,251.0	2,090.8	(7.1%)
Post-Paid	992.4	1,552.4	56.4%
ARPU / Mobile Subscriber (Euros)	9.6	9.3	(3.7%)
Pay TV	1,518.0	1,476.8	(2.7%)
Fixed Access <sup>(2)</sup>	1,203.8	1,166.6	(3.1%)
DTH	314.2	310.2	(1.3%)
Fixed Voice	1,514.9	1,477.6	(2.5%)
Broadband	922.1	993.0	7.7%
Others and Data	14.6	20.0	37.1%
3,4&5P Subscribers (Fixed Access)	807.0	851.6	5.5%
% 3,4&5P (Fixed Access)	67.0%	73.0%	6.0pp
Convergent RGUs	212.4	1,853.3	n.a.
Convergent Customers	45.2	384.6	n.a.
Convergent Customers as % of Fixed Access Customers	3.8%	29.2%	25.4pp
IRIS Subscribers	437.6	693.6	58.5%
IRIS as % of 3,4&5P Subscribers (Fixed Access)	54.2%	81.4%	27.2pp
<b>Net Adds</b>			
Homes Passed	56.3	83.9	49.1%
Total RGUs	(143.9)	397.5	n.a.
Mobile	(61.7)	399.8	n.a.
Pre-Paid	(157.4)	(160.2)	1.8%
Post-Paid	95.7	560.0	n.a.
Pay TV	(75.6)	(41.3)	(45.5%)
Fixed Access <sup>(2)</sup>	(33.7)	(37.2)	10.3%
DTH	(41.9)	(4.0)	(90.4%)
Fixed Voice	(42.8)	(37.3)	(12.9%)
Broadband	34.4	70.8	106.0%
Others and Data	1.9	5.4	186.4%
3,4&5P Subscribers (Fixed Access)	14.7	44.6	204.2%
Convergent RGUs	212.4	1,640.8	n.a.
Convergent Customers	45.2	339.4	n.a.
IRIS Subscribers	202.8	256.0	26.2%

(1) Portuguese Operations

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

Operating Indicators ('000)	2013	2014	2014 / 2013
<b>Telco <sup>(1)</sup></b>			
<b>Indicators per Segment</b>			
<b>Consumer</b>			
Total RGUs	6,231.2	6,546.0	5.1%
Unique Subscribers With Fixed Access <sup>(2)</sup>	1,178.3	1,106.6	(6.1%)
Pay TV	1,449.1	1,391.3	(4.0%)
Fixed Access	1,149.3	1,102.6	(4.1%)
DTH	299.8	288.7	(3.7%)
IRIS Subscribers	424.9	668.4	57.3%
Broadband	845.6	903.8	6.9%
Fixed Voice	1,319.8	1,276.6	(3.3%)
Mobile	2,616.7	2,974.3	13.7%
% 1P (Fixed Access)	14.7%	11.4%	(3.3pp)
% 2P (Fixed Access)	18.5%	16.3%	(2.2pp)
% 3,4&5P (Fixed Access)	66.7%	72.3%	5.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	36.4	38.2	4.7%
<b>Net Adds</b>			
Total RGUs	(181.7)	(181.7)	0.0%
Unique Subscribers With Fixed Access	(44.8)	(71.7)	60.2%
Pay TV	(70.6)	(57.8)	(18.1%)
Fixed Access	(31.4)	(46.7)	48.8%
DTH	(39.2)	(11.1)	(71.7%)
IRIS Subscribers	197.7	243.4	23.2%
Broadband	34.9	58.2	67.0%
Fixed Voice	(43.9)	(43.2)	(1.7%)
Mobile	(102.0)	357.6	n.a.
<b>Business</b>			
Total RGUs	981.9	1,064.5	8.4%
Pay TV	68.9	85.4	24.0%
IRIS Subscribers	12.7	25.2	99.0%
Broadband	91.1	109.2	19.8%
Fixed Voice	195.2	201.0	3.0%
Mobile	626.7	668.9	6.7%
ARPU per RGU (Euros)	26.4	22.5	(14.5%)
<b>Net Adds</b>			
Total RGUs	37.8	82.7	118.8%
Pay TV	(5.0)	16.6	n.a.
IRIS Subscribers	5.1	12.5	146.1%
Broadband	1.4	18.0	1176.1%
Fixed Voice	1.1	5.9	446.4%
Mobile	40.4	42.2	4.7%

(1) Portuguese Operations

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

Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

## Cinemas and audiovisuals

Operating Indicators ('000)	2013	2014	2014 / 2013
<b>Cinema <sup>(1)</sup></b>			
Revenue per Ticket (Euros)	4.7	4.7	0.3%
Tickets Sold	7,904.7	7,277.5	(7.9%)
Screens (units)	209	214	2.4%

(1) Portuguese Operations

In FY14, NOS' Cinema ticket sales posted a decline of 7.9% to 7.277 million tickets, which compares with a decline in like-for-like, total market ticket sales of 10.1%<sup>2</sup>, adjusted for the reopening of several screens by another operator.

The most successful films shown in 2014 were "The Hunger Games: Mockingjay Part 1", "Lucy", "Penguins of Madagascar", "The Hobbit: The Battle of the Five Armies" and "Rio 2".

NOS opened the first IMAX® DMR - Digital 3D screen in Lisbon in June 2013. This premium cinema experience continues to prove very successful, having already achieved a total of around 276 thousand spectators so far, in its first 18 months of operation.

Average revenue per ticket sold remained stable yoy at 4.7 euros in 2014.

Sales of 3D movie tickets were lower yoy in 2014 as a proportion of NOS' ticket sales, representing close to 8%, whereas they had represented close to 11% in 2013. 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.

NOS' gross box-office revenues decreased by 7.7% in FY14, however NOS continues to maintain its leading market position, with a market share of 61.6% in terms of gross revenues in FY14. As a result of the abovementioned lower ticket sales, total Cinema Exhibition revenues declined by 7.3% yoy in FY14 to 49.0 million euros.

<sup>2</sup> Source ICA – Portuguese Institute for Cinema and Audiovisuals

Revenues in the Audiovisuals division declined by 3.6% yoy, to 58.5 million euros in FY14. Revenues were impacted primarily by a tough comparison with FY13, when NOS Audiovisuals' cinema distribution revenues were supported by the strong performance of the top 3 cinema blockbusters of the year, "The Gilded Cage", "Fast & Furious 6" and "Frozen", which were distributed by NOS, and all sold more tickets than the top overall film of FY14, "The Hunger Games: Mockingjay Part 1". Of the top 10 cinema box-office hits in 2014, NOS distributed 7, "Lucy", "The Hobbit: The Battle of the Five Armies", "Interstellar", "The Wolf of Wall Street", "12 Years a Slave", "Maleficent" and "Noah", therefore maintaining its leading position with a 57.2% market share in terms of gross revenues.

## ZAP

ZAP has become a reference operator in Angola and Mozambique, 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. As such, it has opened ten new stores, six in Angola (Cachito-Bengo, Soyo-Zaire, Dundo-Lunda Norte, Rocha Pinto-Luanda, Cacucaco-Luanda and M'Banza Congo-Zaire) and four in Mozambique (Tete, Beira, Nampula and Cabo Delgado-Pemba). ZAP now has 32 own stores in Angola and 9 in Mozambique. In Mozambique ZAP is expanding its commercial coverage through a new sales channel (Van Selling) which can reach the most distant regions.

ZAP 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 2014, ZAP added seven new channels to its packages, BLAST – a movie channel dubbed in Portuguese dedicated to the best action movies of the last two decades, 1Music – a music channel dedicated to the best African music, Hip Hop and Raggae, among others, CMTV – a generalist channel which broadcasts a wide range of television genres from sports to international economics, politics, celebrities and fashion, Sporting TV – a channel targeted to Sporting fans that broadcasts exclusive sports content including Sporting's football academy, reports, forums and other formats, SIC Caras – which takes a specialized 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 – one of the free access channels in Mozambique, and Cubavision.

# Financial Results

The following Consolidated Financial Statements have been subject to full audit.

## Consolidated income statement

<b>Pro-Forma Profit and Loss Statement*</b> (Millions of Euros)	2013	2014	2014 / 2013
Operating Revenues	1,426.8	1,383.9	(3.0%)
Telco	1,358.7	1,321.8	(2.7%)
Consumer Revenues	865.1	820.0	(5.2%)
Business Revenues	395.3	393.8	(0.4%)
Equipment Sales	35.9	41.9	16.8%
Others and Eliminations	62.5	66.0	5.7%
Audiovisuals	60.6	58.5	(3.6%)
Cinema <sup>(1)</sup>	52.9	49.0	(7.3%)
Others and Eliminations	(45.4)	(45.3)	(0.2%)
Operating Costs Excluding D&A	(890.3)	(873.5)	(1.9%)
W&S	(96.6)	(85.3)	(11.8%)
Direct Costs	(410.9)	(407.6)	(0.8%)
Commercial Costs <sup>(2)</sup>	(99.4)	(106.1)	6.8%
Other Operating Costs	(283.3)	(274.5)	(3.1%)
EBITDA	536.6	510.5	(4.9%)
EBITDA Margin	37.6%	36.9%	(0.7pp)
Telco	499.4	472.5	(5.4%)
EBITDA Margin	36.8%	35.7%	(1.0pp)
Cinema Exhibition and Audiovisuals	37.2	37.9	2.1%
EBITDA Margin	36.1%	38.8%	2.7pp
Share of results of associates and joint ventures	3.9	13.9	259.6%
EBITDA including results of associates and joint ventures	540.4	524.4	(3.0%)
Depreciation and Amortization	(336.2)	(339.3)	0.9%
(Other Expenses) / Income	(60.9)	(37.6)	(38.2%)
Operating Profit (EBIT) <sup>(3)</sup>	143.4	147.5	2.9%
(Financial Expenses) / Income	(66.4)	(55.2)	(16.9%)
Income Before Income Taxes	76.9	92.3	19.9%
Income Taxes	(13.1)	(17.2)	31.4%
Income From Continued Operations	63.9	75.1	17.6%
o.w. Attributable to Non-Controlling Interests	(0.4)	(0.4)	(17.7%)
Net Income	63.4	74.7	17.8%

(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. 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.

Note: During 4Q14, the criteria for segment allocation between consumer and business were revised and figures were adjusted accordingly.

## Operating revenues

Consolidated Operating Revenues declined by 3.0% in FY14 to 1,383.9 million euros. Telco revenues declined by 2.7% in FY14 to 1,321.8 million euros and reflected a clearly improving yoy quarterly trend (-3.9% in 1Q14; -3.4% in 2Q14; -3.1% in 3Q14 and -0.5% in 4Q14).

In FY14, Consumer revenues declined by 5.2% yoy to 820.0 million euros. Consumer revenues posted a material improvement in trend in 4Q14 with a 2.5% yoy decline to 205.2 million euros (5.4% in 3Q14). Within Consumer revenues, residential revenues declined by 2.0% in FY14, albeit also with an improved performance in trends throughout the year due to the increased penetration of convergent bundles, both cable and DTH, that is driving growth in RGUs and ARPU. Personal mobile revenues still posted a material yoy decline, explained primarily by the structural shift from stand alone mobile services into convergent offers.

Business revenues posted a slight decline of 0.4% yoy to 393.8 million euros, reflecting primarily a yoy decrease in customer revenues of 7.3% which was compensated by growth in wholesale operator revenues. The yoy decline in customer revenues results from a combination of positive RGU performance which was more than offset by the already discussed negative pricing environment mainly felt in the SoHo and SME market.

Equipment sales also continued to register significant yoy growth of 16.8% yoy to 41.9 million euros led by the efforts to increase handset sales with very proactive handset campaigns associated with convergent bundles and post-paid mobile offers.

Revenues from the Audiovisuals business recorded a decline of 3.6% yoy to 58.5 million euros and revenues generated by the Cinema business decreased by 7.3% yoy to 49 million euros as a result of a weaker year in terms of box-office sales.

ZAP continues to post significant growth in revenues, on the back of very strong operational growth, with NOS' 30% stake in revenues increasing 33.0% yoy to 61.9 million euros.

## EBITDA

Consolidated EBITDA fell by 4.9% in FY14 to 510.5 million euros generating a margin of 36.9%. Telco EBITDA fell by 5.4% in FY14 to 472.5 million euros reflecting an improving yoy quarterly trend (-8.1% in 1Q14, -5.0% in 2Q14, -4.3% in 3Q14 and -3.7% in 4Q14). EBITDA from the Audiovisuals and Cinema operations posted a yoy improvement of 2.1% to 37.9 million euros. The EBITDA of NOS' 30% stake in ZAP grew by 59.0% yoy to 22.6 million euros.



## Consolidated operating costs excluding D&A

Consolidated Operating Costs declined by 1.9% yoy to 873.5 million euros.

Wages and Salaries fell by 11.8% yoy to 85.3 million euros in FY14 explained by headcount reduction since completion of the merger, most of which in the telecom division.

Direct Costs recorded a 0.8% decrease to 407.6 million euros. Increasing traffic volumes led by the take-up of all-net mobile tariffs included in convergent tariff plans, is driving the number of calls terminated on other operator networks, which imply higher termination costs. Traffic costs, which represent almost 50% of the Direct Costs line, increased by 8.6% yoy. The other main Direct Costs are capacity and programming costs which posted yoy declines of 14.6% and 7.4% respectively, therefore offsetting the higher traffic costs.

Commercial Costs were up 6.8% yoy to 106.1 million euros reflecting a combination of higher costs of goods sold due to the already discussed increase in handset sales, which grew by 36.7% yoy, and a decline in marketing costs.

Other Operating Costs posted a decrease of 3.1% to 274.5 million euros. The main drivers of this cost aggregate are support services, maintenance and repairs and supplies and external services, with savings achieved mainly in supplies and external services, driven mostly by integration led cost savings.

## Net income

Net Income was 74.7 million euros in FY14, compared with 63.4 million euros in FY13, representing a yoy improvement of 17.8%.

Equity in affiliate companies grew materially by 259.6% yoy to 13.9 million euros driven by yoy growth in financial contribution from the international JV, ZAP, which amounted to 16.1 million euros in FY14 (compared with 7.1 million euros in FY13) and which was offset by a negative yearly contribution from other JVs of 2.2 million euros.

Depreciation and Amortization increased slightly by 0.9% yoy to 339.3 million euros as a result of the higher level of investment in both network assets and customer related costs.

Other Expenses<sup>3</sup> of 37.6 million euros in FY14 relate to non-recurrent merger related costs, with 4Q14 presenting a very material reduction from the levels of previous quarters due to the fact that the most significant non recurrent merger related costs, such as curtailment and the new brand launch related costs, had already been fully booked.

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<sup>3</sup> 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.

Net Financial Expenses fell by 16.9% to 55.2 million euros in FY14 compared with 66.4 million euros in FY13 as a result of the lower average level of gross debt and the lower average cost of the new debt contracted in the previous quarter. Net interest charges in FY14 were 36.3 million euros compared with 46.7 million euros in FY13. Additional savings in net interest charges will continue to materialize in coming quarters due to the 175 million euros floating rate note issued in 3Q14 at a significantly lower cost to replace existing facilities and due to the two new commercial paper programmes finalized already in February 2015 to replace existing lines and thereby extending maturities whilst reducing the average cost and amount of debt contracted. Further details of these facilities are explained ahead in the section on capital structure.

Income Tax provision amounted to 17.2 million euros in FY14 representing 19% of Income before Income Taxes. Effective Tax rate is lower than statutory tax rate due to the deferred tax assets booked for tax and incentive programmes amongst other impacts. These more than offset the negative impact on deferred tax assets of the downward revision in tax rate from 23% to 21% for 2015.

## CAPEX

Recurrent CAPEX amounted to 275.8 million euros in FY14, an increase of 5.5% yoy led mostly by a higher proportion of customer related CAPEX which grew by 9.0% to 135.6 million euros.

Total CAPEX of 374.4 million euros incorporated an increase in non recurrent CAPEX to 98.6 million euros, reflecting the new network rollout and higher levels of customer related investment.

The success recorded in winning large new corporate accounts over the last quarters is also driving a material growth in non-recurrent CAPEX required to start servicing the new accounts and which will be depreciated over the lifetime of the contracts.

Major Corporate accounts reflected CAPEX amounting to 31.8 million euros in FY14 and this represents the PV of the financial leasing payments, therefore it is not a cash item.

Audiovisuals and Cinema CAPEX of 32.0 million euros is related mostly with the capitalization of certain movie rights in the Audiovisuals division and represented a 6.7% yoy increase in FY14.

As a percentage of Telecom revenues, recurrent Telecom CAPEX amounted to 18.4% in FY14 and total recurrent CAPEX represented 19.9% of Total Revenues.

<b>Pro-Forma CAPEX</b> (Millions of Euros)	2013	2014	2014 / 2013
Telco	231.4	243.8	5.3%
Infrastructure	98.2	94.6	(3.7%)
Customer Related CAPEX	124.4	135.6	9.0%
Other	8.7	13.6	55.3%
Audiovisuals and Cinema Exhibition	30.0	32.0	6.7%
Recurrent CAPEX	261.4	275.8	5.5%
Non-Recurrent CAPEX	8.1	98.6	n.a.
Total CAPEX	269.5	374.4	38.9%

## Cash flow

<b>Pro-Forma Cash Flow</b> (Millions of Euros)	2013	2014	2014 / 2013
EBITDA	536.6	510.5	(4.9%)
Recurrent CAPEX	(261.4)	(275.8)	5.5%
EBITDA - Recurrent CAPEX	275.2	234.7	(14.7%)
Non-Cash Items Included in EBITDA - Recurrent CAPEX <sup>(1)</sup> and Change in Working Capital	(29.6)	(31.4)	6.1%
Operating Cash Flow After Investment	245.6	203.3	(17.2%)
Long Term Contracts	(23.7)	(18.4)	(22.1%)
Net Interest Paid and Other Financial Charges	(59.2)	(46.6)	(21.4%)
Income Taxes Paid	(18.2)	8.2	n.a.
Other Cash Movements	3.2	1.2	(60.9%)
Recurrent Free Cash-Flow	147.6	147.7	0.1%
LTE Payments	(28.0)	0.0	(100.0%)
Taxes Paid	(7.7)	(1.2)	(84.7%)
Non-Recurrent CAPEX	(8.1)	(54.8)	n.a.
Cash Restructuring Payments	(11.5)	(30.0)	161.2%
Other	0.0	1.1	n.a.
Free Cash Flow Before Dividends & Financial Acquisitions	92.3	62.8	(31.9%)
Foreign Currency Debt Exchange Effect	(0.1)	0.1	n.a.
Acquisitions of Financial Investments	0.0	(14.0)	n.a.
New Companies' Net Debt	0.0	0.6	n.a.
Dividends	(62.0)	(62.0)	0.1%
Total Free Cash Flow	30.3	(12.5)	n.a.
Debt Variation Through Accruals & Deferrals & Others <sup>(2)</sup>	(0.7)	31.3	n.a.
Change in Net Financial Debt	(31.0)	43.8	n.a.

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

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

Operating Cash Flow after Investment posted a yoy decline of 17.2% in FY14 to 203.3 million euros due to the previously explained decline in EBITDA of 4.9% and the increase in Recurrent CAPEX of 5.5% to 275.8 million euros.

Recurrent FCF remained nearly flat in FY14 at 147.7 million euros as a result of the lower operating cash flow after investment explained above, which was offset by interest payment and other financial charges 21.4% lower yoy at 46.6 million euros due to the lower yoy average cost and volume of debt, lower transponder payments yoy reflected in the LTC line due to the savings achieved with the renegotiation of transponder contract terms at the end of 2012, and a positive cash tax inflow due to recovery in 3Q14 of advance tax payments made in excess on the previous year's taxable income.

Non-recurrent cash impacts on CAPEX and OPEX in FY14 amounted to 54.8 million euros and 30.0 million euros, respectively, and were mainly related with cash payments within the context of additional commercial activity as explained in the section on CAPEX and to integration related CAPEX from the restructuring/merger process.

Free Cash Flow before Dividends and Financial Acquisitions was -12.5 million euros in FY14. Adjusted for interest accruals and deferrals on debt variations, net financial debt increased by 43.8 million euros in FY14. Most of this impact relates to the accounting of the financial leasing contracts related to the large corporate accounts. In 3Q14 NOS also acquired Mainroad, a leading IT and datacenter management operator in Portugal for 14 million euros. The cash outflow relating to this transaction is reflected in acquisitions of financial investments.

## Pro-forma consolidated balance sheet

<b>Pro-Forma Balance Sheet</b> (Millions of Euros)	2013 restated	2014
Current Assets	454.8	468.0
Cash and Equivalents	74.4	21.1
Accounts Receivable, Net	309.6	359.2
Inventories, Net	32.6	33.0
Taxes Receivable	11.8	5.0
Prepaid Expenses and Other Current Assets	26.4	49.7
Non-current Assets	2,475.0	2,488.0
Investments in Group Companies	31.6	31.5
Intangible Assets, Net	1,160.6	1,164.2
Fixed Assets, Net	1,096.8	1,141.8
Deferred Taxes	156.5	141.1
Other Non-current Assets	29.5	9.3
Total Assets	2,929.9	2,955.9
Current Liabilities	762.2	1,102.0
Short Term Debt	213.4	503.5
Accounts Payable	367.6	391.7
Accrued Expenses	129.9	163.2
Deferred Income	25.5	29.1
Taxes Payable	23.0	14.6
Current Provisions and Other Liabilities	2.8	0.0
Non-current Liabilities	1,107.4	793.8
Medium and Long Term Debt	928.2	616.5
Non-current Provisions and Other Liabilities	179.2	177.3
Total Liabilities	1,869.7	1,895.8
Equity Before Non-Controlling Interests	1,050.6	1,050.3
Share Capital	5.2	5.2
Issue Premium	854.2	854.2
Own Shares	(2.0)	(11.8)
Reserves, Retained Earnings and Other	129.8	128.0
Net Income	63.4	74.7
Non-Controlling Interests	9.6	9.8
Total Shareholders' Equity	1,060.2	1,060.1
Total Liabilities and Shareholders' Equity	2,929.9	2,955.9



## Capital structure

At the end of 2014, Net Financial Debt stood at 983.5 million euros.

Total financial debt at the end of 2014 amounted to 1,006.6 million euros, which was offset with a cash and short-term investment position on the balance sheet of 23.1 million euros. At the end of 2014, NOS also had 185 million euros of non-issued commercial paper programs. The all-in average cost of NOS' Net Financial Debt was 4.83% for 2014.

Net Financial Gearing was 48.1% at the end of 2014 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.9x.

The average maturity of NOS' Net Financial Debt at the end of 2014 was 2.63 years.

Total interest rate hedging operations in place at the end of 2014 amounted to 275 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 59%.

During FY14 NOS completed a bond issue of 175 million euros, through a private offering, with a 6 year term. These new notes were issued together with the early redemption of an existing bond (issued originally by Sonaecom in September 2011, and transferred to NOS following the merger) in the amount of 100 million euros and the purchase, for the purpose of cancellation, of the existing ZON 2010-2014 Notes issued in November 2010 in the amount of 25 million euros.

The new NOS 201-2020 notes will be fully redeemed at the end of term in September 2020, the interest rate is floating with a spread of 215 bps, and the first coupon is due in March 2015.

In line with its global funding strategy to extend maturities and reduce cost of debt, in February 2015, NOS announced that it had renegotiated two commercial paper programmes with Caixa Geral de Depósitos and Novo Banco. The new lines represent together a reduction in contracted debt from 280 million euros to 175 million euros, extending maturities to 2018 and under significantly more favourable financial terms.

<b>Pro-Forma Net Financial Debt</b> (Millions of Euros)	2013	2014	2014 / 2013
Short Term	196.0	483.9	146.9%
Bank and Other Loans	187.5	468.6	150.0%
Financial Leases	8.6	15.2	78.3%
Medium and Long Term	821.7	522.7	(36.4%)
Bank and Other Loans	811.5	493.8	(39.2%)
Financial Leases	10.1	28.9	185.3%
Total Debt	1,017.7	1,006.6	(1.1%)
Cash, Short Term Investments and Intercompany Loans	78.0	23.1	(70.3%)
Net Financial Debt	939.7	983.5	4.7%
Net Financial Gearing <sup>(1)</sup>	47.0%	48.1%	1.1pp
Net Financial Debt / EBITDA	1.8x	1.9x	n.a.

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

## Proposal for the Application and distribution of profits

As per the Balance Sheet and Profit and Loss Statement of the individual accounts, Net Income for the year ended in 31 December 2014 was 6,135,855.42 euros. This value results from the fact that the company has, according to the applicable accounting standards, reflected in its accounts the value of 946,000 euros as the amount to be distributed to the Directors of the company.

The Board of Directors proposes that all the net profit that can be distributed under article 32 of the Companies' Code, in the amount of 6,135,855.42 euros, is paid to the shareholders, plus 65,986,737.78 euros from the Free Reserves, which represents a total pay-out in ordinary dividends for 2014 of 72,122,593.20 euros (equivalent to 0.14 euros per share given the number of shares that have been issued);

That, as it is not possible to determine exactly the number of own shares held by the company at the date of the aforementioned payment date, the total amount of 72,122,593.20 euros provided in the previous paragraph, calculated using the unit amount per issued share (0.14 euros per share) shall be distributed as dividends as follows:

- a) Each share issued shall be paid the unit amount of 0.14 euros as stated in this proposal;
- b) The unit amount corresponding to the shares, which on the first day of the payment period mentioned above are held by the company itself, shall not be paid out, but shall be transferred to retained earnings.

It is also proposed that the Directors of the company shall be attributed, as participation in the company's results, the above mentioned amount of 946,000 euros, according to the criteria set by the Board of Directors.



The main stages of the integration process, having been finalised, 2014 marked the start of construction of the new strategy of corporate sustainability of NOS and the start of a number of projects in areas previously identified as relevant. NOS intends to be in the market in a socially and environmentally responsible fashion, creating value – in the short, medium and long term – for its shareholders and other stakeholders.

During the year, efforts were directed at four key areas: definition of the sustainability strategy; certification of the Integrated Quality and Environment Management System; creation of a performance indicator system; and Ethics.

### **Sustainability strategy**

Sustainability management at NOS is performed through two cycles: the strategic cycle (three-year), in which material issues are identified, strategy is defined and short- and medium-term objectives are established; and the operational cycle (annual), in which measures are defined to achieve the objectives, performance is monitored and internal and external verification audits are performed.

In 2014, a start was made to the first NOS strategic cycle, a lengthy sectoral benchmark exercise having been performed, which allowed a mapping of the most relevant sustainability issues for the telecommunications sector and a reflection on how one can respond to them. During the first half of 2015 a materiality analysis will be concluded through an in-house risk and opportunity assessment process, complemented by extensive consultation with external stakeholders. The results will form the basis for the definition of the NOS sustainability strategy, which will guide its action during the 2015-18 period.

### **Integrated management system**

Early in the second half of 2014, the extension of the Integrated Management System to the entire telecommunications business of NOS was concluded, and the respective certification was obtained under the NP EN ISO 9001 (Quality) and NP EN ISO 14001 (Environment) standards. ISO 9001 certification recognises the efforts towards ongoing improvement of the NOS processes, the conformity of its products and services, the reliability of its network and the satisfaction of its customers. ISO 14001 certification recognises the measures taken to identify and control the impacts of NOS and the ongoing improvement of its environmental performance, both in its own activities and in the entire value chain.

In 2015 the implementation of a comprehensive internal audit plan will be continued, the development of a new management model by processes that best represent how the NOS business is carried out will be finalised, and the integrated management system will be consolidated in every area of the telecommunications business.

### Performance indicators

To optimise the monitoring of its performance, a start will be made during the fourth quarter of 2014 to the creation of a system of sustainability indicators. Based on the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative, a set of indicators has been defined covering economic, environmental and social aspects – including human resources, human rights, society and product responsibility – relevant to the business of NOS.

After a first stage of systematisation of detailed definitions suited to the NOS reality, a survey was conducted of the sources, supports and those responsible for the information required for the calculation of the indicators. At the same time, a start was made to implementation of the indicators on an IT platform, through which the intention is to make the process of data collection, processing and reporting more reliable and efficient.

In the first half of 2015, the platform parameterisation will be completed and, in the second half, a start will be made to the monitoring of the performance of NOS based on the new system.

### Ethics

Ethics is a key issue for NOS, a basic principle that it seeks to incorporate into all relationships established, both internal and external. It is for its conduct, attitudes and decisions that NOS is evaluated by customers, suppliers and business partners. It is by consistent application of its principles that it earns and retains their trust, the most precious asset.

A new Code of Ethics was approved during 2014 and the NOS Ethics Committee was created. A start was also made to the development of communication and training tools to be implemented in 2015, as were mechanisms for reporting possible irregularities, aimed at ensuring effective implementation of the principles established in the Code of Ethics.

### Human resources

Its people are the key competitive advantage of NOS. And this is precisely why it intends to be the reference company in attracting and developing talent. NOS works tirelessly to ensure best practices in people management and believes that merit and knowledge-sharing lead to its success as a team.

It was on this assumption that a new Career Management model was designed, based on the Organisational Group concept, which values both the technical career and the management career on an equal footing. This new model will be an important axis in orienting the Human Resources policy and, in parallel with the NOS Corporate University, it will be central to talent management, internal mobility and career development. So much so that the latter will be designed based on different knowledge clusters suited to the needs of each employee.

The success of these initiatives is also due to the participatory manner in which they were built and implemented. It was a through regular communication of the respective principles and objectives, through multiple workshops and clarification sessions, involving the employees as a whole, that the total alignment of the organisation was assured.

Looking to be faithful to the principle that what is done is done for everyone and believing that if this assumption is fulfilled, NOS will have more involved, more motivated and more committed people. It is from this standpoint that work is already being carried out on the future development and potential model to be implemented next year. Based on universality, transparency and accountability, this tool will be a fundamental pillar in the construction of a culture of ambition and leadership.

### Other relevant impacts

Alongside the consolidation strategies and systems essential to the sustainability commitment made by NOS in 2014, projects in areas previously identified as relevant were also developed.

On the environmental side, attention is drawn to the review and standardisation of energy and waste management procedures at all the facilities, including offices, shops and technical infrastructure. We likewise made a start to a task that is to be structural in the supply chain, which aims to establish requirements, in particular of an environmental and social nature, for all suppliers in order to improve their performance.

A start was made to the development of the NOS Sponsorship Policy and the Intervention in the Community Programme was drafted, which will start to be implemented in 2015. It involved contacts with many third-sector organisations in order to jointly draw up information and communication technology (ICT) projects impacting both on these organisations and on their target public. For the nature of the sector in which it operates, NOS is a driver of social change, developing solutions that improve the efficiency of organisations and people's quality of life. NOS believes that its responsibility is to contribute to building a more inclusive society, promoting access to new technologies for all, regardless of age, ability, language, culture and technological literacy.

This challenge will be pursued in 2015, working in partnership with the private and public sectors and with third-sector organisations.

2015 will likewise see fulfilment of the objective – initially set for the beginning of the year – of publication of the first NOS sustainability report, in which its governance structure and 2015-18 sustainability strategy will be presented to its stakeholders, together with its plans of action and the 2014 monitoring of some of its key sustainability indicators.

# Consolidated **Financial Statements**





## Consolidated statement of financial position at 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in thousands of euros)

	NOTES	31-12-2013 REPORTED	31-12-2013 RESTATED	31-12-2014
<b>ASSET</b>				
<b>NON - CURRENT ASSETS</b>				
Tangible assets	8	1,096,823	1,096,823	1,141,770
Investment property		801	801	708
Intangible assets	9	1,111,107	1,160,599	1,164,207
Investments in jointly controlled companies and associated companies	10	31,614	31,614	31,544
Accounts receivable - other	11	5,173	5,173	4,311
Tax receivable	12	4,226	4,226	4,232
Available-for-sale financial assets	13	19,329	19,329	77
Deferred income tax assets	14	165,416	156,467	141,115
<b>TOTAL NON - CURRENT ASSETS</b>		<b>2,434,489</b>	<b>2,475,032</b>	<b>2,487,964</b>
<b>CURRENT ASSETS:</b>				
Inventories	15	32,579	32,579	33,013
Accounts receivable - trade	16	276,630	276,630	331,527
Accounts receivable - other	11	32,999	32,999	27,652
Tax receivable	12	11,830	11,830	5,022
Prepaid expenses	17	25,546	25,546	47,742
Non-current assets held-for-sale		678	678	1,574
Derivative financial instruments	18	-	-	368
Other current assets		199	199	-
Cash and cash equivalents	19	74,380	74,380	21,070
<b>TOTAL CURRENT ASSETS</b>		<b>454,841</b>	<b>454,841</b>	<b>467,968</b>
<b>TOTAL ASSETS</b>		<b>2,889,330</b>	<b>2,929,873</b>	<b>2,955,931</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	20.1	5,152	5,152	5,152
Capital issued premium	20.2	854,219	854,219	854,219
Own shares	20.3	(2,003)	(2,003)	(11,791)
Legal reserve	20.4	3,556	3,556	3,556
Other reserves and accumulated earnings	20.4	178,864	178,864	124,464
Net income		10,810	10,810	74,711
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>		<b>1,050,598</b>	<b>1,050,598</b>	<b>1,050,311</b>
Non-controlling interests	38	9,615	9,615	9,818
<b>TOTAL EQUITY</b>		<b>1,060,213</b>	<b>1,060,213</b>	<b>1,060,129</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES</b>				
Borrowings	21	928,239	928,239	616,526
Provisions	22	92,429	132,972	127,221
Accrued expenses	23	28,705	28,705	24,954
Deferred income	24	2,060	2,060	5,984
Derivative financial instruments	18	-	-	1,899
Deferred income tax liabilities	14	15,456	15,456	17,237
<b>TOTAL NON - CURRENT LIABILITIES</b>		<b>1,066,889</b>	<b>1,107,432</b>	<b>793,821</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	21	213,431	213,431	503,508
Accounts payable - trade	25	296,823	296,823	340,721
Accounts payable - other	26	70,748	70,748	50,934
Tax payable	12	22,992	22,992	14,576
Accrued expenses	23	129,902	129,902	163,165
Deferred income	24	25,518	25,518	29,076
Derivative financial instruments	18	2,814	2,814	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>762,228</b>	<b>762,228</b>	<b>1,101,980</b>
<b>TOTAL LIABILITIES</b>		<b>1,829,117</b>	<b>1,869,660</b>	<b>1,895,801</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,889,330</b>	<b>2,929,873</b>	<b>2,955,931</b>

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 31 December 2014.

Accountant

The Board of Directors

## Consolidated statement of income by nature for the financial years ended on 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in thousands of euros)

	NOTES	4 <sup>th</sup> QUARTER 13 REPORTED (a)	12M 13 REPORTED	4 <sup>th</sup> QUARTER 13 RESTATED (a)	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14 (a)	12M 14
<b>REVENUES:</b>							
Services rendered		333,736	945,469	333,736	945,469	333,761	1,311,031
Sales		15,721	35,646	15,721	35,646	17,205	57,653
Other operating revenues		4,450	9,144	4,450	9,144	2,831	15,250
	27	<b>353,907</b>	<b>990,259</b>	<b>353,907</b>	<b>990,259</b>	<b>353,797</b>	<b>1,383,934</b>
<b>COSTS, LOSSES AND GAINS:</b>							
Wages and salaries	28	25,165	66,193	25,165	66,193	24,138	85,264
Direct costs	29	102,668	285,784	102,668	285,784	110,673	407,571
Costs of products sold	30	13,479	20,339	13,479	20,339	16,085	53,115
Marketing and advertising		13,696	27,310	13,696	27,310	7,276	30,761
Support services	31	23,617	65,755	23,617	65,755	23,780	89,604
Supplies and external services	31	48,742	128,033	48,742	128,033	51,171	187,987
Other operating losses / (gains)	32	(31)	391	(31)	391	167	1,049
Taxes		2,448	7,179	2,448	7,179	7,605	23,824
Provisions and adjustments	33	5,858	13,078	5,858	13,078	(607)	(5,707)
Net losses / (gains) of affiliated companies	2 and 34	-	-	(1,540)	(3,875)	(2,302)	(13,935)
Depreciation, amortisation and impairment losses	8, 9 and 35	83,625	243,070	83,625	243,070	87,652	339,294
Restructuring costs		9,054	25,187	9,054	25,187	5,559	31,051
Losses / (gains) on sale of assets, net		(1,505)	(2,172)	(1,505)	(2,172)	46	(1,258)
Other losses / (gains) non recurrent net	32	19,209	35,484	19,209	35,484	(1,638)	7,913
		<b>346,025</b>	<b>915,631</b>	<b>344,485</b>	<b>911,756</b>	<b>329,605</b>	<b>1,236,533</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>							
		<b>7,882</b>	<b>74,628</b>	<b>9,422</b>	<b>78,503</b>	<b>24,192</b>	<b>147,401</b>
Financial costs	36	9,437	31,700	9,437	31,700	8,456	36,299
Net foreign exchange losses / (gains)		169	262	169	262	(317)	(218)
Net losses / (gains) on financial assets	37	10	1,340	10	1,340	(399)	541
Net losses / (gains) of affiliated companies	2 and 34	(1,540)	(3,875)	-	-	-	-
Net other financial expenses / (income)	36	3,923	17,509	3,923	17,509	3,164	18,520
		<b>11,999</b>	<b>46,936</b>	<b>13,539</b>	<b>50,811</b>	<b>10,904</b>	<b>55,142</b>
<b>INCOME BEFORE TAXES</b>							
		<b>(4,117)</b>	<b>27,692</b>	<b>(4,117)</b>	<b>27,692</b>	<b>13,288</b>	<b>92,259</b>
Income taxes	14	9,098	16,433	9,098	16,433	1,053	17,179
<b>NET CONSOLIDATED INCOME</b>							
		<b>(13,215)</b>	<b>11,259</b>	<b>(13,215)</b>	<b>11,259</b>	<b>12,235</b>	<b>75,080</b>
<b>ATTRIBUTABLE TO:</b>							
Non-controlling interests	38	(121)	449	(121)	449	(38)	369
<b>NOS GROUP SHAREHOLDERS</b>							
		<b>(13,094)</b>	<b>10,810</b>	<b>(13,094)</b>	<b>10,810</b>	<b>12,273</b>	<b>74,711</b>
<b>EARNINGS PER SHARES</b>							
Basic - euros	39	(0.03)	0.03	(0.03)	0.03	0.02	0.15
Diluted - euros	39	(0.03)	0.03	(0.03)	0.03	0.02	0.15

a) 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 income by nature for the year ended on 31 December 2014.

Accountant

The Board of Directors

## Consolidated statement of comprehensive income for the financial years ended on 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in thousands of euros)

	NOTES	4 <sup>th</sup> QUARTER 13 REPORTED	12M 13 REPORTED	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>NET INCOME FOR THE PERIOD</b>		<b>(13,215)</b>	<b>11,259</b>	<b>(13,215)</b>	<b>11,259</b>	<b>12,235</b>	<b>75,080</b>
<b>OTHER INCOME</b>							
<b>ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:</b>							
Accounting for equity method	10	288	288	288	288	15	(232)
Fair value of interest rate swap	18	2,033	3,369	2,033	3,369	(132)	783
Deferred income tax - interest rate swap	18	(592)	(946)	(592)	(946)	(282)	(233)
Fair value of exchange rate forward	18	-	(87)	-	(87)	12	500
Deferred income tax -exchange rate forward	18	(2)	23	(2)	23	(7)	(170)
Currency translation differences and others		(89)	(5)	(89)	(5)	30	30
<b>OTHER COMPREHENSIVE INCOME</b>		<b>1,638</b>	<b>2,642</b>	<b>1,638</b>	<b>2,642</b>	<b>(364)</b>	<b>678</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(11,577)</b>	<b>13,901</b>	<b>(11,577)</b>	<b>13,901</b>	<b>11,871</b>	<b>75,758</b>
<b>ATTRIBUTABLE TO:</b>							
NOS group shareholders		(11,456)	13,452	(11,456)	13,452	11,909	75,389
Non-controlling interests		(121)	449	(121)	449	(38)	369

a) 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 year ended on 31 December 2014.

Accountant

The Board of Directors

## Consolidated statement of changes in shareholders' equity for the financial years ended on 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in thousands of euros)

	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES	OWN SHARES DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	NON - CONTROLLING INTERESTS	TOTAL
<b>BALANCE AS AT 1 JANUARY 2013 (REPORTED)</b>		<b>3,091</b>	<b>-</b>	<b>(4)</b>	<b>(910)</b>	<b>3,556</b>	<b>168,086</b>	<b>36,018</b>	<b>9,396</b>	<b>219,234</b>
Effect of change in accounting policies	2	-	-	-	-	-	(3,301)	3,476	-	175
<b>BALANCE AS AT 1 JANUARY 2013 (RESTATEd) (a)</b>		<b>3,091</b>	<b>-</b>	<b>(4)</b>	<b>(910)</b>	<b>3,556</b>	<b>164,785</b>	<b>39,494</b>	<b>9,396</b>	<b>219,409</b>
Result appropriation										
Transfers to reserves		-	-	-	-	-	39,494	(39,494)	-	-
Dividends paid	40	-	-	-	-	-	(37,044)	-	(229)	(37,273)
Capital increase by incorporation of Optimus SGPS in ZON	20.2	2,061	854,344	-	-	-	-	-	-	856,404
Costs related to the capital increase	20.2	-	(125)	-	-	-	-	-	-	(125)
Acquisition of own shares	20.3	-	-	(10)	(4,395)	-	-	-	-	(4,405)
Distribution of own shares	20.3	-	-	10	3,306	-	(3,316)	-	-	-
Share Plan - Changes in the consolidated scope	5	-	-	-	-	-	9,613	-	-	9,613
Share Plan - costs incurred in the year and others	45	-	-	-	-	-	3,753	-	-	3,753
Comprehensive income for the year		-	-	-	-	-	2,642	10,810	449	13,901
Others		-	-	-	-	-	(1,063)	-	-	(1,063)
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATEd) (a)</b>		<b>5,152</b>	<b>854,219</b>	<b>(4)</b>	<b>(1,999)</b>	<b>3,556</b>	<b>178,864</b>	<b>10,810</b>	<b>9,615</b>	<b>1,060,213</b>
<b>BALANCE AS AT 1 JANUARY 2014</b>		<b>5,152</b>	<b>854,219</b>	<b>(4)</b>	<b>(1,999)</b>	<b>3,556</b>	<b>178,864</b>	<b>10,810</b>	<b>9,615</b>	<b>1,060,213</b>
Result appropriation										
Transfers to reserves		-	-	-	-	-	10,810	(10,810)	-	-
Dividends paid	40	-	-	-	-	-	(61,818)	-	(194)	(62,012)
Acquisition of own shares	20.3	-	-	(56)	(28,527)	-	-	-	-	(28,583)
Loan of own shares	20.3	-	-	(10)	(4,859)	-	4,869	-	-	-
Reimbursement and payment of the loan of own shares	20.3	-	-	6	2,942	-	(4,838)	-	-	(1,890)
Distribution of own shares - share plan	20.3	-	-	21	10,967	-	(10,988)	-	-	-
Distribution of own shares - other remunerations	20.3	-	-	18	9,710	-	(196)	-	-	9,533
Share Plan - Changes in the consolidated perimeter	5	-	-	-	-	-	669	-	-	669
Share Plan - costs incurred in the year and others	45	-	-	-	-	-	6,629	-	29	6,658
Comprehensive income for the year		-	-	-	-	-	678	74,711	369	75,758
Others		-	-	-	-	-	(216)	-	-	(216)
<b>BALANCE AS AT 31 DECEMBER 2014</b>		<b>5,152</b>	<b>854,219</b>	<b>(25)</b>	<b>(11,766)</b>	<b>3,556</b>	<b>124,464</b>	<b>74,711</b>	<b>9,818</b>	<b>1,060,129</b>

(a) 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 year ended on 31 December 2014.

Accountant

The Board of Directors

## Consolidated statement of cash flows for the financial years ended on 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in thousands of euros)

	NOTES	12M 13 REPORTED	12M 13 RESTATED	12M 14
<b>OPERATING ACTIVITIES</b>				
Collections from clients		1,152,436	1,152,436	1,622,215
Payments to suppliers		(637,985)	(637,985)	(901,267)
Payments to employees		(79,057)	(79,057)	(99,981)
Payments / receipts relating to income taxes		(15,556)	(15,556)	12,839
Other cash receipts / payments related with operating activities		(90,585)	(90,585)	(106,663)
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>		<b>329,253</b>	<b>329,253</b>	<b>527,142</b>
<b>INVESTING ACTIVITIES</b>				
<b>CASH RECEIPTS RESULTING FROM</b>				
Financial investments		35	35	100
Tangible assets		5,925	5,925	1,520
Intangible assets		-	-	3
Available-for-sale financial assets	13	-	-	1,120
Loans granted		30,295	30,295	1,637
Financial applications		24,343	24,343	-
Interest and related income		5,066	5,066	7,846
Others		3	3	1
		<b>65,667</b>	<b>65,667</b>	<b>12,226</b>
<b>PAYMENTS RESULTING FROM</b>				
Financial investments	5	-	-	(14,139)
Tangible assets		(99,284)	(99,284)	(226,675)
Intangible assets		(80,071)	(80,071)	(151,031)
		<b>(179,355)</b>	<b>(179,355)</b>	<b>(391,845)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (2)</b>		<b>(113,688)</b>	<b>(113,688)</b>	<b>(379,619)</b>
<b>FINANCING ACTIVITIES</b>				
<b>CASH RECEIPTS RESULTING FROM</b>				
Borrowings		1,639,952	1,639,952	2,442,720
Subsidies		120	120	-
		<b>1,640,072</b>	<b>1,640,072</b>	<b>2,442,720</b>
<b>PAYMENTS RESULTING FROM</b>				
Borrowings		(1,964,817)	(1,964,817)	(2,464,600)
Lease rentals (principal)		(22,908)	(22,908)	(24,424)
Interest and related expenses		(46,269)	(46,269)	(59,972)
Dividends	40	(37,273)	(37,273)	(62,013)
Aquisition of own shares	20.3	(4,405)	(4,405)	(30,472)
Other financial activities		(949)	(949)	-
		<b>(2,076,621)</b>	<b>(2,076,621)</b>	<b>(2,641,480)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES (3)</b>		<b>(436,549)</b>	<b>(436,549)</b>	<b>(198,760)</b>
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(220,984)	(220,984)	(51,237)
Effect of exchange differences		(62)	(62)	62
Changes in the consolidated perimeter	5	17,987	17,987	646
Cash and cash equivalents at the beginning of the year		273,179	273,179	70,120
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>70,120</b>	<b>70,120</b>	<b>19,591</b>
Cash and cash equivalents	19	74,380	74,380	21,070
Bank overdrafts	21	(4,260)	(4,260)	(1,479)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>70,120</b>	<b>70,120</b>	<b>19,591</b>

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the year ended on 31 December 2014.

Accountant

The Board of Directors

## Notes to the consolidated financial statements as at 31 December 2014

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

### 1. Introductory Note

NOS, SGPS, S.A. ("NOS" or "Company"), formerly named ZON OPTIMUS, SGPS, S.A. ("ZON OPTIMUS") and until 27 august 2013 named ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON"), with Company headquarters registered at Rua Actor Antonio Silva, 9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on July 15, 1999 for the purpose of implementing its multimedia business strategy.

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

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

On 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.

On 16 May 2014, following the launch of the new brand, Optimus changed its designation to NOS Comunicações, S.A. ("NOS SA"). 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 NOS PUB, Publicidade e Conteúdos, S.A. ("NOSPUB"), NOS Lusomundo Audiovisuais, S.A. ("NOS Audiovisuais"), NOS Lusomundo TV, S.A. ("NOS Lusomundo TV"), NOS Lusomundo Cinemas, S.A. ("NOS Cinemas"), NOS Açores Comunicações, S.A. ("NOS Açores") and NOS Madeira Comunicações, S.A. ("NOS Madeira").

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

NOS shares are listed on the Euronext Lisbon market. The Group's shareholder's structure as at 31 December 2014 is shown in Note 20.

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 30 September 2014, NOS, SA acquired Mainroad's entire share capital (Note 5). Mainroad is a company dedicated to data center management and consulting services in IT.

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

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 financial year ended on 31 December 2014 were approved by the Board of Directors and their issue authorized on 25 February 2015.

However, they are still subject to approval by the General Meeting of Shareholders in accordance with company law in Portugal. 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 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.

The consolidated financial statements are presented in euros as this is the main currency of the Group's operations. The financial statements of subsidiaries located abroad were converted into euros in accordance with the accounting policies described in Note 2.3.18.

The consolidated financial statements were prepared on a going concern basis from the ledgers and accounting records of the companies included in the consolidation (Annex A),



using the historical cost convention, adjusted where necessary for the valuation of financial assets and liabilities (including derivatives) at their fair value (Note 4.2).

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

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

### Changes in accounting policies and disclosures

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

- IFRS 10 (new), "Consolidated financial statements" (effective in the EU for annual periods beginning on or after 1 January 2014). 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 Arrangements" (effective, in the EU for annual periods beginning on or after 1 January 2014). 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 on 31 December 2013, resulting in changing the accounting of jointly controlled entities, previously proportionately consolidated, being recorded according to the equity method. Jointly controlled entities are disclosed in the attached maps.
- IFRS 12 (new) – "Disclosure of interests in other entities" (effective in the EU for annual periods beginning on or after 1 January 2014). 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 (Note 10 and Map attached).
- IAS 27 (2011 revision), "Separate financial statements" (effective in the EU for annual periods beginning on or after 1 January 2014). 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" (effective in the EU for annual periods beginning on or after 1 January 2014). 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. The group has early adopted this standard in the year ended on 31 December 2013, resulting in changing the accounting of jointly controlled entities, previously proportionately consolidated, being recorded according to the equity method. Jointly controlled entities are disclosed in the attached maps.
- Amendment to IFRS 10, IFRS 12 and IFRS 27 – "Bodies Managing Financial Contributions". This amendment includes the definition of an Entity managing financial contributions and introduces the regime of exception to the obligation for Entities managing financial partnerships that qualify to provide funding, once all investments are measured against fair value. Specific disclosures are required for IFRS 12. This standard does not apply to the Group.
- IAS 32 (amendment), "Disclosures – offsetting financial assets and financial liabilities". This amendment is part of the IASB's "assets and liabilities offsetting" project and clarifies the meaning of "currently has a legally enforceable right of set-off" and clarifies that some gross settlement systems (clearing houses) may be considered equivalent to net settlement. This amendment does not have any impact on the Group's consolidated financial statements.
- IAS 36 (amendment), "Recoverable Amount Disclosures for Non-Financial Assets". This amendment eliminates the disclosure requirements of the recoverable amount of a cash-generating unit like goodwill or intangible assets with indefinite useful lives allocated to periods where it was not recorded any impairment loss or reversal of impairment. Introduces additional disclosure requirements for assets for which it was recorded an impairment loss or reversal of impairment and the recoverable amount of these has been determined based on fair value less costs to sell. This amendment did not have any impact on the Group's consolidated financial statements.
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)". This amendment permits the continuation of hedge accounting when a derivative designated as a hedging instrument is legally imposed, subject to the contract counterparty novation to a clearing house. This amendment does not have any impact on the Group's consolidated financial statements.
- IFRS 10, IFRS 11 and IFRS 12 (amendment), "Transition Guidance" (effective for annual periods beginning on or after 1 July 2014). This amendment allows the adoption of less stringent procedures in the transition to IFRS 10, IFRS 11 and IFRS 12, such as the restatement of comparative which is limited to the period immediately prior to the transition. The Group has early adopted this standard in the year ended at 31 December 2013.
- Improvements to Financial Reporting Standards (2010-2012 cycle and 2011-2013 effective for annual periods beginning on or after 1 July 2014). These improvements involve the review of several standards and do not have significant impact on the Group's consolidated financial statements.

The standards and interpretations applicable in 2014 if adopted in advance (adoption in advance must be disclosed, the other required conditions must also be satisfied), are:

- 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.
- IFRIC 21 (new), "Levies" (effective for annual periods beginning on or after 1 January 2014). This amendment establishes the conditions regarding the timing of recognition of a liability related to pay a levy by an entity as a result of a particular event (eg, participation in a particular market), without having goods and specified services associated.

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

- IFRS 9 (new), "Financial instruments – classification and measurement" (effective date to be designated). The initial phase of IFRS 9 forecasts two types of measurement: amortised cost and fair value. All equity instruments are measured at fair value. A financial instrument is measured at amortised cost only if the company has it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, financial instruments are measured at fair value through profit and loss.
- IFRS 7 and 9 (Amendment), "Financial Instruments" (effective date to be designated). The amendment to IFRS 9 is part of the draft revision of IAS 39 and establishes the requirements for the application of hedge accounting. IFRS 7 was also revised as a result of this amendment.
- IFRS 10 and IAS 28 (amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective for annual periods beginning on or after 1 January 2016). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- IFRS 10, IFRS 12 and IAS 28 (amendments), "Investment Entities: Applying the consolidation exception" (Effective from annual periods beginning on or after 1 January 2016). These amendments deal with issues that arose in the application of exception of consolidation of investment entities. This standard is not applicable to the group.
- 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 1 (amendment), "Disclosure initiative" (effective for annual periods beginning on or after 1 January 2016). This amendment has as main objective to encourage companies to apply professional judgment to determine what information to disclose in its financial statements. For example, the amendments make it clear that the materiality applies to the whole of the financial statements and that the inclusion of irrelevant information could difficult the interpretation of financial disclosures.
- IAS 16 and 38 (amendment), "Clarification of acceptable methods of depreciation and amortisation" (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 27 (amendments), "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016). This amendment permits choose to presentation, in the separate financial statements, for investments in subsidiaries, jointly controlled companies or associates in accordance with Equity Method.
- Improvements to Financial Reporting Standards (2012-2014 cycle effective for annual periods beginning on or after 1 January 2016). These improvements involve the review of several standards.

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

## **Voluntary changes in accounting policies**

### **Changes during 2013 financial year**

During the year ended on 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 at 31 December 2013, the Group changed the accounting policy regarding the future rights of use of movies and series. To date, these were recorded as an expense in the year they occurred. The costs are capitalised as "Intangible assets" once it is possible to measure, reliably, the costs incurred with each contract as well as the revenue generated, meeting the criteria for capitalisation as required by IAS 38 - Intangible assets. Additionally, the model of amortisation and impairment of those rights has been adjusted, reflecting the business and how the rights are used more reliably. Additionally, at the date of each statement of financial position and whenever an event or change of circumstances indicates that the recorded amount of an asset may not be recoverable, impairment tests are carried out to ensure that the current value of the estimated revenues associated with each right is greater than the amount that is capitalised.

As provided under IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, these policy changes were applied retrospectively. Therefore changes were made to the consolidated statement of financial position of 1 January 2013.

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

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

### Changes during 2014 financial year

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

As provided under IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, these policy changes were applied retrospectively. Therefore changes were made to the consolidated income statement for the period ended on 31 December 2013.

The effects of these changes in the accounting policies in the income statement are presented in the table below.

	12M 13		
	REPORTED	NET LOSSES / (GAINS) OF AFFILIATED COMPANIES	RESTATED
REVENUES:	990,259		990,259
COSTS, LOSSES AND GAINS:			
Wages and salaries	66,193	-	66,193
Direct costs	285,784	-	285,784
Supplies and external services	128,033	-	128,033
Provisions and adjustments	13,078	-	13,078
Depreciation, amortisation and impairment losses	243,070	-	243,070
Net losses / (gains) of affiliated companies	-	(3,875)	(3,875)
Other losses / (gains), net	179,473	-	179,473
	915,631	(3,875)	911,756
INCOME BEFORE FINANCIAL RESULTS AND TAXES	74,628	3,875	78,503
Net losses / (gains) of affiliated companies	(3,875)	3,875	-
Net other financial expenses / (income)	50,811	-	50,811
INCOME BEFORE TAXES	27,692	-	27,692
Income taxes	16,433	-	16,433
NET CONSOLIDATED INCOME	11,259	-	11,259
ATTRIBUTABLE TO:			
Non-controlling interests	449	-	449
NOS GROUP SHAREHOLDERS	10,810	-	10,810

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

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

During the one year period, ended on 26 August 2014, the Company changed the fair value allocation of the acquired assets and assumed liabilities. This change, in result of a revaluation of the litigation and registered deferred taxes, was applied retrospectively, as allowed by IFRS 3 - Business Combinations (Note 5).



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 table below.

31 DECEMBER 2013			
	REPORTED	CHANGES IN THE FAIR VALUE	RESTATED
<b>ASSETS</b>			
Tangible assets	1,111,107	49,492	1,160,599
Deferred income tax assets	165,416	(8,949)	156,467
Other assets	1,612,807	-	1,612,807
<b>TOTAL ASSETS</b>	<b>2,889,330</b>	<b>40,543</b>	<b>2,929,873</b>
<b>LIABILITIES</b>			
Provisions	92,429	40,543	132,972
Other liabilities	1,736,688	-	1,736,688
<b>TOTAL LIABILITIES</b>	<b>1,829,117</b>	<b>40,543</b>	<b>1,869,660</b>
<b>TOTAL EQUITY</b>	<b>1,060,213</b>	<b>-</b>	<b>1,060,213</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,889,330</b>	<b>40,543</b>	<b>2,929,873</b>

These changes did not have any impact in the consolidated income statements, 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 income presented separately in the consolidated statement of financial position and in the consolidated statement, respectively, under the item "Non-controlled Interests" (Note 38).

The identifiable acquired assets and the liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the existence of non-controlled interests. The excess of acquisition cost over the fair value of the Group's share of identifiable acquired assets and liabilities is stated in Goodwill. Where the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the income statement 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 income statement. Direct changes in the post-acquisition equity of associated companies are recognised as the value of the shareholding as a contra entry in reserves, in equity.

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

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

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

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

During 2014, the Group changed the presentation of investments accounted for using the equity method in "Net Losses / (gains) of affiliated companies" from financial results and started presenting them in "Income before financial results and taxes" (Note 2.1).

## 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 income statement. Direct changes in the post-acquisition equity of associated companies are recognised as the value of the shareholding as a contra entry in reserves, in equity. Additionally, financial investments may also be adjusted for recognition of impairment losses.

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

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

During 2014, the Group changed the presentation of investments accounted for using the equity method in "Net Losses / (gains) of affiliated companies" from financial results and started presenting them in "Income before financial results and taxes" (Note 2.1).

## 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 is eliminated in the consolidation. Unrealised losses are similarly eliminated except where they show evidence of impairment of the transferred asset.

## 2.3 Accounting policies

### 2.3.1 Segment reporting

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

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

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

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

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

### 2.3.3 Tangible assets

Tangible assets are stated at acquisition cost, less accumulated depreciation and impairment losses, where applicable. Acquisition cost includes, in addition to the purchase price of the asset: (i) costs directly attributable to the purchase; and (ii) the estimated costs of decommissioning and removal of the assets and restoration of the site, which in Group applies to the cinema operation business, telecommunication towers and offices (Notes 2.3.12 and 8).

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:

	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	2 - 10
Other tangible assets	4 - 8	4 - 8

The useful lives and depreciation method are reviewed annually. There were no changes during 2014.

### 2.3.4 Intangible assets

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

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

#### Goodwill

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

Goodwill is recorded as an asset and included in "Intangible Assets" (Note 9) in the case of a controlled company, and in "Investments in jointly controlled companies and associated companies" (Note 10) 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 income statement in "Impairment losses" and is not liable to subsequent reversal.

For the purposes of impairment tests, goodwill is attributed to the cash-generating units to which it is related (Note 9), 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.

## Intangible assets in-progress

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

## Amortisation

These assets are amortised by the straight-line method, in twelfths, from the beginning of the month in which they become available for use. The amortisation rates used correspond to the following estimated useful lives:

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

The useful lives and amortisation method are reviewed annually. There were no changes during 2014.

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

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

The recoverable value is estimated for each asset individually or, if that is not possible, assets are grouped at the lowest levels for which there are identifiable cash flows to the cash-generating unit to which the asset belongs. Each of the Group's businesses is a cash-generating unit, except for the assets allocated to the cinema exhibition business which are grouped into regional cash-generating units. The recoverable amount is calculated as the higher of the net sale price and the current use value. The net sale price is the amount that would be obtained from the sale of the asset in a transaction between independent and knowledgeable entities, less the costs directly attributable to the sale. The current use value is the current value of the estimated future cash flows resulting from continued use of the asset or of the cash-generating unit. Where the amount at which the asset is recorded exceeds its recoverable value, it is recognised as an impairment loss.

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

### 2.3.6 Financial assets

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

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

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

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

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



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

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

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

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

The potential resulting capital gains and losses are recognised directly in reserves until the financial investment is sold, received or otherwise disposed of, at which time the accumulated gain or loss previously recognised in equity is included in the income statement. Dividends on equity instruments classified as available for sale are recognised in results for the year under "Losses /(gains) on financial assets", where the right to receive the payment is established.

### **Investments held to maturity**

Investments held to maturity are classified as non-current investments except where they mature in less than 12 months from the date of the statement of financial position. This item includes investments with defined maturities which the Group has the intention and ability to keep until that date. Investments held to maturity are valued at amortised cost, less any impairment losses.

### **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 income statement under "Provisions and adjustments", and subsequently reversed by results, when the impairment indicators reduce or cease to exist.

### **Cash and cash equivalents**

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

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

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

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

#### **Borrowings**

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

#### **Accounts Payable**

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

#### **Derivative financial instruments**

See accounting policy 2.3.9.

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

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

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

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

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

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

Adjustments are made for impairment losses when there are objective indications that the Group will not receive all the amounts to which it is entitled under the original terms of the

contracts. Various indicators are used to identify impairment situations, such as default analysis, financial difficulties of the debtor, including probability of insolvency of the debtor.

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

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

### 2.3.9 Derivative Financial Instruments

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

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

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

#### Hedge accounting

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

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

- a) At the start date of the transaction, the hedge relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument and the evaluation of effectiveness of the hedge;
- b) There is the expectation that the hedge relationship is highly effective at the start date of the transaction and throughout the life of the operation;
- c) The effectiveness of the hedge can be reliably measured at the start date of the transaction and throughout the life of the operation;

d) For cash flow hedge operations, it must be highly probable that they will occur.

### Exchange rate and interest rate risk

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

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

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

### 2.3.10 Inventories

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

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

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

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

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

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

### 2.3.11 Subsidies

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

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

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

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

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

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

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

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

Provisions for 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 22).

The amount of the provisioned liability reflects the effects of the passage of time and the corresponding financial indexing is recognised in results as a financial cost.

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

Provisions for potential future operating losses are not covered.

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

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

### **2.3.13 Leases**

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

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

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

### 2.3.14 Income Tax

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

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

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

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

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

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

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

### 2.3.15 Share-based payments

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

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

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

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

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

### 2.3.16 Revenue

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

#### i) Revenues of Telecommunications Services:

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

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

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

Revenue from telecommunications services is counted from the time at which those services are provided. Amounts that have not been invoiced for are included based on estimates. The differences between the estimated amounts and the actual amounts, which are normally small, are recorded in the next financial year.

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



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

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

- ii) Advertising Revenue: Advertising revenues mainly derive from the attraction of advertising for Pay TV channels to which the Group has publicity rights and in cinemas. These revenues are recognised from when they are received, taken off any discounts given.
- iii) Film Showings and Distribution: Distribution revenue pertains to the distribution of films to film exhibitors not distributed by the Group, that are included in the film showings, whilst income from film showings mostly derive from cinema ticket sales and the product sales in the bars; the film showings revenue includes the revenue from ticket sales and bar sales respectively.
- iv) Revenue from Producing and Distributing Channel Content: Revenue from production and distribution essentially includes the sale of DVDs, the sale of content and the distribution of television channels subscriptions to third parties and count from the time at which they are sold, shown and made available for distribution to telecommunications operators, respectively.
- v) Consultancy and datacenter Management: information systems consultancy and datacenter management are the major services rendered by Mainroad, company acquired in 2014.

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

### 2.3.17 Accruals

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

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

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

### 2.3.18 Assets, liabilities and transactions in foreign currencies

Transactions in foreign currencies are converted into the functional currency at the exchange rate on the transactions dates. On each accounting date, outstanding balances (monetary items) are updated by applying the exchange rate prevailing on that date. The exchange rate differences in this update are recognised in the income statement for the year in which they were calculated. 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 income statement;
- The average exchange rate in the period, for the conversion of cash flows (in cases where the exchange rate approximates to the real rate, and for the remaining cash flows the rate of exchange at the date of the operations is used);
- The historical exchange rate for the conversion of equity accounts.

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

At 31 December 2013 and 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:

	31-12-2013	31-12-2014
US Dollar	1.3791	1.2141
British Pound	0.8337	0.7789
Mozambique Metical	41.2000	38.5300
Canadian Dollar	1.4671	1.4063
Swiss Franc	1.2276	1.2024
Real	3.2576	3.2207

In the financial years 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:

	12M 13	12M 14
Metical Moçambicano	39.6825	40.6658
Dólar Americano	1.3167	1.3285

### 2.3.19 Financial charges and borrowings

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

### 2.3.20 Investment property

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

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

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

### 2.3.21 Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

### **2.3.22 Assets and liabilities offsetting**

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

### **2.3.23 Employee benefits**

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

a) Termination of employment. The benefits for termination of employment are due for payment when there is cessation of employment before the normal retirement date or when an employee accepts leaving voluntarily in exchange for these benefits. The Group recognizes these benefits when it can be shown to be committed to a termination of current employees according to a detailed formal plan for termination and there is no realistic possibility of withdrawal or these benefits are granted to encourage voluntary redundancy. Where the benefits of cessation of employment are due more than 12 months after the balance sheet date, they are updated to their present value.

b) Holiday, holiday allowances and bonuses. According to the labor law, employees are entitled to 22 days annual leave, as well as one month of holiday allowances, rights acquired in the year preceding payment. These liabilities of the Group are recorded when incurred, independently of the moment of payment, and are reflected under the item "Accounts payable and other".

c) Labor Compensation Fund (FCT) and the Labour Compensation Guarantee Fund (FGCT). Based on the publication of Law No 70/2013 and subsequent regulation by Order No. 294-A / 2013, entered into force on 1 October the Labor Compensation Fund schemes (FCT) and the Guarantee Fund Compensation of Labor (FGCT). In this context, companies that hire a new employee are required to deduct a percentage of the respective salary for these two new funds (0.925% to 0.075% and the FCT for FGCT), in order to ensure, in the future, the partial payment the compensation for dismissal. Considering the characteristics of each Fund, the following is considered:

-The monthly deliveries to FGCT, made by the employer are recognised as expense in the period to which they relate.

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

### **2.3.24 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.

### **2.3.25 Subsequent events**

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

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

## **3. JUDGEMENTS AND ESTIMATES**

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

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

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

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

#### **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 9. The recoverable values of the cash-generating units to which goodwill is allocated are determined on the basis of the calculation of current use values. These calculations require the use of estimates by management.

### **Intangible and tangible assets**

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

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

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

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

### **Provisions**

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

### **Deferred income tax assets**

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

### **Impairment of account receivables**

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

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

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

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

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

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

During the year ended on 31 December 2013 and 2014, no material errors relating to previous years were recognised.

Additionally, in result of the merger completed on 27 August 2013 (Note 5), the consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows, for the year ended on 31 December 2013, are not comparable with the ones for the year ended on 31 December 2014. A consolidated pro-forma income statement is presented in Note 5 assuming that all the companies merged on 27 August 2013 were consolidated at 1 January 2013.

## **4. Financial risk management policies**

### **4.1 Financial risk management**

The activities of the Group are exposed to a variety of financial risk factors: credit risk, liquidity risk and market risk.

The Group's Board of Directors is responsible for defining the principles of risk management and policies covering specific areas such as: exchange rate risk, interest rate risk, credit risk, the use of derivatives and other non-derivative financial instruments, and the investment of excess liquidity.



## A) Credit risk

Credit risk is mainly related to the risk of a counterparty defaulting on its contractual obligations, resulting in a financial loss to the Group. The Group is exposed to credit risk in its operating and treasury activities.

The credit risk associated with operations is mainly related to amounts due from customers for services provided to them (Notes 11 and 16). This risk is monitored on a regular business basis, and the aim of management is to: i) limit the credit granted to customers, using the average payment time by each customer; ii) monitor the trend in the level of credit granted; and iii) analyse the impairment of receivables on a regular basis.

The Group does not face any serious credit risk with any particular client, insofar as the accounts receivable derive from a large number of clients from a wide range of businesses.

The impairment adjustments to accounts receivable are calculated on the basis of: i) the customer's risk profile, depending on whether the customer is a residential or business customer; ii) the average collection period, which differs from business to business; and iii) the customer's financial status. In view of the dispersed nature of customers it is not necessary to consider an additional adjustment for credit risk other than the impairment that is already recorded in accounts receivable – customers and accounts receivable – others.

The table below shows the Group's maximum exposure to credit risk at 31 December 2013 and 2014, without taking into account any collateral held or other credit enhancements. For assets in the statement of financial position, the defined exposure is based on their book value as stated in the statement of financial position.

### Exposure to credit risk

	31-12-2013	31-12-2014
Accounts receivable other - non-current (Note 11)	5,173	4,311
Accounts receivable trade - current i)	216,600	257,873
Accounts receivable other - current (Note 11)	26,415	21,618
Cash and cash equivalents ii)	73,295	19,531
<b>TOTAL FINANCIAL ASSETS</b>	<b>321,483</b>	<b>299,022</b>

#### i) Accounts receivable – customers

The Group exposure to credit risk is related to operational account receivables. The amounts presented on financial position are net of impairment losses for estimated doubtful accounts receivable. These impairment losses were estimated by the Group in accordance with its experience and based on their assessment of the current macroeconomic environment. The Board believes that the carrying amounts of account receivables are similar to their fair value.

At 31 December 2013 and 31 December 2014, the balances receivable from customers by age were as follows:

31-12-2013 RESTATED								
NOT DUE	DUE BUT NOT IMPAIRED			DUE AND IMPAIRED				TOTAL
	0-30	30-90	> 90	0-90	90-180	180-360	> 360	
ACCOUNTS RECEIVABLE - TRADE								
Customers	97,840	16,136	26,134	67,808	13,018	5,901	9,977	160,168
Accrued income	60,030	-	-	-	-	-	-	-
	157,870	16,136	26,134	67,808	13,018	5,901	9,977	160,168

31-12-2014									
NOT DUE	DUE BUT NOT IMPAIRED			DUE AND IMPAIRED				TOTAL	
	0-30	30-90	> 90	0-90	90-180	180-360	> 360		
ACCOUNTS RECEIVABLE - TRADE									
Customers	114,205	35,079	35,588	58,898	3,290	911	3,288	182,403	433,662
Accrued income	73,654	-	-	-	-	-	-	-	73,654
	187,859	35,079	35,588	58,898	3,290	911	3,288	182,403	507,316

At 31 December 2014, the total amount of accounts receivable - trade, impaired and overdue are covered by impairment adjustment around 93% (95% in 2013).

Credit risk monitoring, which is performed on a continuous base, can be summarized as follow:

(i) The accounts receivable from operations are subject to review on an individual basis. The maximum exposure to risk determined for each operator and the impairment adjustment is calculated based on the age of each balance, the existence of claims and the financial situation of the operator;

(ii) Agents are classified in terms of risk based on the regularity of services rendered and their financial situation. The impairment adjustment is calculated by applying an uncollectibility percentage based on the historical data;

(iii) In the case of regular customers, impairment adjustment is calculated by applying an uncollectibility percentage based on historical data;

(iv) In the case of the remaining accounts receivable, impairment adjustments are determined based on the age of the receivable, net of the amounts payable and the information of the financial situation of the debtor.

Guarantees and pledges obtained from some operators and agents are not material.

ii) At 31 December 2013 and 31 December 2014, the Group's credit risk ratings for these type of assets (cash and cash equivalents as described in Note 19, with the exception of the value of cash). The counter parties for which are Financial Statement Institutions, are as follows:

	31/12/2013 RESTATED CASH AND CASH EQUIVALENTS WITH FINANCIAL INSTITUTIONS	31/12/2014 CASH AND CASH EQUIVALENTS WITH FINANCIAL INSTITUTIONS
A+	2,263	-
A	-	15
A-	36	-
BBB+	-	876
BBB	-	11
BBB-	12	-
BB	14,375	11
BB-	49,351	4,580
B+	-	4,737
B	1,298	-
without rating	5,960	9,300
<b>TOTAL</b>	<b>73,295</b>	<b>19,531</b>

The information on ratings was taken from Reuters, based on the ratings awarded by the three major rating agencies (Standard & Poor's , Moody's and Fitch).

## B) Liquidity risk

Prudent management of liquidity risk requires the maintenance of an adequate level of cash and cash equivalents to meet the liabilities associated with the negotiation of credit facilities with financial institutions. Under the model adopted, the Group has:

b.1) Six commercial paper programmes with six banks (Banco Santander, Caixa BI, CGD, BIC, BEI, Montepio Geral) with a maximum amount of 430 million euros, of which around 245 million euros is being used.

b.2) Private and direct cash bonds and to the value of 315 million euros.

b.3) Public and subscription based cash bonds, known as "ZON Multimédia 2012-2015 Cash bonds", to the sum of 200 million euros.

b.4) A Next Generation Network Project Finance Contract totalling 100 million euros with the European Investment Bank.

b.5) A Finance Contract with Investment European Bank to support the development of mobile broad band network in Portugal, totalling 110 million euros.

Management regularly monitors the forecasts of the Group's liquidity reserves, including the amounts of unused credit lines and the amounts of cash and cash equivalents, on the basis of estimated cash flows and compliance with any covenants usually associated with borrowings.

Of the loans obtained (excluding finance leases), in addition to being subject to the Group complying with its operating, legal and fiscal obligations, 91% are subject to cross-default clauses, 94% to Pari Passu clauses, 49% to ownership clauses, and 67% to negative pledge clauses.

In addition, approximately 38% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, and approximately 9% of the total loans obtained that the consolidated net financial debt does not exceed 4 times consolidated EBITDA.

The table below shows the Group's liabilities by contractual residual maturity interval. The amounts shown in the table are the contractual undiscounted cash flows payable in the future, including the interest remunerating these liabilities.

	31-12-2013 RESTATED				31-12-2014			
	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Borrowings:								
- Bond Issue	155,052	338,929	-	493,981	238,997	99,971	174,757	513,725
- Commercial Paper	16,159	373,678	-	389,837	128,771	114,588	-	243,359
- Foreign Loan	(220)	98,932	-	98,712	99,397	50,984	53,487	203,868
- National Loans	12,202	-	-	12,202	-	-	-	-
- Bank overdrafts	4,260	-	-	4,260	1,479	-	-	1,479
- Financial Leases	25,978	50,322	66,378	142,678	34,863	79,525	43,214	157,602
Accounts payable - trade	296,823	-	-	296,823	340,721	-	-	340,721
Accounts payable - other	70,748	-	-	70,748	50,934	-	-	50,934
Derivative financial instruments	2,814	-	-	2,814	-	1,899	-	1,899
Responsibilities with operating leases	65,491	147,507	59,647	272,645	53,918	103,799	53,796	211,513
<b>TOTAL</b>	<b>649,307</b>	<b>1,009,368</b>	<b>126,025</b>	<b>1,784,700</b>	<b>949,080</b>	<b>450,766</b>	<b>325,254</b>	<b>1,725,101</b>

## C) Market risk

### Exchange rate risk

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

Depending on the balance of accounts payable resulting from transactions in a currency different from the Group's operating currency, the Group contracts or may contract financial instruments, namely short-term foreign currency forwards, in order to hedge the risk associated with these balances (Note 18).

The Group has investments in foreign companies whose assets and liabilities are exposed to exchange rate variations (the Group has two subsidiaries in Mozambique, Lusomundo Moçambique and Mstar, whose functional currency is the Metical, four in Angola, Finstar, ZAP Media, ZAP Cinemas and ZAP Publishing whose functional currency is the Dollar, and one in Republic of Mauritius whose functional currency is the Mauritian Rupee). The Group has not adopted any policy of hedging the risk of exchange rate variations for these companies on cash flows in foreign currencies, as they are insignificant in the context of the Group.

The table below shows the Group's exposure to exchange rate risk at 31 December 2013 and 31 December 2014, based on the amounts of the Group's financial assets and liabilities in the statement of financial position (amounts stated in local currency):

31-12-2013			
	US DOLLAR	BRITISH POUND	MOZAMBIQUE METICAL
<b>ASSETS</b>			
Account receivable - trade	5,324	-	1,590
Account receivable - other	906	-	344
Taxes receivable	-	-	522
Cash and cash equivalents	3,874	-	69,842
<b>TOTAL ASSETS</b>	<b>10,104</b>	<b>-</b>	<b>72,299</b>
<b>LIABILITIES</b>			
Account payable - trade	(7,276)	(59)	(53,422)
Account payable - other	(111)	(13)	(33,616)
Taxes payable	-	-	(1,298)
<b>TOTAL LIABILITIES</b>	<b>(7,387)</b>	<b>(72)</b>	<b>(88,336)</b>
<b>NET</b>	<b>2,717</b>	<b>(72)</b>	<b>(16,037)</b>

31-12-2014			
	US DOLLAR	BRITISH POUND	MOZAMBIQUE METICAL
<b>ASSETS</b>			
Account receivable - trade	12,819	-	3,958
Account receivable - other	-	-	356
Taxes receivable	-	-	9,403
Cash and cash equivalents	215	-	29,313
<b>TOTAL ASSETS</b>	<b>13,035</b>	<b>-</b>	<b>43,030</b>
<b>LIABILITIES</b>			
Account payable - trade	(12,455)	(267)	(1,367)
Account payable - other	-	-	(3,340)
Taxes payable	-	-	(785)
<b>TOTAL LIABILITIES</b>	<b>(12,455)</b>	<b>(267)</b>	<b>(5,492)</b>
<b>NET</b>	<b>580</b>	<b>(267)</b>	<b>37,538</b>

NOS uses a sensitivity analysis technique which measures estimated changes in results and equity of an immediate strengthening or weakening of the Euro against other currencies in the rates applying at 31 December 2014 for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, since in practice exchange rates rarely change in isolation.

The sensitivity analysis was performed using a strengthening or weakening of the Euro by 10% in all exchange rates. In such case, profits before tax would have increased by 101 thousand euros (2013: 136 thousand euros) or decreased by 123 thousand euros (2013: 166 thousand euros), respectively.

## **D) Interest rate risk**

The risk of fluctuations in interest rates can result in a cash flow risk or a fair value risk, depending on whether variable or fixed interest rates have been negotiated.

The borrowings by the Group, with the exception of ZON Multimédia 2012-2015 bonds, the new EIB financing of 110 million euros and finance leases, have variable interest rates, which exposes the Group to of interest rate cash flow risk. The Group has adopted a policy of hedging risk through the use of interest rate swaps to hedge future interest payments on Bond loans and other borrowings (see Note 18).

NOS Group uses a sensitivity analysis technique which measures the expected impacts on results and equity of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates, for the rates applying at the date of the statement of financial position for each class of financial instrument, with all other variables remaining constant. This analysis is for illustrative purposes only, since in practice market rates rarely change in isolation.

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest receivable or payable on financial instruments with variable rates;
- Changes in market interest rates only affect interest receivable or payable on financial instruments with fixed interest rates where they are recognised at fair value;
- Changes in market interest rates affect the fair value of derivatives and other financial assets and liabilities;
- Changes in the fair value of derivatives and other financial assets and liabilities are estimated by discounting future cash flows from current net values using market rates at the end of the year.

Under these assumptions, an increase or decrease of 0.25% in market interest rates for loans that are not covered or loans with variable interest at 31 December 2014 would have resulted in an increase or decrease in annual profit before tax of approximately 1.4 million euros (2013: 1.3 million euros).

In the case of the interest rate swaps contracted, the sensitivity analysis which measures the estimated impact of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates results in changes in the fair value of the swaps of over 1,649 thousand euros (2013: over 124.6 thousand euros) and down 1,731 thousand euros (2013: down 124.9 thousand euros) at 31 December 2014.

## **4.2 Capital risk management**

The objective of capital risk management is to safeguard the continuity of the Group's operations, with an adequate return to shareholders and generating benefits for all stakeholders.

The NOS Group's policy is to contract loans with financial institutions, mainly at the level of the parent company, NOS, which in turn makes loans to its subsidiaries and associated companies. In the case of joint ventures, which contract loans in their own name, NOS

participates in the contract process and is the guarantor for repayment of the loan. This policy is designed to optimise the capital structure with a view to greater tax efficiency and a reduction in the average cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends distributed to shareholders, issue new shares, sell assets to reduce liabilities, or launch share buyback plans.

As is the practice of other companies operating in the market in which the Group operates, the Group manages capital on the basis of the net financial debt/EBITDA ratio. Net financial debt is calculated as the total of current and non-current borrowings, excluding the finance lease related to contracts for the acquisition of capacity and content utilisation rights, less the amounts of cash, cash equivalents and intra-group loans. The internal ratio set as a target is a level of debt between 2.5 to 3 times EBITDA.

	31-12-2013 RESTATED	31-12-2014
Total gross debt	1,017,684	1,006,613
Cash, cash equivalents and intercompany loans	(78,010)	(23,135)
<b>TOTAL NET DEBT</b>	<b>939,674</b>	<b>983,478</b>
EBITDA	376,197	510,466
Total net debt/EBITDA	2.50	1.93

The EBITDA presented for the year ended on 31 December 2013, are not comparable with the one presented for the year ended on 31 December 2014, once it only includes the contribution of four months of the merger completed on 27 August 2013 (Note 5).

### Estimated fair value

The table below shows the financial assets and liabilities of the Group valued at fair value at 31 December 2013 and 31 December 2014:

	31-12-2013 RESTATED			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	-	19,329	19,329
Derivative financial instruments - Exchange rate forward (Note 18)	-	-	-	-
	-	-	<b>19,329</b>	<b>19,329</b>
<b>LIABILITIES</b>				
Derivative financial instruments - Exchange rate forward (Note 18)	-	132	-	132
Derivative financial instruments - Interest rate swap (Note 18)	-	2,682	-	2,682
	-	<b>2,814</b>	-	<b>2,814</b>

	31/12/2014			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	-	77	77
Derivative financial instruments - Exchange rate forward (Note 18)	-	368	-	368
	-	<b>368</b>	<b>77</b>	<b>445</b>
<b>LIABILITIES</b>				
Derivative financial instruments - Interest rate swap (Note 18)	-	1,899	-	1,899
	-	<b>1,899</b>	-	<b>1,899</b>



In accordance with IFRS 13 - Fair value measurement, the levels of the fair value hierarchy are described as follows:

Level 1 – Financial instruments valued based on quotations in active markets to which the company has access are included in this category, securities valued based on executable (immediate liquidity) published by external sources.

Level 2 – Financial instruments whose value is based on directly or indirectly observable data in active markets are included in this category, securities valued based on bids provided by external entities and internal valuation techniques using only observable market data.

Level 3 – All financial instruments valued at fair value that do not fall in level 1 and 2.

Assets available for sale were valued using the discounted cash flow method (level 3). The movements occurred in the period and assumptions used are disclosed in note 13.

The calculation of the fair value of interest rate swap derivatives was based on an estimate of discounted future cash flows, using the estimated market interest rate curve calculated by the entities with which the swaps were contracted (level 2).

The fair value of forward rate agreement derivatives is calculated based on the spot exchange rate (level 2).

## **5. Changes in the consolidation perimeter**

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

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

The detail of Optimus Group's net assets and Goodwill identified under this transaction, updated at 31 December 2014, is as follows:

Fair value allocation

	BOOK VALUE	ADJUSTMENTS TO FAIR VALUE	FAIR VALUE
<b>ACQUIRED ASSETS</b>			
Tangible assets	569,441	(62,616)	506,825
Intangible assets	353,331	45,480	398,811
Deferred income tax assets	100,976	25,258	126,234
Inventories	19,125	(1,384)	17,741
Accounts receivable and other assets	224,165	-	224,165
Cash and cash equivalents	17,987	-	17,987
	<b>1,285,025</b>	<b>6,738</b>	<b>1,291,763</b>
<b>ACQUIRED LIABILITIES</b>			
Borrowings	452,362	-	452,362
Provisions	35,224	77,215	112,439
Deferred income tax liabilities	1,142	10,997	12,139
Share plan	6,469	3,144	9,613
Accounts payable and other liabilities	287,368	15,326	302,694
	<b>782,565</b>	<b>106,682</b>	<b>889,247</b>
<b>TOTAL NET ASSETS ACQUIRED</b>	<b>502,460</b>	<b>(99,944)</b>	<b>402,516</b>
<b>GOODWILL (NOTE 9)</b>			<b>453,888</b>
<b>ACQUISITION PRICE (NOTE 20)</b>			<b>856,404</b>

The fair value of net assets acquired was determined through several valuation methodologies for each type of asset or liability, based on the best information available. The main fair value adjustments made in this process were: (i) customer portfolio (23.4 million euros), which will be amortised linearly based on the estimated average time of customer retention; (ii) telecom licenses (12.7 million euros), which will be amortised over their the estimated useful life; (iii) infrastructure reconstruction and replacement equipment costs and other adjustments on basic equipment in the amount of 22.7 million euros; (iv) adjustment of 27.7 million euros to carrying amount of the assets falling within by the commitments made to the Competition Authority, under the merger operation, in particular, the agreement on an option to acquire the fiber network of Optimus; (v) contingent liabilities related to present obligations in the amount of 80.9 million euros, as permitted by IFRS 3, 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	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 analyses performed have not led to significant changes in the allocation of the fair value of assets and liabilities.

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

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

The contribution of Optimus group companies to the consolidated income for the year ended 31 December 2013, was positive, of 5,407 thousand euros, corresponding to the period of four months (since the control acquisition date on 27 August 2013). This contribution differs from the net income in the financial statements prepared by these entities, mainly because of the impacts in amortisation related to fair value adjustments and the standardization of certain accounting policies.

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

4 months contribution – Optimus Group for the year ended 31 December 2013

	AMOUNT
<b>REVENUES:</b>	
Sales and services rendered	214,762
Other operating revenues	3,067
	<b>217,829</b>
<b>COSTS, LOSSES AND GAINS:</b>	
Wages and salaries	16,301
Direct costs	65,653
Supplies and external services	32,000
Provisions and adjustments	(38)
Depreciation, amortisation and impairment losses	40,188
Other losses / (gains), net	47,793
	<b>201,897</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>15,932</b>
Financial results	(2,040)
<b>INCOME BEFORE TAXES</b>	<b>17,972</b>
Income taxes	12,565
<b>NET CONSOLIDATED INCOME</b>	<b>5,407</b>

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 year ended 31 December 2013, would be as follows:

12 months pro-forma – NOS Group for the year ended 31 December 2013

	AMOUNT
<b>REVENUES:</b>	
Sales and services rendered	1,409,974
Other operating revenues	16,838
	<b>1,426,812</b>
<b>COSTS, LOSSES AND GAINS:</b>	
Wages and salaries	96,624
Direct costs	410,927
Supplies and external services	358,232
Provisions and adjustments	7,160
Depreciation, amortisation and impairment losses	336,186
Other loss / (gains), net	74,298
	<b>1,283,427</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>143,386</b>
Net other financial expenses / (income)	66,449
<b>INCOME BEFORE TAXES</b>	<b>76,937</b>
Income taxes	13,078
<b>NET CONSOLIDATED INCOME</b>	<b>63,859</b>

The pro-forma amounts presented have not been audited separately.

The main variations occurred in the several NOS consolidated financial statements items, result mainly from the entry in the consolidation perimeter of the companies merged in 27 August 2013 (Note 1). Therefore, those companies' contributions for the group's results at 31 December 2013 correspond to 4 months of operations.

During the year ended on 31 December 2014, the changes in the consolidated perimeter were as follows:

i) on 15 May 2014 it was constituted NOS Communications S.à.r.l (Annexe A));

ii) on 16 May 2014 the Company completed a merger operation by incorporation of ZON TV Cabo Portugal, S.A. in Optimus – Comunicações, S.A., thereafter named NOS Comunicações, S.A.. This merger didn't have any impacts in the Group's consolidated financial statements;

iii) on 24 September 2014, ZON TV Cabo, SGPS, S.A. and ZON Audiovisual, SGPS S.A. merged into NOS Comunicações, S.A. and NOS Lusomundo Audiovisuais, S.A., respectively. The mergers didn't have any impact on the consolidated financial statements;

iv) on 30 September 2014 NOS SA acquired Mainroad's entire share capital for the amount of 12,620 thousand euros (which includes 1,295 thousand euros of supplementary capital) and Mainroad's debt to the previous shareholder's in the amount of 1,380 thousand euros

(Annexe A)). The purchase agreement envisages the possibility for future adjustments to the acquisition price depending on the evolution of future revenues.

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

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

#### Fair value allocation

	BOOK VALUE	ADJUSTMENTS TO FAIR VALUE	FAIR VALUE
<b>ACQUIRED ASSETS</b>			
Tangible assets	2,438	(56)	2,382
Intangible assets	171	910	1,081
Deferred income tax assets	170	41	211
Accounts receivable and other assets	3,897	-	3,897
Cash and cash equivalents	646	-	646
	<b>7,321</b>	<b>895</b>	<b>8,217</b>
<b>ACQUIRED LIABILITIES</b>			
Borrowings	1,447	-	1,447
Provisions	316	166	482
Deferred income tax liabilities	-	250	250
Accounts payable and other liabilities	5,630	-	5,630
	<b>7,393</b>	<b>416</b>	<b>7,809</b>
<b>TOTAL NET ASSETS ACQUIRED</b>	<b>(72)</b>	<b>479</b>	<b>407</b>
<b>GOODWILL (NOTE 9)</b>			<b>12,213</b>
<b>ACQUISITION PRICE</b>			<b>12,620</b>
<b>ACQUISITION OF MAINROAD'S DEBT</b>			<b>1,380</b>
<b>TOTAL PAID</b>			<b>14,000</b>

The fair value of net assets acquired was determined through several valuation methodologies for each type of asset or liability, based on the best information available. The main fair value adjustments made in this process were: (i) customer portfolio (1.1 million euros), which will be amortised linearly during 5 years; and (ii) contingent liabilities related to present obligations in the amount of 0.2 million euros, as permitted by IFRS 3.

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

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

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

isolated in a viable way and include, for example, synergies, qualified workforce and technical skills.

The contribution of Mainroad to the consolidated income for the year ended 31 December 2014 is negative in 467 thousand euros, corresponding to three months since control date 30 September 2014). This contribution differs from the net income in the financial statements prepared by Mainroad, mainly by the results of the first nine months of the year, the impact of amortisation adjustments to market value and by elimination of the transactions with the Group's related parties.

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

3 months contribution – Mainroad for the year ended 31 December 2014

	AMOUNT
<b>REVENUES:</b>	
Sales and services rendered	2,878
Other operating revenues	28
	<b>2,906</b>
<b>COSTS, LOSSES AND GAINS:</b>	
Wages and salaries	1,093
Support services	1,299
Supplies and external services	815
Provisions and adjustments	17
Depreciation, amortisation and impairment losses	205
Other loss / (gains), net	2
	<b>3,431</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>(525)</b>
Net other financial expenses / (income)	20
<b>INCOME BEFORE TAXES</b>	<b>(545)</b>
Income taxes	(78)
<b>NET CONSOLIDATED INCOME</b>	<b>(467)</b>



If the company had been consolidated from 1 January 2014, the amounts of consolidated operating revenues and net income before non-controlling interests, after elimination of the transactions with the Group's related parties would be as follows:

12 months pro-forma – NOS Group for year ended on 31 December 2014

	AMOUNT
<b>REVENUES:</b>	
Sales and services rendered	1,376,811
Other operating revenues	14,878
	<b>1,391,689</b>
<b>COSTS, LOSSES AND GAINS:</b>	
Wages and salaries	88,790
Direct costs	407,366
Support services	91,731
Supplies and external services	273,469
Provisions and adjustments	(5,664)
Depreciation, amortisation and impairment losses	339,717
Other loss / (gains), net	48,032
	<b>1,243,440</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>148,249</b>
Net other financial expenses / (income)	55,423
<b>INCOME BEFORE TAXES</b>	<b>92,826</b>
Income taxes	17,297
<b>NET CONSOLIDATED INCOME</b>	<b>75,528</b>

The presented pro-forma amounts have not been audited separately.

v) on 1 October 2014 ZON Cinemas, SGPS, SA was dissolved. It did not produce any impact on the Group's consolidated financial statements.

## 6. Segment reporting

The business segments are as follows:

- Telco – TV, Internet (fixed and mobile) and voice (fixed and mobile) services rendered and includes the following companies: Be Artis, Be Towering, Per-mar, Sontária, NOS, NOS Açores, NOS Communications S.à.r.l., NOS Madeira, NOS PUB, NOS SA, NOS Lusomundo TV, ZON Finance B.V., Teliz Holding B.V. and Mainroad.
- Audiovisual – the supply of video production services and sales, cinema exhibition and distribution and the acquisition/negotiation of Pay TV and VOD (video-on-demand) rights and includes the following companies: ZON Cinemas, SGPS, S.A., NOS Audiovisuais, 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 year ended at 31 December 2013 and 2014 are shown below:

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	4 <sup>th</sup> QUARTER 13	12M 13	4 <sup>th</sup> QUARTER 13	12M 13	4 <sup>th</sup> QUARTER 13	12M 13	4 <sup>th</sup> QUARTER 13	12M 13
<b>REVENUES:</b>								
Services rendered	322,732	901,370	20,390	80,545	(9,386)	(36,446)	333,736	945,469
Sales	10,332	16,235	5,393	19,406	(4)	5	15,721	35,646
Other operating revenues	2,756	7,176	1,834	2,490	(140)	(522)	4,450	9,144
	<b>335,820</b>	<b>924,781</b>	<b>27,617</b>	<b>102,441</b>	<b>(9,530)</b>	<b>(36,963)</b>	<b>353,907</b>	<b>990,259</b>
<b>COSTS, LOSSES AND GAINS:</b>								
Wages and salaries	19,396	56,527	2,502	9,667	3,267	-	25,165	66,193
Direct costs	101,931	288,674	7,509	25,880	(6,772)	(28,770)	102,668	285,784
Costs of products sold	13,463	20,271	16	68	-	-	13,479	20,339
Marketing and advertising	13,603	26,739	1,468	5,832	(1,375)	(5,261)	13,696	27,310
Support services	23,590	65,582	1,246	3,010	(1,219)	(2,837)	23,617	65,755
Supplies and external services	46,921	107,870	-	-	1,821	20,163	48,742	128,033
Other operating losses / (gains)	129	321	9	(3)	(171)	71	(31)	391
Taxes	2,392	6,867	55	312	-	-	2,448	7,179
Provisions and adjustments	5,830	10,176	28	2,902	-	-	5,858	13,078
	<b>227,255</b>	<b>583,027</b>	<b>17,917</b>	<b>67,998</b>	<b>(9,530)</b>	<b>(36,963)</b>	<b>235,642</b>	<b>614,062</b>
<b>EBITDA</b>	<b>108,565</b>	<b>341,754</b>	<b>9,700</b>	<b>34,443</b>	<b>-</b>	<b>-</b>	<b>118,265</b>	<b>376,197</b>
Net losses / (gains) of affiliated companies	(1,864)	(4,169)	324	294	-	-	(1,540)	(3,875)
<b>EBITDA INCLUDING NET / LOSSES (GAINS) OF AFFILIATED COMPANIES</b>	<b>110,429</b>	<b>345,923</b>	<b>9,376</b>	<b>34,149</b>	<b>-</b>	<b>-</b>	<b>119,805</b>	<b>380,072</b>
Depreciation, amortisation and impairment losses	74,531	212,465	9,094	30,605	-	-	83,625	243,070
Other losses / (gains), net	28,911	59,843	(2,154)	(1,344)	-	-	26,759	58,499
	<b>103,442</b>	<b>272,307</b>	<b>6,940</b>	<b>29,261</b>	<b>-</b>	<b>-</b>	<b>110,383</b>	<b>301,569</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>6,987</b>	<b>73,616</b>	<b>2,436</b>	<b>4,888</b>	<b>-</b>	<b>-</b>	<b>9,422</b>	<b>78,503</b>
Financial costs	11,145	28,977	838	2,723	(2,546)	-	9,437	31,700
Net foreign exchange losses / (gains)	(91)	(166)	260	428	-	-	169	262
Net losses / (gains) on financial assets	-	1,300	10	40	-	-	10	1,340
Net other financial expenses / (income)	1,343	17,376	34	134	2,546	-	3,923	17,509
	<b>12,397</b>	<b>47,487</b>	<b>1,142</b>	<b>3,325</b>	<b>-</b>	<b>-</b>	<b>13,539</b>	<b>50,811</b>
<b>INCOME BEFORE TAXES</b>	<b>(5,409)</b>	<b>26,129</b>	<b>1,293</b>	<b>1,563</b>	<b>-</b>	<b>-</b>	<b>(4,117)</b>	<b>27,692</b>
Income taxes	8,405	15,147	693	1,286	-	-	9,098	16,433
<b>NET CONSOLIDATED INCOME</b>	<b>(13,815)</b>	<b>10,982</b>	<b>600</b>	<b>277</b>	<b>-</b>	<b>-</b>	<b>(13,215)</b>	<b>11,259</b>
<b>CAPEX</b>	<b>78,084</b>	<b>182,639</b>	<b>7,607</b>	<b>29,684</b>	<b>-</b>	<b>-</b>	<b>85,691</b>	<b>212,323</b>
<b>EBITDA - CAPEX</b>	<b>30,481</b>	<b>159,115</b>	<b>2,093</b>	<b>4,759</b>	<b>-</b>	<b>-</b>	<b>32,574</b>	<b>163,874</b>

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	4 <sup>th</sup> QUARTER 14	12M 14	4 <sup>th</sup> QUARTER 14	12M 14	4 <sup>th</sup> QUARTER 14	12M 14	4 <sup>th</sup> QUARTER 14	12M 14
<b>REVENUES:</b>								
Services rendered	320,116	1,268,388	22,028	79,258	(8,383)	(36,615)	333,761	1,311,031
Sales	12,050	40,577	5,155	17,079	-	(3)	17,205	57,653
Other operating revenues	2,662	14,296	408	1,505	(239)	(551)	2,831	15,250
	<b>334,828</b>	<b>1,323,261</b>	<b>27,591</b>	<b>97,842</b>	<b>(8,623)</b>	<b>(37,169)</b>	<b>353,797</b>	<b>1,383,934</b>
<b>COSTS, LOSSES AND GAINS:</b>								
Wages and salaries	21,504	75,499	2,633	9,772	1	(7)	24,138	85,264
Direct costs	110,147	412,542	8,642	25,089	(8,116)	(30,060)	110,673	407,571
Costs of products sold	16,698	52,953	(612)	162	-	-	16,085	53,115
Marketing and advertising	7,050	30,534	1,545	5,467	(1,319)	(5,240)	7,276	30,761
Support services	23,644	89,092	(790)	1,911	926	(1,399)	23,780	89,604
Supplies and external services	46,184	169,594	-	-	4,987	18,393	51,171	187,987
Other operating losses / (gains)	143	990	24	59	-	-	167	1,049
Taxes	7,565	23,676	40	148	-	-	7,605	23,824
Provisions and adjustments	(612)	(5,621)	5	(86)	-	-	(607)	(5,707)
	<b>232,323</b>	<b>849,259</b>	<b>16,589</b>	<b>61,378</b>	<b>(8,623)</b>	<b>(37,169)</b>	<b>240,288</b>	<b>873,468</b>
<b>EBITDA</b>	<b>102,505</b>	<b>474,002</b>	<b>11,002</b>	<b>36,464</b>	<b>-</b>	<b>-</b>	<b>113,509</b>	<b>510,466</b>
Net losses / (gains) of affiliated companies	(2,362)	(13,100)	63	(833)	-	-	(2,302)	(13,935)
<b>EBITDA INCLUDING NET / LOSSES (GAINS) OF AFFILIATED COMPANIES</b>	<b>104,867</b>	<b>487,102</b>	<b>10,939</b>	<b>37,297</b>	<b>-</b>	<b>-</b>	<b>115,811</b>	<b>524,401</b>
Depreciation, amortisation and impairment losses	79,778	304,527	7,874	34,767	-	-	87,652	339,294
Other losses / (gains), net	3,971	38,569	(2)	(862)	-	-	3,967	37,706
	<b>83,749</b>	<b>343,096</b>	<b>7,872</b>	<b>33,905</b>	<b>-</b>	<b>-</b>	<b>91,619</b>	<b>377,000</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>	<b>21,118</b>	<b>144,006</b>	<b>3,067</b>	<b>3,392</b>	<b>-</b>	<b>-</b>	<b>24,192</b>	<b>147,401</b>
Financial costs	7,892	33,557	563	2,742	-	-	8,456	36,299
Net foreign exchange losses / (gains)	98	285	(415)	(503)	-	-	(317)	(218)
Net losses / (gains) on financial assets	(1)	904	40,554	40,589	(40,952)	(40,952)	(399)	541
Net other financial expenses / (income)	3,145	18,457	18	63	-	-	3,164	18,520
	<b>11,134</b>	<b>53,203</b>	<b>40,720</b>	<b>42,891</b>	<b>(40,952)</b>	<b>(40,952)</b>	<b>10,904</b>	<b>55,142</b>
<b>INCOME BEFORE TAXES</b>	<b>9,985</b>	<b>90,803</b>	<b>(37,654)</b>	<b>(39,499)</b>	<b>40,952</b>	<b>40,952</b>	<b>13,288</b>	<b>92,259</b>
Income taxes	(714)	16,719	1,767	460	-	-	1,053	17,179
<b>NET CONSOLIDATED INCOME</b>	<b>10,698</b>	<b>74,084</b>	<b>(39,421)</b>	<b>(39,959)</b>	<b>40,952</b>	<b>40,952</b>	<b>12,235</b>	<b>75,080</b>
<b>CAPEX</b>	<b>135,100</b>	<b>341,488</b>	<b>7,430</b>	<b>32,913</b>	<b>-</b>	<b>-</b>	<b>142,530</b>	<b>374,401</b>
<b>EBITDA - CAPEX</b>	<b>(32,594)</b>	<b>132,514</b>	<b>3,572</b>	<b>3,551</b>	<b>-</b>	<b>-</b>	<b>(29,021)</b>	<b>136,065</b>

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 at 31 December 2013 and 2014, are shown below:

31-12-2013 RESTATED				
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS</b>				
Tangible assets	1,082,595	14,228	-	1,096,823
Intangible assets	1,061,418	99,181	-	1,160,599
Investments in jointly controlled companies and associated companies	84,125	3,587	(56,098)	31,614
Account receivables - other	46,558	1,962	(43,347)	5,173
Deferred income tax assets	143,738	12,729	-	156,467
Other non-current assets	23,555	801	-	24,356
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,441,989</b>	<b>132,489</b>	<b>(99,446)</b>	<b>2,475,032</b>
<b>CURRENT ASSETS</b>				
Inventories	31,196	1,383	-	32,579
Account receivables	310,688	36,409	(37,468)	309,629
Prepaid expenses	22,455	3,091	-	25,546
Other current assets	2,466	1,874	8,367	12,707
Cash and cash equivalents	51,778	22,602	-	74,380
<b>TOTAL CURRENT ASSETS</b>	<b>418,583</b>	<b>65,360</b>	<b>(29,102)</b>	<b>454,841</b>
<b>TOTAL ASSETS</b>	<b>2,860,572</b>	<b>197,849</b>	<b>(128,548)</b>	<b>2,929,873</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	5,152	31,704	(31,704)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(2,003)	-	-	(2,003)
Legal reserve	3,556	1,087	(1,087)	3,556
Other reserves and accumulated earnings	104,459	62,928	11,477	178,864
Net income	10,533	277	-	10,810
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>975,916</b>	<b>95,996</b>	<b>(21,314)</b>	<b>1,050,598</b>
Non-controlling interests	9,572	23	20	9,615
<b>TOTAL EQUITY</b>	<b>985,488</b>	<b>96,019</b>	<b>(21,294)</b>	<b>1,060,213</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES</b>				
Borrowings	925,480	2,759	-	928,239
Provisions	159,383	5,919	(32,330)	132,972
Accrued expenses	28,705	-	-	28,705
Other non-current liabilities	2,060	43,347	(43,347)	2,060
Deferred income tax liabilities	15,451	6	-	15,456
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,131,079</b>	<b>52,030</b>	<b>(75,676)</b>	<b>1,107,432</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	212,367	7,706	(6,642)	213,431
Accounts payable	364,341	29,123	(25,893)	367,571
Tax payable	12,596	2,067	8,329	22,992
Accrued expenses	124,800	10,588	(5,486)	129,902
Deferred income	24,630	297	591	25,518
Other current liabilities	5,271	20	(2,477)	2,814
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>744,005</b>	<b>49,800</b>	<b>(31,578)</b>	<b>762,228</b>
<b>TOTAL LIABILITIES</b>	<b>1,875,084</b>	<b>101,830</b>	<b>(107,254)</b>	<b>1,869,660</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,860,572</b>	<b>197,849</b>	<b>(128,548)</b>	<b>2,929,873</b>

31-12-2014				
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS</b>				
Tangible assets	1,126,465	15,305	-	1,141,770
Intangible assets	1,068,015	96,192	-	1,164,207
Investments in jointly controlled companies and associated companies	123,847	2,715	(95,018)	31,544
Account receivables - other	68,209	18,456	(82,354)	4,311
Deferred income tax assets	129,431	11,683	-	141,115
Other non-current assets	4,309	708	-	5,017
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,520,276</b>	<b>145,059</b>	<b>(177,373)</b>	<b>2,487,964</b>
<b>CURRENT ASSETS</b>				
Inventories	31,921	1,092	-	33,013
Account receivables	344,836	57,318	(42,975)	359,179
Prepaid expenses	45,270	2,498	(26)	47,742
Other current assets	3,745	1,753	1,466	6,964
Cash and cash equivalents	19,911	1,160	-	21,070
<b>TOTAL CURRENT ASSETS</b>	<b>445,683</b>	<b>63,821</b>	<b>(41,536)</b>	<b>467,968</b>
<b>TOTAL ASSETS</b>	<b>2,965,960</b>	<b>208,880</b>	<b>(218,909)</b>	<b>2,955,931</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	5,152	31,704	(31,704)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(11,791)	-	-	(11,791)
Legal reserve	3,556	1,087	(1,087)	3,556
Other reserves and accumulated earnings	115,302	104,291	(95,129)	124,464
Net income	73,715	(39,959)	40,952	74,711
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,040,153</b>	<b>97,123</b>	<b>(86,967)</b>	<b>1,050,311</b>
Non-controlling interests	9,775	23	20	9,818
<b>TOTAL EQUITY</b>	<b>1,049,928</b>	<b>97,146</b>	<b>(86,946)</b>	<b>1,060,129</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES</b>				
Borrowings	638,622	44,708	(66,804)	616,526
Provisions	121,532	5,690	-	127,221
Accrued expenses	24,978	50	(74)	24,954
Other non-current liabilities	7,883	-	-	7,883
Deferred income tax liabilities	16,271	966	-	17,237
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>809,286</b>	<b>51,414</b>	<b>(66,877)</b>	<b>793,821</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	502,232	1,472	(196)	503,508
Accounts payable	411,371	43,877	(63,593)	391,655
Tax payable	9,962	3,150	1,464	14,576
Accrued expenses	154,351	11,551	(2,737)	163,165
Deferred income	28,831	271	(26)	29,076
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,106,747</b>	<b>60,320</b>	<b>(65,087)</b>	<b>1,101,980</b>
<b>TOTAL LIABILITIES</b>	<b>1,916,033</b>	<b>111,734</b>	<b>(131,964)</b>	<b>1,895,801</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,965,960</b>	<b>208,880</b>	<b>(218,909)</b>	<b>2,955,931</b>

The variations in the captions of the income statement of the Telco segment, occur mainly because during the year ended on 31 December 2013 the Telco segment only includes the contribution of four months of the companies merged on 27 August 2013 (Note 5).

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

At 31 December 2013 and 2014, the accounting policies set out in IAS 39 for financial instruments were applied to the following items:

31-12-2013 RESTATED				
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	19,329	-	-
Accounts receivable - trade (Note 16)	276,630	-	-	-
Accounts receivable - other (Note 11)	33,235	-	-	-
Cash and cash equivalents (Note 19)	74,380	-	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>384,245</b>	<b>19,329</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	2,814
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,814</b>

31-12-2013 RESTATED				
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	19,329	-	19,329
Accounts receivable - trade (Note 16)	-	276,630	-	276,630
Accounts receivable - other (Note 11)	-	33,235	4,937	38,172
Cash and cash equivalents (Note 19)	-	74,380	-	74,380
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>403,573</b>	<b>4,937</b>	<b>408,511</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	1,141,670	1,141,670	-	1,141,670
Derivative financial instruments (Note 18)	-	2,814	-	2,814
Accounts payable - trade (Note 25)	296,715	296,715	108	296,823
Accounts payable - other (Note 26)	70,748	70,748	-	70,748
Accrued expenses (Note 23)	129,902	129,902	-	129,902
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,639,035</b>	<b>1,641,849</b>	<b>108</b>	<b>1,641,957</b>

31-12-2014				
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	77	-	-
Derivative financial instruments (Note 18)	-	-	-	368
Accounts receivable - trade (Note 16)	331,527	-	-	-
Accounts receivable - other (Note 11)	25,929	-	-	-
Cash and cash equivalents (Note 19)	21,070	-	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>378,526</b>	<b>77</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	1,899
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,899</b>

31-12-2014				
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>				
Available-for-sale financial assets (Note 13)	-	77	-	77
Derivative financial instruments (Note 18)	-	368	-	368
Accounts receivable - trade (Note 16)	-	331,527	-	331,527
Accounts receivable - other (Note 11)	-	25,929	6,034	31,963
Cash and cash equivalents (Note 19)	-	21,070	-	21,070
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>378,971</b>	<b>6,034</b>	<b>385,005</b>
<b>LIABILITIES</b>				
Borrowings (Note 21)	1,120,034	1,120,034	-	1,120,034
Derivative financial instruments (Note 18)	-	1,899	-	1,899
Accounts payable - trade (Note 25)	340,721	340,721	-	340,721
Accounts payable - other (Note 26)	50,741	50,741	193	50,934
Accrued expenses (Note 23)	163,165	163,165	-	163,165
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,674,661</b>	<b>1,674,661</b>	<b>193</b>	<b>1,676,753</b>

Considering its nature, the balances of the amounts to be paid and received to/from state and other public entities were considered outside the scope of IFRS 7. Also, the captions of "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.

## 8. Tangible assets

During the years ended on 31 December 2013 and 31 December 2014, the movements in acquisition costs and accumulated depreciation in this item were as follows:

	31-12-2012 RESTATED	CHANGES OF SCOPE (NOTE 5)	INCREASES	FOREIGN CURRENCY TRANSLATION ADJ.	TRANSFER AND OTHERS	31-12-2013 RESTATED
<b>ACQUISITION COST</b>						
Land	388	856	-	-	-	1,244
Buildings and other constructions	49,380	252,496	1,661	(8)	(13,959)	289,570
Basic equipment	1,404,843	676,954	117,710	(25)	(54,114)	2,145,368
Transportation equipment	11,995	80	2,247	-	(3,474)	10,848
Tools and dies	340	882	-	-	4	1,226
Administrative equipment	145,705	140,283	10,577	(2)	(6,750)	289,813
Other tangible assets	32,316	5,518	1,736	-	316	39,886
Tangible assets in-progress	29,895	9,700	12,820	(3)	(23,219)	29,193
	<b>1,674,862</b>	<b>1,086,769</b>	<b>146,751</b>	<b>(38)</b>	<b>(101,196)</b>	<b>2,807,148</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>						
Buildings and other constructions	33,960	107,415	5,738	(2)	(16,284)	130,827
Basic equipment	863,752	330,075	136,719	(4)	(58,971)	1,271,571
Transportation equipment	5,993	77	1,203	-	(3,045)	4,228
Tools and dies	339	860	(168)	-	173	1,204
Administrative equipment	122,271	136,450	15,619	(2)	(9,521)	264,817
Other tangible assets	30,308	5,067	2,045	-	258	37,678
	<b>1,056,623</b>	<b>579,944</b>	<b>161,156</b>	<b>(8)</b>	<b>(87,390)</b>	<b>1,710,325</b>
	<b>618,239</b>	<b>506,825</b>	<b>(14,405)</b>	<b>(30)</b>	<b>(13,806)</b>	<b>1,096,823</b>

	31-12-2013 RESTATED	CHANGES OF SCOPE (NOTE 5)	INCREASES	FOREIGN CURRENCY TRANSLATION ADJ.	TRANSFER AND OTHERS	31-12-2014
<b>ACQUISITION COST</b>						
Land	1,244	-	-	-	(325)	919
Buildings and other constructions	289,570	5,708	6,081	70	(164)	301,266
Basic equipment	2,145,368	1,710	126,448	67	11,545	2,285,138
Transportation equipment	10,848	-	182	-	1	11,031
Tools and dies	1,226	0	11	-	1	1,238
Administrative equipment	289,813	1,767	16,728	1	1,044	309,352
Other tangible assets	39,886	1	1,328	-	321	41,535
Tangible assets in-progress	29,193	88	101,012	1	(37,121)	93,172
	<b>2,807,148</b>	<b>9,273</b>	<b>251,790</b>	<b>139</b>	<b>(24,699)</b>	<b>3,043,651</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>						
Land	-	-	37	-	0	37
Buildings and other constructions	130,827	3,892	11,044	1	5,749	151,513
Basic equipment	1,271,571	1,500	172,692	11	(25,070)	1,420,704
Transportation equipment	4,228	-	1,121	-	-	5,349
Tools and dies	1,204	-	-	-	9	1,213
Administrative equipment	264,817	1,443	17,741	-	(709)	283,293
Other tangible assets	37,678	1	5,935	-	(3,841)	39,773
	<b>1,710,325</b>	<b>6,836</b>	<b>208,570</b>	<b>12</b>	<b>(23,861)</b>	<b>1,901,882</b>
	<b>1,096,823</b>	<b>2,438</b>	<b>43,220</b>	<b>126</b>	<b>(838)</b>	<b>1,141,770</b>

At 31 December 2013, the significant increase in the item "Tangible Assets" results mainly from the entrance in the consolidation scope of the subsidiaries of Optimus SGPS merged on 27 August 2013 (Note 5). It includes the following tangible assets acquired:

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 145 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 347 million euros.

The net amount of transfers during the year ended 31 December 2013 and 2014 corresponds predominantly:

i) the reduction of the present value of estimated cost of decommissioning and removal of assets recorded on provision (Note 22), amounting to 4,937 thousand euros, results from the financial actualization of these costs using as average rate of the cost of debt of the NOS Group;

ii) the increase of impairments, amounting to 5,587 thousand euros, recorded as "Other losses / (Gains)" (Note 32), in sequence of the abandonment of assets, within the identified synergies resulting from the merger and the alignment of estimates and procedures in the recognition of impairments, between group companies, as a result of changes in the consolidation perimeter (Note 5).

The increase in acquisitions of tangible fixed assets is mainly due to investment in fiber-optic network.

At 31 December 2013 and 2014, the tangible fixed assets' net value is composed mainly by basic equipment, namely:

i) network and telecommunications infrastructure (fiber optic network and cabling, network equipment, and other equipment) in the amount of 704.7 million euros (2013: 718.5 million euros);

ii) Terminal equipment installed on client premises, included under Basic equipment, amounts to 145.9 million euros (2013: 169.1 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 2014, amounted to 186.3 million euros and 167.3 million euros, and their net book value as of those dates amounted to 118.2 million euros and 113.4 million euros, respectively.

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 31 December 2014, total net value of these costs amounted to 14.4 million euros (2013: 12.6 million euros). The amount capitalised in the year ended 31 December 2014 amounted to 2.7 million euros (2013: 410 thousand euros).



At 31 December 2014, the amounts of commitments to third parties relating to investments to be made were as follows:

	31-12-2014
Network	9,385
Information systems	2,823
	<b>12,208</b>

### Impairment tests of fixed assets assigned to cinema exhibition

During the year ended 31 December 2014, the Company carried out an impairment analysis (see assumptions in Note 9) for the fixed assets affected by cinema exhibition, which, to this date, have a net value of 10,354 thousand euros (11,770 thousand euros in 2013). On the basis of the catchment area of each cinema complex, cinemas were grouped as cash-generating units on a regional basis for impairment test purposes. The regional cash-generating units are Lisbon, Oporto, Coimbra, Aveiro, Viseu and Cinemas scattered across other regions of the country are considered as individual cash-generating units. No impairment adjustments resulted from this analysis.

## 9. Intangible assets

During the years ended on 31 December 2013 and 31 December 2014, the movements in acquisition costs and accumulated amortisation in this item were as follows:

	31-12-2012 RESTATED	CHANGES OF SCOPE	INCREASES	TRANSFER AND OTHERS	31-12-2013 RESTATED
<b>ACQUISITION COST</b>					
Industrial property and other rights	507,134	778,557	59,172	2,073	1,346,936
Goodwill	175,497	453,888	-	-	629,386
Other intangible assets	10,502	-	1,410	30	11,942
Intangible assets in-progress	332	24,154	4,990	(5,466)	24,011
	<b>693,466</b>	<b>1,256,599</b>	<b>65,572</b>	<b>(3,362)</b>	<b>2,012,275</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>					
Industrial property and other rights	361,526	403,895	80,192	(3,862)	841,751
Other intangible assets	8,319	5	1,723	(122)	9,925
	<b>369,845</b>	<b>403,900</b>	<b>81,915</b>	<b>(3,984)</b>	<b>851,676</b>
	<b>323,621</b>	<b>852,699</b>	<b>(16,343)</b>	<b>622</b>	<b>1,160,599</b>

	31-12-2013 RESTATED	CHANGES OF SCOPE	INCREASES	TRANSFER AND OTHERS	31-12-2014
<b>ACQUISITION COST</b>					
Industrial property and other rights	1,346,936	1,745	74,465	(9,099)	1,414,048
Goodwill	629,386	-	12,213	-	641,599
Other intangible assets	11,942	-	-	(11,942)	-
Intangible assets in-progress	24,011	-	48,124	(30,206)	41,929
	<b>2,012,275</b>	<b>1,745</b>	<b>134,802</b>	<b>(51,247)</b>	<b>2,097,576</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>					
Industrial property and other rights	841,751	1,574	130,631	(40,587)	933,369
Other intangible assets	9,925	-	-	(9,925)	-
	<b>851,676</b>	<b>1,574</b>	<b>130,631</b>	<b>(50,511)</b>	<b>933,369</b>
	<b>1,160,599</b>	<b>171</b>	<b>4,171</b>	<b>(736)</b>	<b>1,164,207</b>

During the years ended on 31 December 2013, the increase in Intangible Assets results mainly from the entrance in the consolidation scope of the companies merged on 27 August 2013 (Note 5), as well as the Goodwill recognised under the merger between ZON and Optimus.

At 31 December 2014, the item "Industrial property and other rights" includes mainly:

- (1) A net amount of 160 million euros (2013: 170 million euros) mainly related to the investment, net of depreciation, made in the development of the UMTS network by NOS SA, including: (i) 48 million euros (2013: 51 million euros) related to the license, (ii) 16 million euros (2013: 17 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.9 million euros (2013: 5.2 million 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) 79 million euros (2013: 84 million euros) related with the programme "Initiatives E"; and the net amount of 8.1 million euros (2013: 8.8 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger (Note 5);
- (2) A net amount of 101 million euros (2013: 105 million euros) corresponding to the current value of future payments related with the acquisition of rights of use for frequencies (spectrum) bands of 800 MHz, 1800 MHz, 2600 MHz, which will be used to develop 4th generation services (LTE - Long Term Evolution) and a net amount of 3.5 million euros (2013: 3.7 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger (Note 5). At 31 December 2014 and considering the availability of LTE technology, although subject to restrictions in some areas of the country, a fraction of the acquisition value of rights of use for 4th generation frequencies service 4th generation (LTE - Long Term Evolution), in the amount of 17 million euros (2013: 17 million euros), is still recorded in intangible assets in-progress;
- (3) A net amount of 66 million euros (2013: 74 million euros) relating to the contract for the exclusive acquisition of satellite capacity celebrated between NOS SA and Hispasat, which is recorded as a finance lease;
- (4) Net amounts of approximately 42 million euros (2013: 16 million euros) and 20 million euros (2013: 23 million euros) corresponding to the capitalised costs related to customers' loyalty contracts and future rights to use movies and series, respectively (Note 1);
- (5) A net amount of approximately 38 million euros (2013: 46 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger (Note 5).

## Impairment tests on goodwill

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

	31-12-2013 RESTATED	31-12-2014
Telco	552,785	564,998
Audiovisuals	76,601	76,601
	<b>629,386</b>	<b>641,599</b>

In 2014 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:

	TELCO SEGMENT	AUDIOVISUALS SEGMENT	
		NOS AUDIOVISUALS	NOS CINEMAS
Discount rate (before taxes)	8.2%	8.2%	8.2%
Assessment period	5 years	5 years	5 years
EBITDA* growth	2.7%	3.2%	6.5%
Perpetuity growth rate	2.0%	2.0%	2.0%

\* EBITDA = Operational result + Depreciation and amortisation

Compared to 2013, which had a discount rate of 9%, the discount rate used decreases due, among other factors, to the decline in the discount rate used by analysts when evaluating the group, and follows the general downward trend of the discount rates used by analysts when evaluating companies operating in the Portuguese market.

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

The number of years specified in the impairment tests depends on the degree of maturity of the various businesses and markets, and were determined on the basis of the most appropriate 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.

## 10. Investments in jointly controlled companies and associated companies

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

	31-12-2013 RESTATED	31-12-2014
<b>INVESTMENTS - EQUITY METHOD</b>		
Sport TV	29,769	26,772
Dreamia	1,687	2,466
Finstar	(13,466)	2,059
Mstar	(321)	(63)
Upstar	53	66
Distodo	(125)	98
Canal 20 TV, S.A.	5	(1)
ZON II <sup>(1)</sup>	50	-
ZON III <sup>(1)</sup>	50	-
East Star	-	36
Big Picture 2 Films	-	47
	<b>17,702</b>	<b>31,480</b>
<b>ASSETS</b>	<b>31,614</b>	<b>31,544</b>
<b>LIABILITIES (NOTE 22)</b>	<b>(13,912)</b>	<b>(64)</b>

(1) Companies dissolved in 2014.

Movements in "Investments in jointly controlled companies and associated companies" in 2013 and 2014 were as follows:

	31-12-2013 RESTATED	31-12-2014
<b>AS AT JANUARY 1</b>	<b>13,539</b>	<b>17,702</b>
Gains / (losses) for the year (Note 34)	3,875	13,935
Dissolutions	-	(100)
Entry of companies	-	36
Supplementary capital	-	139
Changes in equity i)	288	(232)
<b>AS AT DECEMBER 31</b>	<b>17,702</b>	<b>31,480</b>

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 financial years 2013 and 2014 is as follows:

2013							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% Held	GAINS / (LOSSES) ATTRIBUTED TO THE GROUP
Sport TV	119,279	59,496	59,783	123,967	(5,807)	50.00%	(2,904)
Dreamia	10,743	7,215	3,528	2,083	(103)	50.00%	(52)
Finstar	46,070	90,749	(44,679)	143,896	22,436	30.00%	6,731
Mstar	4,721	5,865	(1,144)	9,960	1,091	30.00%	327
Upstar	42,861	42,684	177	50,149	51	30.00%	15
Distodo	283	532	(249)	742	(455)	50.00%	(227)
Canal 20 TV, S.A.	66	57	10	-	-	50.00%	-
ZON II	50	-	50	-	-	100.00%	-
ZON III	50	-	50	-	-	100.00%	-
Big Picture 2 Films	681	683	(2)	3,874	(76)	20.00%	(15)
	<b>224,804</b>	<b>207,281</b>	<b>17,523</b>	<b>334,672</b>	<b>17,137</b>		<b>3,875</b>

2014							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% Held	GAINS / (LOSSES) ATTRIBUTED TO THE GROUP
Sport TV	111,895	58,352	53,543	111,419	(6,239)	50.00%	(3,120)
Dreamia	14,957	10,026	4,932	3,646	1,406	50.00%	703
Finstar	80,335	73,471	6,864	190,538	52,782	30.00%	15,835
Mstar	13,509	13,719	(211)	16,496	1,266	30.00%	380
Upstar	42,823	42,602	221	58,150	22	30.00%	7
Distodo	66	10	56	213	166	50.00%	83
Canal 20 TV, S.A.	55	57	(2)	-	-	50.00%	-
East Star	137	17	120	-	-	30.00%	-
Big Picture 2 Films	2,498	2,262	236	7,642	237	20.00%	47
	<b>266,276</b>	<b>200,515</b>	<b>65,761</b>	<b>388,103</b>	<b>49,640</b>		<b>13,935</b>

## 11. Accounts receivable - other

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

	31-12-2013 RESTATED		31-12-2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivable	16,621	5,173	12,161	4,311
"Information Society" (Note 23) i)	10,501	-	10,703	-
Advances of suppliers	4,937	-	6,034	-
Unbilled revenues	1,647	-	-	-
	<b>33,706</b>	<b>5,173</b>	<b>28,898</b>	<b>4,311</b>
Impairment of other receivable	(707)	-	(1,246)	-
	<b>32,999</b>	<b>5,173</b>	<b>27,652</b>	<b>4,311</b>

i) At 31 December 2013, the net position of the Group with the "Fundação para as Comunicações Móveis", under the "Iniciativas E" programme, amounts to a receivable of 10,703 thousand euros.

Impairment of account receivable – other

	12M 13 RESTATED	12M 14
<b>AS AT JANUARY 1</b>	<b>97</b>	<b>707</b>
Change in the consolidation scope (Note 5)	649	-
Increases (Note 33)	357	839
Others	(396)	(300)
<b>AS AT DECEMBER 31</b>	<b>707</b>	<b>1,246</b>

## 12. Taxes payable and receivable

At 31 December 2013 and 2014, these items were composed as follows:

Tax payable and receivable

	31-12-2013 RESTATED		31-12-2014	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
<b>CURRENT</b>				
Value-added tax	2,337	17,954	2,378	10,721
Income taxes	9,065	-	2,214	-
Social Security contributions	-	1,957	-	1,990
Personnel income tax withholdings	-	2,107	-	1,730
Other	428	974	430	135
	<b>11,830</b>	<b>22,992</b>	<b>5,022</b>	<b>14,576</b>
<b>NON CURRENT</b>				
Tax authorities (Note 42.2)	7,705	-	7,640	-
Provision	(3,479)	-	(3,408)	-
	<b>4,226</b>	<b>-</b>	<b>4,232</b>	<b>-</b>
	<b>16,056</b>	<b>22,992</b>	<b>9,254</b>	<b>14,576</b>

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

IRC (corporate income tax) receivable and payable

	31-12-2013 RESTATED	31-12-2014
Estimated current tax on income	(7,365)	(3,612)
Payments on account	12,838	4,393
Withholding income taxes	2,856	684
Other	736	749
	<b>9,065</b>	<b>2,214</b>

### 13. Available for sale financial assets

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

Available for sale financial assets

	31-12-2013 RESTATED	31-12-2014
Investment fund for cinema and audiovisuals	19,246	-
Other	83	77
	<b>19,329</b>	<b>77</b>

At 31 December 2013, the balance stated in this item relates mainly to the Cinema and Audiovisual Investment Fund set up in 2007, in compliance with Article 67 of Decree-Law 227/2006 of 15 November. The fund was established to invest in cinematographic, audiovisual and multiplatform works, with the aim of increasing and improving the supply and potential value of these productions.

NOS subscribed for 30.12% of the units in this fund jointly with other audiovisual companies. The item "Accounts Payable - others" includes the value of the contribution obligation to the fund, totalling 17,500 thousand euros, corresponding to the current value of the instalments due.

On 26 December 2014 the Fund was liquidated. Following the liquidation, NOS derecognised the assets and liabilities related to the fund and recognised a net loss of 626 thousand euros.

The movements occurred in the year ended on 31 December 2014 are as follow:

	31-12-2013 RESTATED	IMPAIRMENT 2014	SETTLEMENT	31-12-2014
Available-for-sale financial assets	19,246	(900)	(18,346)	-
Accounts payable - other	(17,500)	-	17,500	-
<b>NET ASSETS</b>	<b>1,746</b>	<b>(900)</b>	<b>(846)</b>	-
Amount received at the settlement date			1,120	
<b>LOSSES IN FINANCIAL ASSETS RECOGNISED</b>		<b>900</b>	<b>(274)</b>	<b>626</b>

### 14. Income tax expense

During the year ended at 31 December 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 reform, published by Law 2/2014 of 16 January, a new level was added to the IRC surcharge where the rate is raised in 7% over the company's taxable profit above 35 million euros.

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

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

The companies covered by the RETGS in 2014 are:

- NOS (parent company)
- Be Artis (included in the RETGS during 2014)
- Be Towering (included in the RETGS during 2014)
- Empracine
- Lusomundo Imobiliária 2
- Lusomundo SII
- NOS Audiovisuais
- NOS Cinemas
- NOS Lusomundo TV
- NOS Madeira (included in the RETGS during 2014)
- NOSPUB
- NOS SA (included in the RETGS during 2014)
- Per-mar (included in the RETGS during 2014)
- Sontária (included in the RETGS during 2014)

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

The Board of Directors of NOS, based on information from its tax advisers, believes that these and any other revisions and corrections to these tax declarations, as well as other contingencies of a fiscal nature, will not have a significant effect on the consolidated financial statements as at 31 December 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 years ended on 31 December 2013 and 2014 were as follows:

	31-12-2012 RESTATED	CHANGES OF SCOPE (NOTE 5)	DEFERRED TAXES OF THE YEAR		31-12-2013 RESTATED
			INCOME (NOTE B)	EQUITY (NOTE 18)	
<b>DEFERRED INCOME TAX ASSETS:</b>					
Doubtful accounts receivable	5,342	11,163	(432)	-	16,073
Inventories	1,490	678	1,048	-	3,216
Other provision and adjustments	27,864	68,625	(14,620)	-	81,869
Intragroup gains	15,881	18,241	(6,246)	-	27,876
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	-	15,660	(3,313)	-	12,347
Derivatives	1,616	-	-	(923)	693
Fiscal incentives	-	11,867	2,526	-	14,393
	<b>52,193</b>	<b>126,234</b>	<b>(21,037)</b>	<b>(923)</b>	<b>156,467</b>
<b>DEFERRED INCOME TAX LIABILITIES:</b>					
Revaluation of fixed assets	2,776	-	(1,361)	-	1,415
Capitalisation of subscriber acquisition costs	4,712	-	(4,712)	-	-
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	-	10,997	2,137	-	13,134
Other provisions and adjustments	-	1,142	(235)	-	907
	<b>7,488</b>	<b>12,139</b>	<b>(4,171)</b>	<b>-</b>	<b>15,456</b>
<b>NET DEFERRED TAX</b>	<b>44,705</b>	<b>114,095</b>	<b>(16,866)</b>	<b>(923)</b>	<b>141,011</b>

	31-12-2013 RESTATED	CHANGES OF SCOPE (NOTE 5)	DEFERRED TAXES OF THE YEAR		31-12-2014
			INCOME (NOTE B)	EQUITY (NOTE 18)	
<b>DEFERRED INCOME TAX ASSETS:</b>					
Doubtful accounts receivable	16,073	-	(8,631)	-	7,442
Inventories	3,216	-	568	-	3,784
Other provision and adjustments	81,869	145	(2,197)	-	79,817
Intragroup gains	27,876	-	(7,903)	-	19,973
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	12,347	-	(2,603)	-	9,744
Derivatives	693	-	-	(266)	427
Fiscal incentives	14,393	65	4,839	-	19,297
Tax losses carried forward	-	-	631	-	631
	<b>156,467</b>	<b>211</b>	<b>(15,296)</b>	<b>(266)</b>	<b>141,115</b>
<b>DEFERRED INCOME TAX LIABILITIES:</b>					
Revaluation of fixed assets	1,415	-	(1,412)	-	3
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	13,134	250	1,233	-	14,617
Derivatives	-	-	-	137	137
Other provisions and adjustments	907	-	1,573	-	2,480
	<b>15,456</b>	<b>250</b>	<b>1,394</b>	<b>137</b>	<b>17,237</b>
<b>NET DEFERRED TAX</b>	<b>141,011</b>	<b>(39)</b>	<b>(16,690)</b>	<b>(403)</b>	<b>123,878</b>

At 31 December 2014, the deferred tax assets related to the other provisions and adjustments are mainly due: i) impairments and acceleration of amortisations beyond the acceptable fiscally and other adjustments in tangible and intangible assets, amounted to 62.1 million euros (2013: 59.1 million euros); ii) other provisions amounted to 17.7 million euros (2013: 15.6 million euros). Additionally in 2013 there were temporary differences generated with adjustments of conversion to IAS/IFRS at 31 December 2009, amounted to 7.2 million euros which in 2014 are null.

At 31 December 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 31 December 2014 were not recognised deferred tax assets in the amount of 13.9 million euros (2013: 14.3 million euros) related to: i) tax losses of 10.3 million euros (2013: 12.8 million euros), originated in the years 2009 and 2013, not recorded due to the deduction of tax provisions (Note 22), ii) tax incentives amounting to 3.4 million euros (2013: 1.1 million euros), and iii) temporary differences in the amount of 0.2 million euros (2013: 0.4 million euros).

At 31 December 2013 and 2014 were not recognised deferred tax liabilities related to undistributed dividends of subsidiaries, associates and joint ventures, because it was considered that do not exist fiscal consequences related to dividend payments of these Group entities.

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

At 31 December 2014, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21% (2013: 23%). In the case of temporary differences, the rate used was 22.5% (2013: 24.5%) increased to a maximum of 6.2% (2013: 3.8%) of state surcharge when understood as likely the taxation of temporary differences in the estimated period of application of the state surcharge. Tax benefits, related to deductions from taxable income, are considered 100%, and in some cases, their full acceptance is conditional upon the approval of the authorities that grants such tax benefits.

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

Under the terms of current legislation in Portugal, tax losses generated up to 2009, or in 2010 and 2011, and from 2012 to 2013 and from 2014 onwards may be carried forward for a period of six years, four years, five years and twelve years, respectively, after their occurrence and may be deducted from taxable profits generated during that period, up to a limit of 75% of the taxable profit in 2013 and 70% of taxable profit in the following years.

## B) Effective tax rate reconciliation

In the years ended on 31 December 2013 and 2014, the reconciliation between the nominal and effective rates of tax was as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Income before taxes	(4,117)	27,692	13,288	92,259
Statutory tax rate	26.5%	26.5%	24.5%	24.5%
<b>ESTIMATED TAX</b>	<b>(1,091)</b>	<b>7,338</b>	<b>3,255</b>	<b>22,603</b>
Permanent differences i)	2,140	1,521	(2,088)	(4,457)
Differences in tax rate of group companies	(40)	(40)	2,086	2,086
Underestimated / (Overestimated) corporate tax	-	537	(90)	(2,850)
Fiscal benefits ii)	(2,763)	(5,496)	(3,987)	(6,500)
State surcharge	(5)	790	(6,894)	(3,737)
Impact of the changes in the deferred tax as a result of the change in income tax rate iii)	10,864	10,864	7,979	7,979
Autonomous taxation	552	1,203	(353)	678
Provisions (Note 22)	-	-	(854)	90
Others	(559)	(284)	1,999	1,287
<b>INCOME TAX</b>	<b>9,098</b>	<b>16,433</b>	<b>1,053</b>	<b>17,179</b>
Effective Income tax rate for the year	-221.0%	59.3%	7.9%	18.6%
Income tax	(5,926)	(433)	3,431	489
Deferred tax	15,024	16,866	(2,378)	16,690
	<b>9,098</b>	<b>16,433</b>	<b>1,053</b>	<b>17,179</b>

i) At 31 December 2013 and 2014 the permanent differences were composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Provisions	7,433	7,433	-	-
Equity method (Note 10)	(1,540)	(3,875)	(2,302)	(13,935)
Other	367	367	(6,220)	(4,258)
	<b>8,074</b>	<b>5,739</b>	<b>(8,522)</b>	<b>(18,193)</b>
	26.5%	26.5%	24.5%	24.5%
	<b>2,140</b>	<b>1,521</b>	<b>(2,088)</b>	<b>(4,457)</b>

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.

iii) Impact of the changes in the deferred taxes as a result of the reduction of the statutory tax rate by 2%, both in the year 2013 (reduction from 25% to 23% for the year 2014) and in 2014 (reduction from 23% to 21% for the 2015 financial year and following years).

## 15. Inventories

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

	31-12-2013 RESTATED	31-12-2014
<b>INVENTORIES</b>		
Telco	41,645	44,264
Audiovisuals	3,108	2,673
	<b>44,753</b>	<b>46,937</b>
<b>IMPAIRMENT ADJUSTMENTS</b>		
Telco	(10,449)	(12,343)
Audiovisuals	(1,725)	(1,581)
	<b>(12,174)</b>	<b>(13,924)</b>
	<b>32,579</b>	<b>33,013</b>

At 31 December 2014, approximately 3,148 thousand euros (2013: 3,276 thousand euros) of the stated value of inventories of the Telco business is on a sale or return basis, mainly with direct agents and 2,329 thousand euros is held by third parties (3,144 thousand euros on 31 December 2013).

The movements occurred in impairment adjustments were as follows:

	12M 13 RESTATED	12M 14
<b>AS AT JANUARY 1</b>	<b>5,477</b>	<b>12,174</b>
Change in the consolidation scope (Note 5)	2,304	-
Increase and decrease - Cost of products sold (Note 30)	(712)	4,202
Other losses / (gains) (Note 32)	4,550	-
Others	555	(2,452)
<b>AS AT DECEMBER 31</b>	<b>12,174</b>	<b>13,924</b>

## 16. Accounts receivable – trade

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

	31-12-2013 RESTATED	31-12-2014
Trade receivables	216,374	257,873
Doubtful accounts for trade receivables	180,609	175,789
Unbilled revenues	60,030	73,654
	<b>457,013</b>	<b>507,316</b>
Impairment of trade receivable	(180,383)	(175,789)
	<b>276,630</b>	<b>331,527</b>

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

Accounts receivable by age are presented on Note 4.1.

The movements occurred in impairment adjustments were as follows:

	12M 13 RESTATED	12M 14
<b>AS AT JANUARY 1</b>	<b>131,763</b>	<b>180,383</b>
Change in the consolidation scope (Note 5)	28,469	137
Increases and decreases (Note 33)	18,323	(256)
Receivables written off and other	(2,483)	(4,475)
Other losses / (gains) (Note 32)	4,311	-
<b>AS AT DECEMBER 31</b>	<b>180,383</b>	<b>175,789</b>

## 17. Prepaid expenses

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

	31-12-2013 RESTATED	31-12-2014
Costs of litigation procedure activity i)	13,696	22,779
Discounts ii)	-	13,835
Rentals	3,535	3,667
Programming costs	2,048	2,750
Insurance	1,577	2,323
Others	4,690	2,388
	<b>25,546</b>	<b>47,742</b>

i) The value of litigation costs corresponds to the amount paid by the entry of court proceedings related to clients in litigation and the total estimated liability related to the court proceedings, which amount is recognised linearly in the income statement while the proceedings run.

ii) Discounts correspond mainly to discounts to new customers under loyalty programs. These discounts are allocated to the whole loyalty period of the contract. The discounts are recognised as the goods and services are provided to the customer.

## 18. Derivative financial instruments

### 18.1 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 8,885 thousand Dollars (31 December 2013: 7,550

thousand Dollars), the fair value amounts to a loss of about 368 thousand euros (31 December 2013: loss of about 132 thousand euros) which is stated in liabilities as a contra entry in shareholder's equity.

## 18. 2 Interest rate derivatives

At 31 December 2014, NOS had contracted three interest rate swaps totaling of 275 million euros (2013: 257.5 thousand euros), whose maturities expire in 2015 (one swap in the amount of 100 million euros), 2017 (one swap in the amount of 75 million euros) and 2019 (one swap in the amount of 100 million euros). The fair value of interest rate swaps, in the negative amount of 1.9 million euros (2013: negative amount of 2.7 million euros) was recorded in liabilities, against shareholder's equity.

Derivative financial instruments

	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	257,500	-	-	2,682	-
Exchange rate forward	5,474	-	-	132	-
	<b>262,974</b>	-	-	<b>2,814</b>	-

31-12-2014					
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	257,000	-	-	-	1,899
Exchange rate forward	7,118	368	-	-	-
	<b>282,118</b>	<b>368</b>	-	-	<b>1,899</b>

Movements during the year ended on 31 December 2013 and 2014 were as follows:

	31-12-2012 RESTATED	INCOME	EQUITY	31-12-2013 RESTATED
Fair value interest rate swaps	(6,051)	-	3,369	(2,682)
Fair value exchange rate forward	(45)	-	(87)	(132)
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>(6,095)</b>	<b>-</b>	<b>3,282</b>	<b>(2,814)</b>
Deferred income tax liabilities	-	-	-	-
Deferred income tax assets	1,616	-	(923)	693
<b>DEFERRED INCOME TAX</b>	<b>1,616</b>	<b>-</b>	<b>(923)</b>	<b>693</b>
	<b>(4,479)</b>	<b>-</b>	<b>2,359</b>	<b>(2,121)</b>

	31-12-2013 RESTATED	INCOME	EQUITY	31-12-2014
Fair value interest rate swaps	(2,682)	-	783	(1,899)
Fair value exchange rate forward	(132)	-	500	368
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>(2,814)</b>	<b>-</b>	<b>1,283</b>	<b>(1,531)</b>
Deferred income tax liabilities	-	-	(137)	(137)
Deferred income tax assets	693	-	(266)	427
<b>DEFERRED INCOME TAX</b>	<b>693</b>	<b>-</b>	<b>(403)</b>	<b>290</b>
	<b>(2,121)</b>	<b>-</b>	<b>880</b>	<b>(1,241)</b>

## 19. Cash and cash equivalents

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

	31-12-2013 RESTATED	31-12-2014
Cash	1,085	1,539
Deposits	13,093	10,865
Other deposits i)	60,202	8,666
	<b>74,380</b>	<b>21,070</b>

i) At 31 December 2013 and 2014, term deposits have short-term maturities and bear interest at normal market rates.

## 20. Shareholder's equity

### 20.1 Share capital

At 31 December 2013 and 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 2014 are:

	31-12-2013		31-12-2014	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA <sup>(1)</sup>	257,632,005	50.01%	257,632,005	50.01%
Banco BPI, SA <sup>(2)</sup>	23,344,798	4.53%	23,287,499	4.52%
Morgan Stanley	-	0.00%	11,902,331	2.31%
Sonaecom, SGPS, SA	37,489,324	7.28%	11,012,532	2.14%
Fundação José Berardo e Metalgest - Sociedade de Gestão, SGPS, SA	17,999,249	3.49%	-	0.00%
Espírito Santo Irmãos, SGPS, SA	15,455,000	3.00%	-	0.00%
Joaquim Alves Ferreira de Oliveira <sup>(3)</sup>	14,955,684	2.90%	-	0.00%
<b>TOTAL</b>	<b>366,876,060</b>	<b>71.22%</b>	<b>303,834,367</b>	<b>58.98%</b>

(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 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, BPI Iberia LUX and BPI Alternative Fund LUX.

(3) At 31 December 2013 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 ZON Optimus.

## 20.2 Capital issued premium

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

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

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

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



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

### 20.3 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 31 December 2014 there were 2,496,767 own shares, representing 0.4847% of the share capital (31 December 2013: 403,382 own shares, representing 0.0783% of the share capital).

Movements in the years ended on 31 December 2013 and 2014 were as follows:

	QUANTITY	VALUE
<b>BALANCE AS AT 1 JANUARY 2013</b>	<b>401,523</b>	<b>914</b>
Acquisition of own shares	1,003,127	4,405
Distribution of own shares	(1,001,268)	(3,316)
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>403,382</b>	<b>2,003</b>
<b>BALANCE AS AT 1 JANUARY 2014</b>	<b>403,382</b>	<b>2,003</b>
Acquisition of own shares	5,701,335	28,583
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	(2,109,692)	(10,988)
Distribution of own shares - share Public Offering	(1,706,761)	(8,915)
Distribution of own shares - other remunerations	(165,397)	(813)
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>2,496,767</b>	<b>11,791</b>

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

NOS made a Public Offering in a maximum of 1,750,000 ordinary, registered and nominative shares, with a value of 0.01 euros each, representative of 0.340% of NOS's share capital, destined to the Group's employees. The Offer was made under the NOS's Short and Mid Term Variable Remuneration Regulation and relates to the employees' short term variable remuneration. Relating to that Offer, purchase orders in an amount of 1,706,761 shares representative of NOS's share capital were received and processed and therefore the same amount of 1,706,761 shares was acquired by the employees that presented the related purchase order, at the acquisition price corresponding to the NOS' shares' closing price as at 12 May 2014 (5.125 euros), with a discount of 90% over that price (price of 0.5125 euros per share).

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

## 20.4 Reserves

### Legal reserve

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

### Other reserves

Under Portuguese law, the amount of distributable reserves is determined according to the individual financial statements of the company prepared in accordance with IAS / IFRS. Thus, on 31 December 2014, NOS had reserves which by their nature are considered distributable in the amount of approximately 177 million euros.

## 21. Borrowings

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

	31-12-2013 RESTATED		31-12-2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
<b>LOANS - NOMINAL VALUE</b>	<b>184,969</b>	<b>813,945</b>	<b>470,876</b>	<b>494,958</b>
Debtenture loan	157,100	340,000	240,000	275,000
Commercial paper	20,000	375,000	130,000	115,000
Foreign loans	-	98,945	99,397	104,958
National loans	3,609	-	-	-
Bank overdrafts	4,260	-	1,479	-
<b>LOANS - ACCRUALS AND DEFERRALS</b>	<b>2,484</b>	<b>(2,406)</b>	<b>(2,232)</b>	<b>(1,171)</b>
<b>FINANCIAL LEASES</b>	<b>25,978</b>	<b>116,700</b>	<b>34,863</b>	<b>122,739</b>
Long Term Contracts	17,426	106,559	19,614	93,807
Other	8,552	10,141	15,249	28,932
	<b>213,431</b>	<b>928,239</b>	<b>503,508</b>	<b>616,526</b>

During the year ended 31 December 2014, the average cost of debt of the used lines was approximately 4.55% (5.07% in 2013).

### 21.1 Debtenture loans

At 31 December 2014, the Company has the follows bonds issued, totaling 240 million euros, with maturity in 2015:

i) "ZON Multimédia Bonds 2012-2015", in the amount of 200 million euros. NOS launched a Public Offer for Subscription of Bonds for the general public with a maturity of three years and interest paid semiannually at a fixed rate.

ii) Bond loan of 40 million euros hired by Sonaecom in March 2010 was transferred to NOS, in 2013 following the merger (Note 5). The loan bears interest at variable rates, indexed to Euribor and paid semiannually. This issue was organised and mounted, respectively, by Banco Espírito Santo de Investimento and Caixa - Banco de Investimento.

At 31 December 2014, the Company has the following bonds issued, totaling 275 million euros, with maturity after 2015:

i) A bond loan in the amount 100 million euros organised by BPI Bank and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.

ii) A bond loan organised by four financial institutions, amounting to 175 million euros and maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.

At 31 December 2013, in addition to the bonds with maturity in 2015 abovementioned, the Company had the following bonds issued:

- i) Bonds issued via three banks totaling 157.1 million euros and maturing in 2014, with semiannually 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 loan and simultaneously negotiated a new loan with BPI, abovementioned. Additionally, in 30 September 2014, the Company repurchased and repaid in advance mentioned million euros. The debt remaining was paid in November 2014.
- ii) Bond loan of 100 million euros hired by Sonaecom in September 2011 was also transferred to NOS, in 2013, following the merger. The loan bears interest at variable rates, indexed to Euribor and paid semiannually. This issue was organised and mounted by BNP Paribas, ING Belgium SA/NV and Portigon AG (formerly known as WestLB AG). During the year ended 31 December 2013, Portigon AG transferred its entire stake of 33.3 million euros in bonds to Erste Abwicklungsanstalt ("EAA"), a German state entity. During the years ended on 31 December 2014, the loan was repaid entirely in advance.

The amount of 1,490 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item "Loans - accruals and deferrals".

## 21.2 Commercial paper

The Company has borrowings of 245 million euros, in the form of commercial paper contracted with two banks, corresponding to four programs, earning interest at market rates. Grouped commercial paper programmes with maturities over 1 year totaling 115 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 and recorded in the item "Loans - accruals and deferrals".

An amount of 412 thousand euros, corresponding to interest and commissions, was deducted from this amount.

### 21.3 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. At 31 December 2014, an amount of 603 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. This contract mature in a maximum period of eight years from the use of the funds. At 31 December 2014, an amount of 5,042 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidized rate.

### 21.4 Financial leases

On 31 December 2013 and 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	31-12-2014
Until 1 year	28,123	37,535
Between 1 and 5 years	67,506	98,821
Over 5 years	78,907	48,584
	<b>174,536</b>	<b>184,941</b>
Future financial costs	(31,858)	(27,339)
<b>PRESENT VALUE OF FINANCE LEASE LIABILITIES</b>	<b>142,678</b>	<b>157,602</b>

#### Financial leases – present value

	31-12-2013 RESTATED	31-12-2014
Until 1 year	25,978	34,863
Between 1 and 5 years	50,322	79,525
Over 5 years	66,378	43,214
	<b>142,678</b>	<b>157,602</b>

All bank borrowings contracted (with the exception of ZON Multimédia bonds 2012-2015 and the new EIB loan of 110 million euros and finance leases) are negotiated at variable short term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	31-12-2013 RESTATED			31-12-2014		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	155,052	338,929	-	238,997	99,971	174,757
Commercial paper	16,159	373,678	-	128,771	114,588	-
Foreign loans	(220)	98,932	-	99,397	50,984	53,487
Internal loans	12,202	-	-	-	-	-
Bank overdrafts	4,260	-	-	1,479	-	-
Financial Leases	25,978	50,322	66,378	34,863	79,525	43,214
	<b>213,431</b>	<b>861,861</b>	<b>66,378</b>	<b>503,508</b>	<b>345,067</b>	<b>271,459</b>

The item "Internal loans" includes accruals and deferrals, in the amount of 8,593 thousand euros, related to interest and commissions related to shareholder loans obtained by Optimus SGPS prior to the merger.

## 22. Provisions and adjustments

At 31 December 2013 and 2014, the provisions were as follows:

	31-12-2013 RESTATED	31-12-2014
Litigation and other i)	16,530	50,129
Financial investments ii)	13,912	64
Dismantling and removal of assets iii)	14,509	18,131
Contingent liabilities iv)	66,133	34,673
Contingencies - other v)	21,887	24,224
	<b>132,972</b>	<b>127,221</b>

- i) The amount under the item "Litigation and other" corresponds to provisions to cover the legal and tax claims of which stand out:
  - a. Future credits transferred: for the year ended at 31 December 2010, the subsidiary NOS SA was notified of the Report of Tax Inspection, where it is considered that the increase, when calculating the taxable profit for the year 2008, of the amount of 100 million euros, with respect to initial price of future credits transferred to securitization, is inappropriate. Given the principle of periodisation of taxable income, NOS SA was subsequently notified of the improper deduction of the amount of 20 million euros in the calculation of taxable income between 2009 and 2012 (tax inspection report received in January 2015). 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 and 2012 fiscal years. Regarding the year 2008, the Administrative and Fiscal Court of Porto has already decided unfavorably, in March 2014, and the company has initiated the corresponding appeal;
  - b. Infringement proceedings due to an alleged failure, by NOS SA, to apply the resolutions taken by ANACOM on 26 October 2005, concerning termination rates for fixed calls.

Following a deliberation of Board of Directors of the regulator, in April 2012, a fine of approximately 6.5 million euros was applied to NOS SA; NOS SA has appealed for the judicial review of the decision and the court has declared the process's nullity (violation of NOS, SA's right of defense). In April 2014 ANACOM has notified NOS SA of a new judicial process, based on the same accusations. This process is a repetition of the initial one. In September 2014, ANACOM, based on the same facts, fine on NOS SA in the amount of 6.5 million euros. NOS has contested this decision.

- c. Supplementary Capital: the fiscal authorities are of the opinion that NOS SA has broken the principle of full competition under the terms of (1) of article 58 of the Corporate Tax Code (CIRC), by granting supplementary capital to its subsidiary Be Towering, without having been remunerated at a market interest rate. In consequence, it has been notified, with regard to the years 2004, 2005, 2006 and 2007, of corrections to the determination of its taxable income in the total amount of 20.5 million euros. NOS SA contested the decision with regard to all the above mentioned years. As for the year 2007, the Fiscal and Administrative Court of Oporto has already decided unfavourably. The company has contested this decision.
  - d. Action brought by PT against NOS Madeira, claiming the payment of 1.6 million euros, plus interest, 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. NOS contested the action, in particular the prices concerned, the services and the legitimacy of PT in respect of the ducts. A decision was handed down in late July 2013, favorable to NOS Madeira which, however, PT appealed. The appeal is pending.
  - e. Infringement proceedings in the amount of approximately 4.5 million euros, established by the National Commission for Data Protection ("CNPD") against NOS SA subsidiary, for alleged violations of rules relating to legal protection of data. During the project phase of decision, NOS SA argued, firstly, a set of procedural irregularities and, secondly, a set of fact and law arguments that the Board understood to impose a final decision to dismiss the case. However, on 16 January 2014, NOS SA received a settlement notice regarding the fine imposed by the CNPD, against which appealed to the courts. On 8 September 2014, the Court for Competition, Regulation and Supervision ("Tribunal da Concorrência, Regulação e Supervisão") reduced the value of the fine to 600 thousand euros. NOS SA appealed against this decision. As a consequence of this decision, the provision was reduced by 3.9 million euros. On 5 February, the Lisbon Court of Appeal set the fine at 100 thousand euros, a decision which is even subject to 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 10);
  - 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 5), namely:
    - a. Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution

toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law nr 35/2012, of 23 August. From 1995 until June 2014, PT Comunicações, SA (PTC) was the sole provider for the universal service of electronic communications, having been designated illegally without a tender procedure, as acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the Portuguese State to pay a fine of 3M € for illegally designating Portugal Telecom. In accordance with Article 18 of the abovementioned Law 35, the net costs of the operator responsible for providing the universal service, approved by ICP-ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that PTC has requested the payment of CLSU to the compensation fund. The compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ICP-ANACOM, following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requester the Government compensation for the net costs approved under the terms previously mentioned. In September 2013, ICP-ANACOM delivered to approve the final results of the CLSU audit presented by PTC, relative to the period from 2007 to 2009, in a total amount of 66.8 million euros, a decision which was contested by NOS and about which NOS was, in June 2014, notified of the argument provided by ICP-ANACOM. Also in June 2014, ICP-ANACOM requested NOS to send the information regarding the revenue eligible, for the purpose of the contribution toward the compensation fund relative to the period from 2007 to 2009. This information was sent with the reservation that it did not signal NOS' acceptance or agreement as to the existence of any obligation to pay the extraordinary contribution. In November 2014, ICP – ANACOM deliberated to approve the final results of the CLSU audit by PTC, relative to the period from 2010 to 2011, in a total amount of 47 million euros, a decision which will be contested by NOS. Upon completion of an audit to the amount of revenues eligible reported in June 2014, in January 2015, ANACOM issued the settlement notes in the amount of 18.6 million euros related to NOS CLSU 2007 to 2009, which will be contested. It is expected that PTC submits to ICP-ANACOM the CLSU calculations incurred in the period from 2012 to June 2014. It is estimated that the contribution of Optimus, SA, up until the date of the merger, amounts to 22 million euros.

It is the opinion of the Board of Directors of NOS that this extraordinary contribution violates the Directive of Universal Service, given that PTC was not designated the universal service provider through a tender procedure. Moreover, considering the existing legal framework since NOS began its activity, the request of payment of the extraordinary contribution violates the principle of the protection of confidence, recognised on a legal and constitutional level in Portuguese domestic law. For these reasons, NOS will judicially challenge the liquidation of each and all extraordinary contributions. Following these facts, which took place especially in June 2014, and after reassessing the process with its attorneys, this contribution is classified as a contingent liability. However, the Board of Directors is convinced it will be successful in all challenges, both future and already undertaken.

- b. Other tax proceedings: which the Board of Directors is convinced that there are strong arguments to obtain a favorable decision for NOS SA, but considers that they correspond to a contingent liability under the fair value allocation of assumed liabilities related to the merger operation;

v) The amount under the caption "Contingencies - other" refers to provisions for risks related to miscellaneous events/disputes of various kinds, the settlement of which may result in outflows of cash, and other likely liabilities related to several transactions from previous periods, and whose outflow of cash is probable, namely, costs charged to the current period or previous years, for which it is not possible to estimate reliably the time of occurrence of the expense.

During the year ended on 31 December 2013 and 2014, movements in provisions were as follows:

	31-12-2012 RESTATED	CHANGES OF SCOPE	INCREASES	DECREASES	OTHER	31-12-2013 RESTATED
Litigation and other	3,920	6,380	3,549	(1,819)	4,500	16,530
Financial investments	21,540	-	-	(7,628)	-	13,912
Dismantling and removal of assets	4,910	14,261	275	-	(4,937)	14,509
Contingent liabilities	-	77,215	-	-	(11,081)	66,134
Contingencies - other	-	14,583	10,016	(4,212)	1,500	21,887
	<b>30,371</b>	<b>112,439</b>	<b>13,839</b>	<b>(13,659)</b>	<b>(10,018)</b>	<b>132,972</b>

During the year ended 31 December 2013, 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 4.5 million euros.

Additionally tax contingencies provisions in the amount of 6.6 million euros were reclassified to deferred tax assets reducing the deferred tax assets of tax losses.

The amount recorded in the item "Dismantling and removal of assets" under the heading "Other" in the amount of 4.9 million euros was recorded against "Tangible Assets", and relates to the update of the present value of those costs at the average rate of the cost of debt of the NOS Group.

The amount recorded in the item "Contingencies – other" under the heading "Other" in the amount of 1.5 million euros corresponds to: i) transfer of 5 million euros related to past costs estimates, for which it is not possible to estimate reliably the time of realisation of the expense and ii) the transfer to "Taxes receivable" (Note 26) a provision made in the amount of 3.5 million euros.

	31-12-2013 RESTATED	CHANGES OF SCOPE	INCREASES	DECREASES	OTHER	31-12-2014
Litigation and other	16,530	70	10,636	(8,629)	31,522	50,129
Financial investments	13,912	-	-	(13,848)	-	64
Dismantling and removal of assets	14,509	216	429	-	2,977	18,131
Contingent liabilities	66,133	166	-	(1,200)	(30,426)	34,673
Contingencies - other	21,887	30	2,318	(1,750)	1,739	24,224
	<b>132,972</b>	<b>482</b>	<b>13,383</b>	<b>(25,427)</b>	<b>5,812</b>	<b>127,221</b>

During the year ended 31 December 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, presented in the column "Others", "Contingent liabilities" to "Litigation and other" in the amount of 33 million euros.

Additionally tax contingencies provisions in the amount of 2.2 million euros were reclassified from deferred tax assets, since they were reducing the deferred tax assets of tax losses.



The amount recorded in the item "Dismantling and removal of assets" under the heading "Other" in the amount of 3 million euros was recorded against "Tangible Assets", and relates to the update of the present value of those costs at the average rate of the cost of debt of the NOS group.

The net movements for the years ended on 31 December 2013 and 2014, reflected in the income statement under "Provisions and adjustments" were as follows:

	12M 13 RESTATED	12M 14
Provisions and adjustments (Note 33)	(5,594)	(6,285)
Interests - dismantling	275	429
Restructuring costs i)	3,844	1,227
Other losses / (gains) non-recurrent (Note 32)	9,260	4,986
Income tax (Note 14)	-	90
Financial investments (Note 10)	(7,628)	(13,848)
Other interests	-	1,339
Others	24	18
<b>PROVISIONS AND ADJUSTMENTS</b>	<b>181</b>	<b>(12,044)</b>

i) Restructuring costs mainly correspond to provisions for severance costs resulting from the merger.

## 23. Accrued expenses

At 31 December 2013 and 2014, these items were composed as follows:

	31-12-2013 RESTATED	31-12-2014
<b>NON CURRENT</b>		
Information society i)	14,599	14,499
Contractual obligations ii)	14,106	10,261
Others	-	195
	<b>28,705</b>	<b>24,954</b>
<b>CURRENT</b>		
Invoices to be issued by operators iii)	27,252	39,139
Vacation pay and bonuses	26,859	24,903
Programming services	14,376	8,689
Advertising	10,194	8,482
Support services and commissions	13,497	28,695
Costs of litigation procedure activity	3,199	8,744
Other supply and external services	20,360	18,174
Investments in tangible and intangible assets	2,635	20,098
Other accrued expenses	11,529	6,241
	<b>129,902</b>	<b>163,165</b>

i) Under the agreed terms resulting from the grant of the UMTS License, Optimus – Comunicações, S.A., committed to contribute to the promotion and development of an "Information Society" in Portugal. The total amount of the obligations assumed arose to 274 million euros. In accordance with the Agreement established on 5 June 2007 with the Ministry of Public Works, Transportation and Communications (MOPTC), part of these commitments, up to 159 million euros, would be realised through own projects eligible as contributions to the "Information Society" which will be incurred under the normal course of Optimus – Comunicações, S.A.'s business ( (a) terminal equipment , (b) investments in network and technology, (c) research, development and promotion of services, contents and

applications). These own projects were recognised and audit by the ANACOM, so, at this date, there are no additional responsibilities related to these commitments. These charges were recorded in the attached financial statements at the moment the projects were carried out and the estimated costs became known.

The remaining commitments, up to 116 million euros, has been realised, as agreed between Optimus – Comunicações S.A. and MOPTC, through contributions to the “Iniciativas E” project (modem offers, discounts on tariffs, cash contributions, among others, assigned to the widespread use of broadband internet for students and teachers). These contributions are made through the “Fund for the Information Society”, now known as the “Fundação para as Comunicações Móveis” (Foundation for Mobile Communications), established by the three mobile operators with businesses in Portugal. All responsibility is recognised as an additional cost of UMTS license, on “Accrued expenses”.

The item “Information Society” relates to the medium and long-term portion, not yet realised, of the estimate for the Company’s commitments under the “Iniciativas E” programme (Note 9).

ii) Under the fair value allocation process of to the assets and liabilities of the Optimus group, were identified contractual obligations relating to long-term contracts whose prices are different from market prices. This amount relates to the medium and long-term portion of the fair value adjustment of these contracts (Note 5).

iii) Invoices to be billed by operators, mainly international operators, regarding interconnection costs related with international traffic and roaming services.

## 24. Deferred income

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

	31-12-2013 RESTATED		31-12-2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Advance billing i)	24,996	-	28,643	-
Other deferred income	187	1,010	85	-
Investment subsidy ii)	335	1,050	349	5,984
	<b>25,518</b>	<b>2,060</b>	<b>29,076</b>	<b>5,984</b>

i) This item relates mainly to the billing of Pay TV services of January 2015 and amounts received from NOS Comunicações’ customers, related with the recharges of mobile phones and purchase of telecommunications minutes as of yet unused.

ii) Deferred income related to the implicit subsidy when the EIB loans were obtained at interest rates below market value.

## 25. Accounts payable -trade

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

	31-12-2013 RESTATED	31-12-2014
Suppliers current account	287,095	323,969
Invoices in reception and conference	9,620	16,753
Others	108	-
	<b>296,823</b>	<b>340,721</b>

## 26. Accounts payable - other

At 31 December 2014 and 2014, 'Accounts payable – other' had the following composition:

	31-12-2013 RESTATED	31-12-2014
Fixed assets suppliers	48,103	48,458
Investment fund for cinema and audiovisuals i) (Note 13)	17,500	-
Other	5,145	2,476
	<b>70,748</b>	<b>50,934</b>

i) This balance relates to the obligation to realize the subscribed units in the Cinema and Audiovisual Investment Fund. At 31 December 2014, due to the Fund being wound up, this obligation was extinguished. (Note 13).

## 27. Operating revenues

Consolidated operating revenues for the years ended on 31 December 2013 and 2014 are distributed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>SERVICES RENDERED</b>				
Telco i)	317,714	882,443	316,721	1,250,581
Audiovisuals and cinema exhibition ii)	16,022	63,026	17,040	60,450
	<b>333,736</b>	<b>945,469</b>	<b>333,761</b>	<b>1,311,031</b>
<b>SALES:</b>				
Telco iii)	10,332	16,235	12,049	40,576
Audiovisuals and cinema exhibition iv)	5,389	19,411	5,155	17,077
	<b>15,721</b>	<b>35,646</b>	<b>17,205</b>	<b>57,653</b>
<b>OTHER OPERATING REVENUES:</b>				
Telco	2,676	6,843	2,478	13,859
Audiovisuals and cinema exhibition	1,774	2,301	352	1,391
	<b>4,450</b>	<b>9,144</b>	<b>2,831</b>	<b>15,250</b>
	<b>353,907</b>	<b>990,259</b>	<b>353,797</b>	<b>1,383,934</b>

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

i) This item mainly includes revenue relating to: (a) basic channel subscription packages that can be sold in a bundle with fixed broadband/fixed voice services; (b) premium channel subscription packages and S-VOD; (c) terminal equipment rental; (d) consumption of content (VOD); (e) traffic and mobile and fixed voice termination; (f) service activation; (g) mobile broadband access and (h) other additional services (ex: firewall, antivirus) and services rendered related to datacenter management and consulting services in IT.

ii) This item mainly includes:

- a. Box office revenue and publicity at the cinemas of NOS Cinemas;
- b. Revenue relating to film distribution to other cinema exhibitors in Portugal and the production and sale of audiovisual content.

iii) Revenue relating to the sale of terminal equipment, telephones and mobile phones.

iv) This item mainly includes sales of bar products by NOS Cinemas and DVD sales.

The main changes in the item operating revenues result mainly from in 2013, entrance in the consolidation scope of the companies merged during 2013. Therefore, the operating revenue includes only four month of revenues from the merged companies in 27 August 2013(Note 5).

## 28. Wage and salaries

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Remuneration	18,896	52,117	16,395	63,100
Social taxes	4,300	11,068	4,445	16,666
Social benefits	380	1,039	118	1,337
Other	1,589	1,969	3,182	4,161
	<b>25,165</b>	<b>66,193</b>	<b>24,138</b>	<b>85,264</b>

In the financial years 2013 and 2014, the average number of employees of the companies included in the consolidation was 1,798 and 2,390, respectively. At 31 December 2014, the number of employees of the companies included in the consolidation was 2,444 (2013: 2,494 employees).

The changes in these items result mainly from the entrance in the consolidation scope of the companies merged during 2013. Therefore, In 2013, these items include only four months of cost from the merged companies on 27 August 2013 (Note 5).

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

## 29. Direct costs

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Exhibition costs	41,372	159,706	39,699	153,765
Traffic costs	43,209	78,086	52,266	187,388
Capacity costs	12,471	32,130	11,963	47,286
Shared advertising revenues	3,968	10,985	4,694	14,026
Others	1,647	4,877	2,052	5,106
	<b>102,668</b>	<b>285,784</b>	<b>110,673</b>	<b>407,571</b>

The main changes in the item telecommunications costs result mainly from the entrance in the consolidation scope of the companies merged on during 2013. Therefore, in 2013, the direct costs include only four months of costs from the merged companies on 27 August 2013 (note 5).

## 30. Cost of products sold

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Costs of products sold	13,607	21,051	14,221	48,914
Inventories impairment	(128)	(712)	1,865	4,202
	<b>13,479</b>	<b>20,339</b>	<b>16,085</b>	<b>53,115</b>

The main changes in the item cost of products sold result mainly from the cost of products sold of the companies merged during 2013. Therefore, in 2013, the costs of products sold include only four months of costs from the merged companies on 27 August 2013 (note 5).

## 31. Support services and supplies and external services

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>SUPPORT SERVICES:</b>				
Call centers and customer support	9,104	24,360	10,786	35,980
Information systems	6,316	18,558	1,800	15,587
Administrative support and other	8,196	22,837	11,194	38,037
	<b>23,617</b>	<b>65,755</b>	<b>23,780</b>	<b>89,604</b>
<b>SUPPLIES AND EXTERNAL SERVICES:</b>				
Maintenance and repair	11,263	36,192	12,592	44,070
Rentals	10,807	28,478	10,884	42,285
Commissions	6,041	10,156	6,528	22,215
Professional services	7,429	14,682	3,852	16,221
Communications	2,160	6,983	1,385	7,268
Installation and removal of terminal equipment	2,225	5,669	1,958	6,981
Other supplies and external services	8,815	25,872	13,969	48,946
	<b>48,742</b>	<b>128,033</b>	<b>51,171</b>	<b>187,987</b>

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 during 2013. Therefore, in 2013, these items include only four months of costs from merged companies on 27 August 2013 (Note 5).

### 32. Other cost / (gains)

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>OTHER OPERATING LOSSES / (GAINS):</b>				
Contributions	195	481	122	444
Other net losses / (gains)	(226)	(90)	43	604
	<b>(31)</b>	<b>391</b>	<b>167</b>	<b>1,049</b>
<b>OTHER LOSSES / (GAINS) NON RECURRENT :</b>				
Increase in provisions (Note 22)	1,203	9,260	(2,707)	4,986
Increase in impairment of doubtful debts (Note 16)	760	4,311	-	-
Increase in impairment of inventories (Note 15)	-	4,550	-	-
Increase in impairment of tangible assets (Note 8)	5,587	5,587	-	-
Other net losses / (gains)	11,659	11,776	1,070	2,927
	<b>19,209</b>	<b>35,484</b>	<b>(1,638)</b>	<b>7,913</b>

The negative change in the item other costs / (gains) non-recurrent results mainly from the decrease of provisions due the alignment of estimates between companies of the Group in result of changes in the consolidation perimeter (Note 5).

### 33. Provisions and adjustments

In the financial years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Provisions (Note 22)	(1,417)	(5,594)	(1,349)	(6,285)
Impairment of account receivables - trade (Note 16)	7,010	18,323	312	(256)
Impairment of account receivables - other (Note 11)	268	357	432	839
Debts recovery	(3)	(8)	(2)	(5)
	<b>5,858</b>	<b>13,078</b>	<b>(607)</b>	<b>(5,707)</b>

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

In the financial years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>EQUITY METHOD (NOTE 10)</b>				
Sport TV	277	2,904	1,330	3,120
Dreamia	306	52	165	(703)
Finstar	(2,121)	(6,731)	(3,656)	(15,835)
Mstar	(16)	(327)	(47)	(380)
Upstar	(3)	(15)	8	(7)
Other	18	242	(103)	(131)
	<b>(1,540)</b>	<b>(3,875)</b>	<b>(2,302)</b>	<b>(13,935)</b>

### 35. Depreciation, amortisation and impairment losses

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>TANGIBLE ASSETS:</b>				
Land	-	-	37	37
Buildings and other constructions	2,740	5,739	2,959	11,044
Basic equipment	45,747	136,718	41,333	172,692
Transportation equipment	246	1,203	340	1,121
Tools and dies	(172)	(170)	-	-
Administrative equipment	4,568	15,620	4,574	17,741
Other tangible assets	440	2,045	4,277	5,935
	<b>53,569</b>	<b>161,156</b>	<b>53,520</b>	<b>208,570</b>
<b>INTANGIBLE ASSETS:</b>				
Industrial property and other rights	29,560	80,191	35,524	130,631
Other intangible assets	494	1,723	(1,485)	-
	<b>30,054</b>	<b>81,915</b>	<b>34,039</b>	<b>130,631</b>
<b>INVESTMENT PROPERTY</b>				
Industrial property and other rights	-	-	93	93
	-	-	<b>93</b>	<b>93</b>
	<b>83,625</b>	<b>243,070</b>	<b>87,652</b>	<b>339,294</b>

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

In the financial years ended on 31 December 2013 and 2014, finance costs and other net financial expenses / (income) were composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
<b>FINANCING COSTS:</b>				
<b>INTEREST EXPENSE:</b>				
Borrowings	9,056	30,651	7,021	31,411
Derivatives	892	3,547	212	3,287
Finance leases	1,597	6,099	2,069	6,606
Other	177	275	1,277	2,830
	<b>11,722</b>	<b>40,572</b>	<b>10,579</b>	<b>44,134</b>
<b>INTEREST EARNED:</b>	(2,285)	(8,872)	(2,124)	(7,836)
	<b>9,437</b>	<b>31,700</b>	<b>8,456</b>	<b>36,299</b>
<b>NET OTHER FINANCIAL EXPENSES / (INCOME)</b>				
Comissions and guarantees	3,065	14,200	2,544	14,036
Other	858	3,309	620	4,484
	<b>3,923</b>	<b>17,509</b>	<b>3,164</b>	<b>18,520</b>

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

### 37. Losses/(gains) on financial assets

In the financial years ended on 31 December 2013 and 2014, this item was composed as follows:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Impairment losses of the investment fund for cinema and audiovisuals (Note 13)	-	1,300	(274)	626
Other	10	40	(126)	(85)
	<b>10</b>	<b>1,340</b>	<b>(399)</b>	<b>541</b>

### 38. Non-controlled interests

The movements in non-controlled interests in the financial years ended on 31 December 2013 and 2014 and the profits attributable to non-controlled interests in the year were as follows:

	31-12-2012 RESTATED	NET INCOME	DIVIDENDS (NOTE 40)	OTHERS	31-12-2013 RESTATED
NOS Madeira Comunicações	6,466	485	(229)	-	6,722
NOS Açores Comunicações	2,886	(37)	-	-	2,849
Lusomundo SII	6	-	-	-	6
Empracine	1	-	-	-	1
Lusomundo Imobiliária 2, SA	37	-	-	-	37
	<b>9,396</b>	<b>449</b>	<b>(229)</b>	<b>-</b>	<b>9,615</b>

	31-12-2013 RESTATED	NET INCOME	DIVIDENDS (NOTE 40)	OTHERS	31-12-2014
NOS Madeira Comunicações	6,722	428	(194)	22	6,978
NOS Açores Comunicações	2,849	(59)	-	7	2,796
Lusomundo SII	6	-	-	-	6
Empracine	1	-	-	-	1
Lusomundo Imobiliária 2, SA	37	-	-	-	37
	<b>9,615</b>	<b>369</b>	<b>(194)</b>	<b>29</b>	<b>9,818</b>

### 39. Net earnings per share

Earnings per share for the years ended on 31 December 2013 and 2014 were calculated as follow:

	4 <sup>th</sup> QUARTER 13 RESTATED	12M 13 RESTATED	4 <sup>th</sup> QUARTER 14	12M 14
Net income attributable to equity holders of the parent	(13,094)	10,810	12,273	74,711
Number of ordinary shares outstanding during the period (weighted average)	514,758,989	379,906,817	512,643,080	513,818,222
Basic earnings per share - euros	(0.03)	0.03	0.02	0.15
Diluted earnings per share - euros	(0.03)	0.03	0.02	0.15

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



## 40. 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, totaling one thousand euros.

	DIVIDENDS
Dividends	61,819
Dividends of own shares	(1)
	<b>61,818</b>

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

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

	DIVIDENDS
Dividends	37,092
Dividends of own shares	(48)
	<b>37,044</b>

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

## 41. Guarantees and financial undertakings

### 41.1 Guarantees

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

	31-12-2013 RESTATED	31-12-2014
Financial institutions i)	100,193	210,425
Tax authorities ii)	31,219	19,288
Anacom iii)	24,000	-
Other iv)	19,660	15,581
	<b>175,072</b>	<b>245,293</b>

i) At 31 December 2013 and 2014, this amount relates to guarantees issued by NOS in connection with the loans from EIB (Note 21). The increase relates to the new 110 million EIB loan.

ii) At 31 December 2013 and 2014, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 44).

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 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 44).

At 31 December 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 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco in the amount of 30 million dollars, to pledge the fulfillment of the contract's obligations.

In connection with the finance obtained by Finstar from Banco BIC, Banco BNI and BFA, totaling 1,118 million AKZ, 653 million AKZ and 491 million AKZ, respectively, NOS signed three comfort letters accepting liability for up to 30% of the total amount of the loan. The comfort letter from the Banco Caixa Totta also covers 30% of 5 million USD of back to back letters of credit for importing goods.

In addition to the guarantees required by the Tax Authorities were set up sureties for the current fiscal processes. Sonaecom SGPS consisted of NOS SA surety for the amount of 10,502,945 euros and NOS consisted of NOS SA surety for the amount of 1,212,933 euros. At 31 December 2014, the approval by the tax authorities for the change of ownership of the guarantees provided by Sonaecom SGPS to NOS is pending.

## 41.2. Operating leases

The rentals due on operating leases have the following maturities:

	31-12-2013 RESTATED				31-12-2014			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	4,453	44,380	127,850	46,080	1,943	36,367	84,462	40,560
Telecommunication towers and rooftops	8,240	5,920	15,207	13,511	7,720	5,664	15,939	13,235
Equipment	-	101	249	56	-	300	147	-
Vehicles	-	2,397	4,201	-	-	1,923	3,252	-
	<b>12,693</b>	<b>52,798</b>	<b>147,507</b>	<b>59,647</b>	<b>9,664</b>	<b>44,254</b>	<b>103,799</b>	<b>53,796</b>

## 41.3 Other undertakings

### Covenants

The EIB loan totaling 100 million euros with a maturity of 6 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, 91% are subject to cross-default clauses, 94% to Pari Passu clauses, 49% to ownership clauses and 67% to negative pledge clauses.

In addition, approximately 38% 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 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;

b) 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.

## 42. Notes to the statement of consolidated cash flows

The statement of cash flows was prepared in accordance with the requirements of IAS 7. The most significant aspects are as follows:

	12M 13 RESTATED	12M 14
Loan to Upstar	30,095	-
Loan to Finstar	-	1,637
Loan to Mstar	200	-
	<b>30,295</b>	<b>1,637</b>

### 42.1 Cash received from loans granted

The item "Cash received from loans granted" is composed as follows:

### 42.2. Dividends / distribution of earnings

The item "Dividends" is composed as follow:

	12M 13 RESTATED	12M 14
NOS SGPS	37,044	61,819
NOS Madeira	229	194
	<b>37,273</b>	<b>62,012</b>

## 43. Related parties

### 43.1. Summary list of related parties

Detailed summary of related parties as at 31 December 2014:

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

# RELATED PARTIES

Dreamia Holding B.V.	Imodivor – Sociedade Imobiliária, S.A.
East Star Ltd	Imoestrutura – Soc.Imobiliária, S.A.
Ecociclo – Energia e Ambiente, S.A.	Imoferro – Soc.Imobiliária, S.A.
Ecociclo II	Imohotel – Emp.Turist.Imobiliários, S.A.
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.	Imosona II
Estêvão Neves - SGPS, SA	Impaper Europe GmbH & Co. KG
Euroresinas – Indústrias Químicas, S.A.	Implantação – Imobiliária, S.A.
Farmácia Selecção, S.A.	Infotield – 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	Inparvi SGPS, S.A.
Filmes Mundáfrica, SARL	Integrum – Energia, SA
FINSTAR - Sociedade de Investimentos e Participações, SA	Integrum ACE, SA
Fozimo – Sociedade Imobiliária, S.A.	Integrum Colombo Energia, S.A.
Freccia Rossa – Shopping Centre S.r.l.	Integrum Engenho Novo - Energia, S.A.
Frieengineering International Ltda	INTEGRUM II - ENERGIA, S.A.
Fundação José Berardo	INTEGRUM III - ENERGIA, S.A.
Fundo de Invest. Imobiliário Imosede	Integrum Martin Longo - Energia, S.A.
Fundo I.I. Parque Dom Pedro Shop.Center	Interlog – SGPS, S.A.
Fundo Invest.Imob.Shopp. Parque D.Pedro	Invesaude - Gestão Hospitalar S.A.
Fundo Investimento para Cinema e Audiovisual	Ioannina Development of Shopping Centres, SA
Gaiashopping I – Centro Comercial, S.A.	Isoroy SAS
Gaiashopping II – Centro Comercial, S.A.	ITRUST - Cyber Security and Intellig.,SA
Gesgráfica - Projectos Gráficos, Lda	Joaquim Alves Ferreira de Oliveira
GHP GmbH	Kento Holding Limited
Gli Orsi Shopping Centre 1 Srl	Laminate Park GmbH Co. KG
Glunz AG	Land Retail B.V.
Glunz Service GmbH	Larim Corretora de Resseguros Ltda
Glunz UK Holdings Ltd	Larissa Develop. Of Shopping Centers, S.A.
Glunz Uka GmbH	Lazam – MDS Corretora e Administradora de Seguros, S.A.
GMET, ACE	LCC LeiriaShopping Centro Comercial SA
Golf Time – Golfe e Invest. Turísticos, S.A.	Le Terrazze - Shopping Centre 1 Srl
Grupo Visabeira, SGPS, SA	Libra Serviços, Lda.
Guimarãesshopping – Centro Comercial, S.A.	Lidergraf – Artes Gráficas, Lda.
Harvey Dos Iberica, S.L.	Lookwise, S.L.
Herco Consultoria de Riscos e Corretora de Seguros Ltda	Loop5 Shopping Centre GmbH
HighDome PCC Limited	Loureshopping – Centro Comercial, S.A.
HighDome PCC Limited (Cell Europe)	Lusitânia - Companhia de Seguros, SA
Iberian Assets, S.A.	Lusitânia Vida - Companhia de Seguros, SA
Igimo – Sociedade Imobiliária, S.A.	Luz del Tajo – Centro Comercial S.A.
Iginha – Sociedade Imobiliária, S.A.	Luz del Tajo B.V.
Imoareaia – Invest. Turísticos, SGPS, S.A.	Madeirashopping – Centro Comercial, S.A.
Imoclub – Serviços Imobiliários, S.A.	Maiashopping – Centro Comercial, S.A.
Imoconti – Soc.Imobiliária, S.A.	Maiequipa – Gestão Florestal, S.A.

# RELATED PARTIES

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

# RELATED PARTIES

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

# RELATED PARTIES

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



### 43.2. 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 2014 and transactions in the years ended on 31 December 2013 and 2014 between NOS Group and its associated companies, joint ventures and other related parties are as follows:

Transactions for the year ended on 31 December 2013

	SALES AND SERVICES RENDERED	SUPPLIED AND EXTERNAL SERVICES	INTEREST INCOME (EXPENSES)	OTHER OPERATING REVENUES
<b>SHAREHOLDERS</b>				
Banco BPI	2	23	(7,124)	-
Sonaecom	27	754	(1,468)	97
<b>JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES</b>				
Big Picture 2 Films	15	2,436	-	1
Distodo	-	663	-	2
Dreamia Holding BV	336	-	212	-
Dreamia SA	3,863	91	-	727
Finstar	663	-	-	-
Sport TV	197	55,192	-	-
Upstar	6,711	-	970	619
<b>OTHER RELATED PARTIES</b>				
Banco Espírito Santo	-	95	(8,692)	-
Cascaishopping	5	233	-	-
Digitmarket	161	299	-	9
Mainroad	163	881	-	29
Modelo Continente Hipermercados	1,288	379	-	53
Saphety Level	60	247	-	31
Sierra Portugal	488	1,663	-	-
Sonae Center Serviços II	358	75	-	-
Raso - Viagens e Turismo	19	404	-	-
We Do Consulting	237	1,158	-	137
Worten	2,208	659	-	-
Other related parties	1,372	449	-	53
	<b>18,173</b>	<b>65,701</b>	<b>(16,102)</b>	<b>1,758</b>

Balances at 31 December 2013

	ACCOUNT RECEIVABLE TRADE	ACCOUNT RECEIVABLE OTHER	ACCOUNT PAYABLE TRADE	ACCOUNT PAYABLE OTHER	ACCRUALS AND DEFERRALS ASSETS	ACCRUALS AND DEFERRALS LIABILITIES
SHAREHOLDERS						
Sonaecom	(6)	5,715	3,640	-	1,946	8,756
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES						
Big Picture 2 Films	-	-	222	-	-	111
Canal 20 TV	-	-	1	-	-	-
Distodo	2	46	105	-	-	-
Dreamia Holding BV	195	2,366	-	-	-	-
Dreamia SA	3,596	4,266	4,205	-	-	201
Finstar	6,387	693	-	-	-	-
Fundo Investimento para Cinema e Audiovisual	-	-	-	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 year ended on 31 December 2014

	SALES AND SERVICES RENDERED	SUPPLIED AND EXTERNAL SERVICES	INTEREST INCOME (EXPENSES)	OTHER OPERATING REVENUES
<b>SHAREHOLDERS</b>				
Banco BPI	446	12	(3,841)	-
Sonaecom	48	81	-	(17)
<b>JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES</b>				
Big Picture 2 Films	10	4,551	-	-
Dístodo	-	97	-	1
Dreamia Holding BV	308	-	237	-
Dreamia SA	3,613	(50)	-	501
Finstar	459	-	-	-
Mstar	11	-	-	-
Sport TV	199	46,234	-	2
Upstar	7,819	(696)	119	225
ZAP Media	296	-	-	750
<b>OTHER RELATED PARTIES</b>				
Cascaishopping	14	224	-	-
Continente Hipermercados	295	44	-	-
Digitmarket	99	948	-	(0)
Mainroad <sup>(1)</sup>	237	2,128	-	515
MDS - Corretor de Seguros	269	173	-	-
Modalfa	235	-	-	-
Modelo - Dist. de Mat. de Construção	204	-	-	-
Modelo Continente Hipermercados	4,392	486	-	81
Modelocom	110	-	-	-
Pharmacontinente	174	-	-	-
Público	137	18	-	(0)
Raso - Viagens e Turismo	158	2,080	-	1
Saphety Level	96	723	-	(0)
SC Consultadoria	312	-	-	-
Sierra Portugal	2,036	2,278	-	-
Sistavac	210	104	-	-
Solinca III	122	-	-	-
Sonae Indústria PCDM	532	-	-	-
Sonaecenter II	1,216	79	-	-
Spinveste - Promoção Imobiliária	-	271	-	-
Sport Zone	444	-	-	-
We Do Consulting	401	3,965	-	-
Worten	7,457	2,103	-	-
Zippy	102	-	-	-
Other related parties	1,154	318	-	24
	<b>33,616</b>	<b>66,171</b>	<b>(3,485)</b>	<b>2,082</b>

(1) Amounts until 30 to September 2014, date of the company's acquisition by the NOS Group (Note 5)

## Balances at 31 December 2014

	ACCOUNT RECEIVABLE TRADE	ACCOUNT RECEIVABLE OTHER	ACCOUNT PAYABLE TRADE	ACCOUNT PAYABLE OTHER	ACCRUALS AND DEFERRALS ASSETS	ACCRUALS AND DEFERRALS LIABILITIES
<b>SHAREHOLDERS</b>						
Sonaecom	537	103	23	-	4	120
BPI	77	-	-	-	-	-
<b>JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES</b>						
Big Picture 2 Films	1	-	552	-	1	583
Dreamia Holding BV	364	2,681	-	-	62	-
Dreamia SA	2,997	752	782	-	5	260
Finstar	4,583	2,007	-	-	-	-
Mstar	-	1	-	-	-	-
Sport TV	782	-	23,440	-	11	(638)
Upstar	4,271	(0)	-	-	755	6
ZAP Media	311	-	-	-	1,010	-
<b>OTHER RELATED PARTIES</b>						
Digitmarket	92	-	545	-	107	(3)
MDS - Corretor de Seguros	47	(0)	1	-	245	(0)
Modelo Continente Hipermercados	902	0	848	1	515	69
Raso - Viagens e Turismo	82	-	490	-	107	51
Saphety Level	57	1	326	-	63	(6)
SC Consultadoria	125	-	3	-	6	1
Sierra Portugal	433	246	174	364	1,592	(20)
Sonae Indústria PCDM	291	-	-	-	26	0
Sonaecenter II	427	6	244	-	85	(192)
We Do Consulting	186	-	186	-	107	(6)
Worten	5,204	48	13	88	96	944
Other related parties	741	6	402	72	420	(72)
	<b>22,431</b>	<b>5,853</b>	<b>28,028</b>	<b>525</b>	<b>5,218</b>	<b>1,098</b>

Additionally, during the first semester 2014, NOS received, reimbursed and paid the whole of the 950,000 own shares loaned by Sonaecom, SGPS, SA (Note 20.3).

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.

The remuneration earned by Director and others key members of management of NOS, for the years ended at December 2013 and 2014 were as follows:

	12M 13	12M 14
Fixed remuneration	3,558	3,003
Profit Sharing /Bonus	1,365	1,086
Share-based compensation plans	1,244	1,086
	<b>6,167</b>	<b>5,175</b>

The amounts presented in the table were calculated on an accruals basis for the Fixed remuneration and profit sharing/Bonus (short-term remunerations). The amount of Share-based compensation plans corresponds to the amount assigned in 2015 related to 2014 performance (and assigned in 2014 related to the 2013 performance). The average number of key members of management in 2014 is 18 (18 in 2013). The Corporate Governance Report includes detailed information about NOS' remuneration policy.

The Company considered as Directors members of the Board of Directors.

## 44. Legal actions and contingent assets and liabilities

### 44.1 Legal actions with regulators

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

NOS SA, NOS Açores and NOS Madeira brought actions for judicial review of ICP-ANACOM's decisions in respect of the payment of the Annual Fee (for 2009, 2010, 2011, 2012 and 2013) for carrying on the business of Electronic Communications Services Networks Supplier in the amounts, respectively, of (i) 1,861 thousand euros, 3,808 thousand euros, 6,049 thousand euros, 6,283 thousand euros and 7,270 thousand euros; (ii) 29 thousand euros, 60 thousand euros, 95 thousand euros, 95 thousand euros and 104 thousand euros; (iii) 40 thousand euros, 83 thousand euros, 130 thousand euros, 132 thousand euros and 149 thousand euros, and seeking reimbursement of the amounts meanwhile paid in connection with the enforcement proceedings. This fee is a percentage decided annually by ANACOM (in 2009 it was 0.5826%) of operators' electronic communications revenues. The scheme is being introduced gradually:  $\frac{1}{3}$  in the first year,  $\frac{2}{3}$  in the second year and 100% in the third year. NOS SA, NOS Açores and NOS Madeira claim, in addition to defects of unconstitutionality and illegality, that only revenues from the electronic communications business per se, subject to regulation by ANACOM, should be considered for the purposes of the application of the percentage and the calculation of the fee payable, and that revenues from television content should be excluded.

On 18 December 2012 a ruling was passed on the proceedings instigated by NOS SA for 2009, for which the appeal was upheld, with no prior hearing, condemning ICP-ANACOM to pay the costs. ICP-ANACOM appealed and by decision of July 2013 was not upheld.

The remaining proceedings are awaiting trial and decision.

## 44.2 Tax authorities

During the course of the 2003 to 2014 financial years, some companies of the NOS Group were the subject of tax inspections for the 2001 to 2012 financial years. Following these inspections, NOS, as the controlling company of the Tax Group, and companies not covered by Tax Group, were notified of the corrections made to the Group's tax losses, to VAT and stamp tax and to make the payments related to the corrections made to the above exercises. The total amount of the notifications is about 25.8 million euros. Note that the Group considered that the corrections were unfounded, and contested the amounts mentioned. The Group provided the bank guarantees demanded by the Tax Authorities in connection with these proceedings, as stated in Note 41.

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 12).

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.

## 44.3 Actions by Portugal Telecom against NOS Madeira and NOS Açores

- In 2011, PT brought an action in Lisbon Judicial Court against NOS SA, claiming payment of 10.3 million euros, as compensation for alleged undue portability of NOS SA in the period between March 2009 and July 2011. NOS SA lodged a contest and reply and completion of proof is in progress.
- PT made a court notice to NOS SA (April 2013), two to NOS Açores (March and June 2013) and two to NOS Madeira (March and June 2013), in order to stop the prescription of alleged damages resulting from claims of undue portability, absence of response time to requests submitted to them by PT and alleged illegal refusal of electronic requests.

PT doesn't indicate that total amounts in which it wants to be financially compensated, realizing only part of these, in the case of NOS Açores, in the amount of 195 thousand euros and NOS Madeira, amounting to 817 thousand euros.

- In 2011, NOS SA brought an action in Lisbon Judicial Court against PT, claiming payment of 22.4 million euros, for damages suffered by NOS SA, arising from violations of the Portability Regulation by PT, in particular, the large number of unjustified refusals of portability requests by PT in the period between February 2008 and February 2011. The court declared the compulsory performance of expert evidence, which is currently underway.

It is the understanding of the Board of Directors, supported by lawyers who monitor the process, that there is, in substance, a good chance of NOS SA winning the action, due to the fact that PT has already been convicted for the same offense, by ICP – ANACOM. However, it is impossible to determine the outcome of the action.

- In April 2012, following the decision made on 19 July 2011 in which NOS Açores was acquitted, PT brought two new actions against NOS Açores, one relating to the MID service and the other to the supply of video and audio channels, claiming payment of 222

thousand euros and 316 thousand euros respectively, plus interest. They are awaiting decision. A sentence, without impacting interests, reduced the amount payable by NOS Açores to about 97 thousand euros concerning the first action. In what concerns the second action, in the third quarter of 2014, NOS Açores was sentenced to pay 316 thousand euros, plus interest and legal costs. Both these values are fully provisioned at 30 September 2014.

#### **44.4 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.

#### **44.5 Action 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).

#### **44.6 Contractual penalties**

The general conditions that affect the agreement and termination of this contract between NOS and its clients, establish that if the products and services provided by the client can no longer be used prior to the end of the binding period, the client is obliged to immediately pay damages. At December 2014, received by NOS SA, NOS Madeira and NOS Açores amount to a total of 119,395 thousand euros. During 2014 were received and recorded in the income statement 6,556 thousand euros.

#### **44.7 Interconnection tariffs**

At 31 December 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 indefinición 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.

## 45. Share incentive scheme

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

In addition to the NOS Plan abovementioned, at 31 December, 2014, are still unvested:

i) The Share Incentive Schemes approved by the General Meetings of Shareholders on 27 April 2008 and 19 April 2010 ("Standard Plan" and "Senior 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, 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.

ii) The Optimus Group had implemented a share incentive scheme for more senior employees based on Sonaecom shares ("NOS Plan"), subsequently converted into NOS shares in the date of the merger (Note 5). The vesting occurs three years after the award of each plan, assuming that the employees are still employed in the Group, during that period.

iii) Mainroad had implemented a share incentive scheme for more senior employees based on Sonaecom shares ("Mainroad Plan"), subsequently converted into NOS shares in the date of the merger (Note 5). 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 31 December 2014, the unvested plans are:

	NUMBER OF SHARES
<b>SENIOR PLAN</b>	
Plan - 2012	149,201
Plan - 2013	160,591
<b>STANDARD PLAN</b>	
Plan - 2009	14
Plan - 2010	62,340
Plan - 2011	129,464
Plan - 2012	188,009
Plan - 2013	252,419
<b>OPTIMUS PLAN</b>	
Plan - 2011	4,435
Plan - 2012	1,539,236
Plan - 2013	1,190,469
<b>MAINROAD PLAN</b>	
Plan - 2011	105,986
Plan - 2012	86,382
Plan - 2013	44,436
<b>PLANO NOS</b>	
Plano 2014	843,588

During the year ended on 31 December 2014, the movements that occurred in the plans, are detailed as follows:



	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	PLANO MAINROAD	PLANO NOS
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>583,000</b>	<b>921,859</b>	<b>4,041,865</b>	-	-
<b>MOVEMENTS IN THE PERIOD:</b>					
Changes in scope	-	-	-	236,804	-
Awarded	-	-	-	-	843,588
Vested	(188,325)	(311,740)	(1,609,627)	-	-
Cancelled / elapsed / corrected <sup>(1)</sup>	(84,883)	22,127	301,902	-	-
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>309,792</b>	<b>632,246</b>	<b>2,734,140</b>	<b>236,804</b>	<b>843,588</b>

(1) Refers mainly to correction made for dividends paid, exit of employees not entitled to the vesting of shares and other adjustments resulting from the way the shares are vested, which may be made through the purchase of shares at a discount.

The share plans costs are recognised over the year between the awarding and vesting date of those shares. The responsibility is calculated taking into consideration the share price at award date of each plan, however for the 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 31 December 2014, the outstanding responsibility related to these plans is 13,045 thousand euros and is recorded in reserves.

The costs recognised in previous years and in 2014, were as follows:

	<b>TOTAL</b>
Costs recognised in previous years related to plans as at 31 December 2013 (1)	14,966
Costs of plans vested in the period	(8,579)
Costs recognised in the period and others	6,658
<b>TOTAL COST OF THE PLANS (REGISTERED IN RESERVES)</b>	<b>13,045</b>

(1) Includes the amount recognised by Mainroad, at the date of acquisition.

## 46. Subsequent events

Subsequent events occurring up to the date of approval of the financial statements can be summarized as follows:

a) On 15 January 2015 the decision was taken to dissolve Lusomundo España, SL which is in liquidation. This operation doesn't cause impact on the financial statements;

b) Decision project registration of NOS Comunicações, SA, giving rise to the creation of a new entity, NOS Inovação, SA, to which shall be transferred the Product Development Department assets, which include, among others, the IRIS Platform;

c) Contracting of two new commercial paper programs with CGD and Novo Banco, replacing existing lines, extending maturities and achieving significant reductions in average cost of debt;

d) Presentation of resignation as member of the Board of Directors of NOS by Rodrigo Jorge de Araújo Costa.

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

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

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.

## 47. 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 31-12-2014	EFFECTIVE 31-12-2014
NOS, SGPS, S.A.	Lisbon	Management of investments		-	-	-
Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Maia	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
Be Towering – Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Maia	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Empracine - Empresa Promotora de Atividades Cinematográficas, Lda.	Lisbon	Movies exhibition	Lusomundo SII	100%	100%	100%
Lusomundo - Sociedade de investimentos imobiliários SGPS, SA	Lisbon	Management of Real Estate	NOS	100%	100%	100%
Lusomundo 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%
Mainroad – Serviços em Tecnologias de Informação, S.A. ('Mainroad') (a)	Maia	Rendering of consulting services in the area of information systems	NOS SA	-	100%	100%
NOS Açores Comunicações, S.A.	Luxembourg	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Communications S.à r.l (b)	Luxemburgo	Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialisation of products and equipments of electronic communications	NOS	-	100%	100%
NOS Comunicações, S.A. (c)	Lisbon	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.	Lisboa	Movies distribution, editing, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	100%	100%	100%
NOS Madeira Comunicações, S.A.	Lisbon	Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area	NOS SA	78%	78%	78%
NOS PUB, Publicidade e Conteúdos, S.A.	Lisboa	Comercialization of cable tv contents	NOS SA	100%	100%	100%
Per-Mar – Sociedade de Construções, S.A. ('Per-Mar')	Maia	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Maia	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Lisbon	Management of group financing activities	NOS	100%	100%	100%
ZON Audiovisuais, SGPS S.A. (d)	Lisbon	Management of investments	NOS Audiovisuais	100%	-	-
ZON Cinemas, SGPS S.A. (e)	Amsterdam	Management of investments	NOS Cinemas	100%	-	-
ZON FINANCE B.V.	Lisbon	Management of group financing activities	NOS SA / NOS	100%	50% / 50%	100%
ZON Televisão por Cabo, SGPS, S.A. (f)	Lisbon	Management of investments	NOS SA	100%	-	-
ZON TV Cabo Portugal, S.A. (f)		Distribution of television by cable and satellite and operation of telecommunications services	NOS	100%	-	-

a) Company acquired on 30 September 2014.

b) Company established on 15 May 2014.

c) During 2014 occurred the merge of ZON TV Cabo Portugal in Optimus Comunicações, which change its designation for NOS Comunicações, S.A..

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

e) Company dissolved on October 2014.

f) Companies merged in NOS Comunicações, S.A in 2014.

## B) Associated companies

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

a) Company dissolved in 2014.

## C) Jointly controlled companies

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 31-12-2014	EFFECTIVE 31-12-2014
Dreamia Holding B.V.	Amsterdam	Management of investments	NOS Audiovisuais	50.00%	50.00%	50.00%
Dreamia - Serviços de Televisão, S.A.	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	Dreamia Holding BV	50.00%	100.00%	50.00%
East Star Ltd	Port Louis	Management of investments involved in the development, operation and marketing, through any technological means, of telecommunications, television and audiovisual products and services	Teliz Holding B.V.	-	30.00%	30.00%
FINSTAR - Sociedade de Investimentos e Participações, S.A.	Luanda	Distribution of television by satellite, operation of telecommunications services	Teliz Holding B.V.	30.00%	30.00%	30.00%
MSTAR, SA	Maputo	Distribution of television by satellite, operation of telecommunications services	NOS	30.00%	30.00%	30.00%
Sport TV Portugal, S.A.	Lisbon	Conception, production, realization and commercialization of sports programs for telebroadcasting, purchase and resale of the rights to broadcast sports programs for television and provision of publicity services	NOS	50.00%	50.00%	50.00%
Upstar Comunicações S.A.	Vendas Novas	Electronic communications services provider, production, commercialization, broadcasting and distribution of audiovisual contents	NOS	30.00%	30.00%	30.00%
ZAP Media S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30.00%	100.00%	30.00%
ZAP Cinemas, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	-	100.00%	30.00%
ZAP Publishing, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	ZAP Media	30.00%	100.00%	30.00%

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

## D) Companies recorded at cost

COMPANY	HEAD OFFICE	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2013	DIRECT 31-12-2014	EFFECTIVE 31-12-2014
Investment fund for cinema and audiovisuals (a)	Portugal	Investments in cinema and audiovisual production	NOS	30.12%	-	-
Turismo da Samba (Tusal), SARL (b)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundáfrica, SARL (b)	Luanda	Movies exhibition	NOS	23.91%	23.91%	23.91%
Companhia de Pesca e Comércio de Angola (Cosal), SARL (b)	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) Fund liquidated on 26 December 2014.

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

# Individual **Financial Statements**



## Statement of financial position at 31 December 2013 and 2014 and 31 December 2013 restated

(Amounts stated in euros)

	NOTES	31-12-2013 REPORTED	31-12-2013 RESTATED	31-12-2014
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Tangible assets	6	963,285	963,285	918,810
Intangible assets	7	404,397,097	453,889,551	453,889,181
Investments in Group companies	8	867,096,421	817,603,967	851,432,156
Accounts receivable	9	491,259,396	491,259,396	600,996,332
Taxes receivable	10	780,300	780,300	709,685
Available-for-sale financial assets	11	19,329,212	19,329,212	76,727
Deferred income tax assets	12	2,043,058	2,043,058	3,492,345
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,785,868,769</b>	<b>1,785,868,769</b>	<b>1,911,515,236</b>
<b>CURRENT ASSETS</b>				
Accounts receivable	9	701,805,459	701,805,459	326,538,155
Taxes receivable	10	8,246,257	8,246,257	38,296
Prepaid expenses	13	166,006	166,006	333,854
Cash and cash equivalents	14	84,390,085	84,390,085	12,693,944
<b>TOTAL CURRENT ASSETS</b>		<b>794,607,807</b>	<b>794,607,807</b>	<b>339,604,249</b>
<b>TOTAL ASSETS</b>		<b>2,580,476,576</b>	<b>2,580,476,576</b>	<b>2,251,119,485</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	15.1	5,151,614	5,151,614	5,151,614
Capital issued premium	15.2	854,218,633	854,218,633	854,218,633
Own shares	15.3	(2,002,613)	(2,002,613)	(11,790,900)
Legal reserve	15.4	3,556,300	3,556,300	3,556,300
Other reserves and accumulated earnings	15.4	416,812,565	416,812,565	384,467,678
Net income / (loss) for the year		21,976,095	21,976,095	6,135,855
<b>TOTAL EQUITY</b>		<b>1,299,712,594</b>	<b>1,299,712,594</b>	<b>1,241,739,180</b>
<b>LIABILITIES</b>				
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	16	682,099,301	682,099,301	494,689,880
Provisions	17	3,373,986	3,373,986	4,836,277
Accrued expenses	18	-	-	229,886
Deferred income	19	1,049,609	1,049,609	5,799,521
Derivative financial instruments	20	-	-	1,898,830
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>686,522,896</b>	<b>686,522,896</b>	<b>507,454,394</b>
<b>CURRENT LIABILITIES</b>				
Borrowings	16	172,283,734	172,283,734	468,383,974
Accounts payable	21	414,117,102	414,117,102	29,322,924
Taxes Payable	10	930,416	930,416	883,310
Accrued expenses	18	3,892,303	3,892,303	3,000,041
Deferred income	19	335,462	335,462	335,662
Derivative financial instruments	20	2,682,069	2,682,069	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>594,241,086</b>	<b>594,241,086</b>	<b>501,925,911</b>
<b>TOTAL LIABILITIES</b>		<b>1,280,763,982</b>	<b>1,280,763,982</b>	<b>1,009,380,305</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,580,476,576</b>	<b>2,580,476,576</b>	<b>2,251,119,485</b>

The Notes to the Financial Statements form an integral part of the statement of financial position as at 31 December 2014.

Chief Accountant

Board of Directors

## Statement of income by nature for the financial years ended on 31 December 2013 and 2014

(Amounts stated in euros)

	NOTES	2013	2014
<b>REVENUE</b>			
Services rendered	22	13,269,953	15,739,716
Other operating revenues	23	681,295	518,216
		<b>13,951,248</b>	<b>16,257,932</b>
<b>COST, LOSSES AND GAINS:</b>			
Wages and salaries	24	11,705,847	9,575,959
Marketing and advertising		9,865	52,902
Support services		11,187	218,137
Supplies and external services	25	3,721,178	2,698,309
Other operating losses / (gains)	26	116,620	111,166
Taxes		(232,863)	71,448
Provisions and adjustments	17	(400,000)	458,782
Depreciation, amortisation and impairment losses	6 e 7	1,175,545	124,207
Restructuring costs	17	8,446,061	370,388
Losses / (gains) on sale of assets, net		(222,585)	-
Other losses/(gains) non-recurring	27	4,422,972	4,294,088
		<b>28,753,827</b>	<b>17,975,386</b>
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>		<b>(14,802,579)</b>	<b>(1,717,454)</b>
Financial costs/ (gains)	28	(12,407,774)	(16,587,080)
Net foreign exchange losses / (gains)		5,283	9,056
Net losses / (gains) on financial assets	11	1,299,550	632,623
Net losses / (gains) of affiliated companies	29	(33,200,000)	(738,771)
Net other financial expenses / (income)	28	10,130,614	12,096,497
		<b>(34,172,327)</b>	<b>(4,587,675)</b>
<b>INCOME BEFORE TAXES</b>		<b>19,369,748</b>	<b>2,870,221</b>
Income taxes	12	(2,606,347)	(3,265,634)
<b>NET INCOME / (LOSS) FOR THE YEAR</b>		<b>21,976,095</b>	<b>6,135,855</b>
<b>ATTRIBUTABLE TO:</b>			
Basic - euros	15.6	0.06	0.01
Diluted - euros	15.6	0.06	0.01

The Notes to the Financial Statements form an integral part of the statement of income by nature for the year ended on 31 December 2014.

Chief Accountant

Board of Directors



## Statement of comprehensive income for the financial years ended on 31 December 2013 and 2014

(Amounts stated in euros)

	NOTES	2013	2014
<b>NET INCOME / (LOSS) FOR THE YEAR</b>		<b>21,976,095</b>	<b>6,135,855</b>
<b>OTHER INCOME</b>			
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT</b>			
Fair value of derivative financial investments	20	2,422,263	553,368
Foreign exchange variation on investments in foreign currency	8	(281,269)	-
<b>OTHER COMPREHENSIVE INCOME</b>		<b>2,140,994</b>	<b>553,368</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>24,117,089</b>	<b>6,689,223</b>

The Notes to the Financial Statements form an integral part of the statement of comprehensive income for the year ended on 31 December 2014.

Chief Accountant

Board of Directors

## Statement of changes in shareholders' equity for the financial years ended on 31 December 2013 and 2014

(Amounts stated in euros)

	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	TOTAL
<b>BALANCE AS AT 1 JANUARY 2013</b>		<b>3,090,968</b>	<b>-</b>	<b>(913,504)</b>	<b>3,556,300</b>	<b>439,061,798</b>	<b>13,523,606</b>	<b>458,319,168</b>
Result appropriation								
Dividends paid	15.5	-	-	-	-	(23,520,096)	(13,523,606)	(37,043,702)
Capital increase by incorporation of Optimus SGPS in ZON	15.2	2,060,646	854,343,633	-	-	-	-	856,404,279
Costs related to the capital increase	15.2	-	(125,000)	-	-	-	-	(125,000)
Acquisition of own shares	15.3	-	-	(4,405,479)	-	-	-	(4,405,479)
Distribution of own shares	15.3	-	-	3,316,370	-	(3,316,370)	-	-
Share Plan - Costs incurred in the year and others		-	-	-	-	2,446,237	-	2,446,237
Comprehensive income for the year		-	-	-	-	2,140,994	21,976,095	24,117,089
Others		-	-	-	-	2	-	2
<b>BALANCE AS AT 31 DECEMBER 2013</b>		<b>5,151,614</b>	<b>854,218,633</b>	<b>(2,002,613)</b>	<b>3,556,300</b>	<b>416,812,565</b>	<b>21,976,095</b>	<b>1,299,712,594</b>
<b>BALANCE AS AT 1 JANUARY 2014</b>		<b>5,151,614</b>	<b>854,218,633</b>	<b>(2,002,613)</b>	<b>3,556,300</b>	<b>416,812,565</b>	<b>21,976,095</b>	<b>1,299,712,594</b>
Result appropriation								
Transferred to reserves		-	-	-	-	21,976,095	(21,976,095)	-
Dividends paid	15.5	-	-	-	-	(61,818,632)	-	(61,818,632)
Acquisition of own shares	15.3	-	-	(28,582,802)	-	-	-	(28,582,802)
Loan of own shares	15.3	-	-	(4,868,750)	-	4,868,750	-	-
Reimbursement and payment of the loan of own shares	15.3	-	-	2,947,602	-	(4,837,280)	-	(1,889,678)
Distribution of own shares - share plan	15.3	-	-	10,987,989	-	(10,987,989)	-	-
Distribution of own shares - other remunerations	15.3	-	-	9,727,674	-	(195,973)	-	9,531,701
Reclassification of the responsibility of Share Plans of the merged companies in 2013	34	-	-	-	-	10,919,367	-	10,919,367
Share Plan - Changes in the consolidated scope	34	-	-	-	-	668,557	-	668,557
Share Plan - Costs incurred in the year and others	34	-	-	-	-	6,658,056	-	6,658,056
Comprehensive income for the year		-	-	-	-	553,368	6,135,855	6,689,223
Others		-	-	-	-	(149,206)	-	(149,206)
<b>BALANCE AS AT 31 DECEMBER 2014</b>		<b>5,151,614</b>	<b>854,218,633</b>	<b>(11,790,900)</b>	<b>3,556,300</b>	<b>384,467,678</b>	<b>6,135,855</b>	<b>1,241,739,180</b>

The Notes to the Financial Statements form an integral part of the statement of changes in shareholders' equity for the year ended on 31 December 2014.

Chief Accountant

Board of Directors

## Statement of cash flows for the financial years ended on 31 December 2013 and 2014

(Amounts stated in euros)

	NOTES	2013	2014
<b>OPERATING ACTIVITIES</b>			
Collections from clients and related parties		16,566,662	16,917,751
Payments to suppliers and related parties		(5,100,138)	(8,961,552)
Payments to employees		(14,218,416)	(12,772,640)
Payments relating to income taxes		(2,511,240)	13,612,018
Other cash receipts/payments related with operating activities		(4,457,246)	5,542,233
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>		<b>(9,720,378)</b>	<b>14,337,810</b>
<b>INVESTING ACTIVITIES</b>			
<b>CASH RECEIPTS RESULTING FROM:</b>			
Financial investments		35,000	37,118,827
Tangible fixed assets		9,664	-
Available-for-sale financial assets	11	-	1,119,861
Loans granted		237,022,654	294,138,872
Interests and related income		39,870,258	63,601,432
Dividends		33,200,450	5,300,750
Other investments		38,328	5,122
		<b>310,176,354</b>	<b>401,284,865</b>
<b>PAYMENTS RESULTING FROM:</b>			
Financial investments		(137,500)	(82,788,788)
Tangible fixed assets		(33,958)	(3,419)
Intangible assets		(516)	-
Loans granted		(362,196,490)	(371,142,395)
		<b>(362,368,464)</b>	<b>(453,934,602)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (2)</b>		<b>(52,192,110)</b>	<b>(52,649,737)</b>
<b>FINANCING ACTIVITIES</b>			
<b>CASH RECEIPTS RESULTING FROM:</b>			
Borrowings		1,394,017,734	1,922,500,000
		<b>1,394,017,734</b>	<b>1,922,500,000</b>
<b>PAYMENTS RESULTING FROM:</b>			
Borrowings		(1,431,623,691)	(1,814,600,000)
Lease rents (principal)		(159,685)	(41,177)
Interests and related expenses		(40,997,322)	(49,924,141)
Dividends/Dividends distribution	15.5	(37,043,702)	(61,818,632)
Acquisition of own shares		(4,405,479)	(30,472,480)
Other financial activities		(372,210)	-
		<b>(1,514,602,089)</b>	<b>(1,956,856,430)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES (3)</b>		<b>(120,584,355)</b>	<b>(34,356,430)</b>
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(182,496,843)	(72,668,358)
Effect of exchange differences		(13,964)	-
Cash and cash equivalents at the beginning of the year		266,900,892	84,390,085
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>84,390,085</b>	<b>11,721,727</b>
Cash and cash equivalents	14	84,390,085	12,693,944
Bank overdrafts	16	-	(972,217)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>84,390,085</b>	<b>11,721,727</b>

The Notes to the Financial Statements form an integral part of the statement of cash flows for the year ended on 31 December 2014.

Chief Accountant

Board of Directors

## Notes to the financial statements at 31 December 2014

(Amounts presented in euros, unless stated otherwise)

### 1. Introductory note

NOS, SGPS, S.A. ("NOS" or "Company"), formerly named ZON OPTIMUS, SGPS, S.A. ("ZON OPTIMUS") and until 27 august 2013 named ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON"), with Company headquarters registered at Rua Actor Antonio Silva, 9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on July 15, 1999 for with 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 shareholders, which become fully independent from Portugal Telecom.

During the 2013 financial year, ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A., ("ZON") and Optimus, SGPS, S.A. ("Optimus SGPS") have merged through the incorporation of Optimus SGPS into ZON. Thereafter, the Company adopted the designation of ZON Optimus, SGPS, S.A..

On 20 June 2014, as a result of ZON TV Cabo Portugal S.A. ("ZON TV Cabo") merger into Optimus- Comunicações, S.A. ("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.

On 16 May 2014, following the launch of the new brand, Optimus changed its designation to NOS Comunicações, S.A. ("NOS SA"), 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 NOS PUB, Publicidade e Conteúdos, S.A. ("NOSPUB"), NOS Lusomundo Audiovisuais, S.A. ("NOS Audiovisuais"), NOS Lusomundo TV, S.A. ("NOS Lusomundo TV"), NOS Lusomundo Cinemas, S.A. ("NOS Cinemas"), NOS Açores Comunicações, S.A. ("NOS Açores") and NOS Madeira Comunicações, S.A. ("NOS Madeira").

The businesses operated by NOS and its associated companies, which together 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 and the provision of consultancy services related to information systems

NOS shares are listed on the Euronext Lisbon market. The shareholder structure of the Company at 31 December 2014 is shown in Note 15.

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.

NOS PUB 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 affiliates.

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

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

The financial statements relate to the Company on an individual basis and not consolidated and were prepared for publication under the commercial legislation in force.

As provided in IFRS, financial investments are stated at acquisition cost. Consequently, the financial statements do not include the effect of the consolidation of assets, liabilities, income and expenses, which will be made in the consolidated statements to approve and publish separate. The effect of these consolidation consists in an assets and net income increase of 704,812 thousand euros and 68,575 thousand euros, respectively and in a reduction shareholder's equity of 181,500 thousand euros.

The financial statements for the financial year ended on 31 December 2014 are presented in euros and were approved by the Board of Directors and their issue authorised on 25 February 2015.

However, they are still subject to approval by the General Meeting of Shareholders in accordance with company law in Portugal. 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. Basis of presentation**

The financial statements 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.

The financial statements were prepared on a going concern basis from the ledgers and accounting records of the Company, using the historical cost convention, adjusted where necessary 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 judgments with impact on the value of assets and liabilities and the recognition of income and costs in each reporting period. Although these estimates were based on the best information available at the date of preparation of the consolidated financial statements, current and future results may differ from these estimates. The areas involving a higher element of judgment and estimates or areas where assumptions and estimates are significant to the financial statements are described in Note 4.1.

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

### 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" (effective in the EU for annual periods beginning on or after 1 January 2014). 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 Company's financial statements. The Company has early adopted this standard in the year ended at 31 December 2013.
- IFRS 11 (new), "Joint Arrangements" (effective in the EU for annual periods beginning on or after 1 January 2014). 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. This standard did not have any significant impact on the Company's financial statements.
- IFRS 12 (new) – "Disclosure of interests in other entities" (effective in the EU for annual periods beginning on or after 1 January 2014). 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 did not have any significant impact on the Company's financial statements.
- IAS 27 (2011 revision), "Separate financial statements" (effective in the EU for annual periods beginning on or after 1 January 2014). 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 Company's financial statements.

- IAS 28 (2011 revision), "Investments in associates and joint ventures" (effective in the EU for annual periods beginning on or after 1 January 2014). 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. This standard did not have any significant impact on the Company's financial statements.
- 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 Company.
- IAS 32 (amendment), "Disclosures – offsetting financial assets and financial liabilities". This amendment is part of the IASB's "assets and liabilities offsetting" project and clarifies the meaning of "currently has a legally enforceable right of set-off" and clarifies that some gross settlement systems (clearing houses) may be considered equivalent to net settlement. This amendment does not have any impact on the Company's 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 did not have any impact on the Company's financial statements.
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)". This amendment permits the continuation of hedge accounting when a derivative designated as a hedging instrument is legally imposed, subject to the contract counterparty novation to a clearing house. This amendment does not have any impact on the Company's consolidated financial statements.
- IFRS 10, IFRS 11 and IFRS 12 (amendment), "Transition Guidance" (effective for annual periods beginning on or after 1 July 2014). This amendment allows the adoption of less stringent procedures in the transition to IFRS 10, IFRS 11 and IFRS 12, such as the restatement of comparative which is limited to the period immediately prior to the transition. The Company has early adopted this standard in the year ended at 31 December 2013.
- Improvements to Financial Reporting Standards (2010-2012 cycle and 2011-2013 effective for annual periods beginning on or after 1 July 2014). These improvements involve the review of several standards and do not have significant impact on the Company's financial statements.

The standards and interpretations applicable in 2014 adopted in advance (adoption in advance must be disclosed as well as satisfied the other required conditions), are:

- 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 Company.
- IFRIC 21 (new), "Levies" (effective for annual periods beginning on or after 1 January 2014). This amendment establishes the conditions regarding the timing of recognition of a liability related to pay a levy by an entity as a result of a particular event (eg, participation in a particular market), without having goods and specified services associated.

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

- IFRS 9 (new), "Financial instruments – classification and measurement" (effective date to be designated). The initial phase of IFRS 9 forecasts two types of measurement: amortised cost and fair value. All equity instruments are measured at fair value. A financial instrument is measured at amortised cost only if the company has it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, financial instruments are measured at fair value through profit and loss.
- IFRS 7 and 9 (Amendment), "Financial Instruments" (effective date to be designated). The amendment to IFRS 9 is part of the draft revision of IAS 39 and establishes the requirements for the application of hedge accounting. IFRS 7 was also revised as a result of this amendment.
- IFRS 10 and IAS 28 (amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective for annual periods beginning on or after 1 January 2016). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- IFRS 10, IFRS 12 and IAS 28 (amendments), "Investment Entities: Applying the consolidation exception" (Effective from annual periods beginning on or after 1 January 2016). These amendments deal with issues that arose in the application of exception of consolidation of investment entities. This standard is not applicable to the company.
- 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 amendment does not have any impact on the Company's 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 1 (amendment), "Disclosure initiative" (effective for annual periods beginning on or after 1 January 2016). This amendment has as main objective to encourage companies to apply professional judgment to determine what information to disclose in its financial statements. For example, the amendments make it clear that the materiality applies to the whole of the financial statements and that the inclusion of irrelevant information could difficult the interpretation of financial disclosures.
- 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 Company.
- IAS 27 (amendments), "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016). This amendment permits choose to presentation, in the separate financial statements, for investments in subsidiaries, jointly controlled companies or associates in accordance with Equity Method.
- Improvements to Financial Reporting Standards (2012-2014 cycle effective for annual periods beginning on or after 1 January 2016). These improvements involve the review of several standards.

The Company is calculating the impact of this alteration and will apply this standard as soon as it becomes effective, not expecting significant impacts on the financial statements.

## Voluntary changes in accounting policies

### Changes during 2014 financial year

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

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

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

	REPORTED	CHANGES IN THE FAIR VALUE	RESTATE
<b>ASSETS</b>			
Intangible assets	404,397,097	49,492,454	453,889,551
Investments in group companies	867,096,421	(49,492,454)	817,603,967
Other assets	1,308,983,058	-	1,308,983,058
<b>TOTAL ASSETS</b>	<b>2,580,476,576</b>	<b>-</b>	<b>2,580,476,576</b>
<b>TOTAL LIABILITIES</b>	<b>1,280,763,982</b>	<b>-</b>	<b>1,280,763,982</b>
<b>TOTAL EQUITY</b>	<b>1,299,712,594</b>	<b>-</b>	<b>1,299,712,594</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,580,476,576</b>	<b>-</b>	<b>2,580,476,576</b>

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

Additional disclosures are made in the consolidated financial statements of NOS.

### 2.2. Transactions and balances in foreign currencies

Transactions in foreign currency are recorded at exchange rates on transactions dates. At each reporting date, the carrying amounts of monetary items denominated in foreign currency are updated by applying the exchange rate prevailing on that date. Non-monetary items carried at fair value denominated in foreign currency are restated at the exchange rates of the respective dates on which the fair values were determined. Exchange rate differences on monetary items that constitute an extension of the investment denominated in the functional currency of the Company or the subsidiary in question are recognised as the exchange rate on investment in shareholder's equity. Exchange rate differences on non-monetary items are classified under "Other reserves".

Exchange differences arising on the date of receipt or payment of foreign currency transactions and the resulting updates of the above are recognised in the income statement, under "Net foreign exchange losses / (gains)" for all other balances or transactions.

At 31 December 2013 and 31 December 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:

CURRENCY	31-12-2013	31-12-2014
American Dollar	1.379	1.214
Mozambican Metical	41.200	38.530
Brazilian Real	3.258	3.221

### 2.3. Tangible assets

Tangible fixed assets are stated at acquisition cost, less accumulated depreciation and eventual impairment losses. The acquisition cost includes the purchase price of the asset, expenses directly attributable to the purchase and costs incurred in preparing the asset to be ready for utilisation. Costs incurred on borrowings for the construction of tangible assets are recognised as part of the cost of the asset, whenever the period of construction / preparation is more than one year.

Subsequent costs with renovations and major repairs that extend the useful life or productive capacity of assets are recognised as a cost of the asset.

The costs of current maintenance and repairs are recognised as a cost when they are incurred.

The estimated costs of decommissioning and removal of the assets will be considered as part of the initial cost.

Depreciation is calculated, once the assets become available for use by the straight-line method, on a monthly basis in accordance with the estimated useful life for each class of assets.

The estimated useful lives for the most significant tangible assets are as follows:

CLASS OF GOODS	2013 (YEARS)	2014 (YEARS)
Buildings and other constructions	10	10
Basic equipment	3 to 4	3 to 4
Transportation equipment	4	4
Administrative equipment	3 to 10	3 to 10
Other tangible assets	5 to 8	5 to 8

The useful lives and depreciation method of the tangible assets are reviewed annually. The effect of any changes to these estimates is recognised prospectively in the income statement.

The residual values of assets and their respective useful lives are reviewed and adjusted if appropriate, at the reporting date. If the carrying amount exceeds the recoverable amount of the asset, it is readjusted to the estimated recoverable amount by recognizing impairment losses (Note 2.6).

Gains or losses resulting from the sale or write-off of a tangible fixed asset are determined as the difference between the realizable value of the transaction and the carrying amount of

the asset net of accumulated depreciation and any impairment losses and are recognised in the income statement in the year that occurs the write-off or sale.

## 2.4. Intangible assets

Intangible assets are stated at acquisition cost, less accumulated amortisation and impairment losses, where applicable.

Intangible assets are recognised only when they are identifiable, generate future economic benefits for the Company and when they can be measured reliably.

Amortisation of intangible assets are recognised on a straight-line basis over the estimated useful lives of intangible assets

The estimated useful lives for the most significant intangible assets are as follows:

CLASS OF GOODS	2013 (YEARS)	2014 (YEARS)
Software	3	3
Industrial property and other rights	3	3

The useful lives and amortisation method of the various intangible assets are reviewed annually. The effect of any changes to these estimates is recognised in the income statement prospectively.

## 2.5. Goodwill

Goodwill represents the excess of acquisition cost over the net fair value of the assets, liabilities and contingent liabilities of a business, a subsidiary, jointly controlled company or associated, at the acquisition date, if this is not a business combination of entities under common control in accordance with IFRS 3. In the case of a business combination of entities under common control, Goodwill represents the excess of acquisition cost over the fair value of the asset and liabilities of the acquired business.

Goodwill is presented as a component of the acquisition cost of the financial investments, in the separate accounts of NOS, when business is embodied in an entity.

Given the policy followed by the Company in the recognition and measurement of financial investments, Goodwill is recorded as an asset and included in "Intangible Assets" if the excess of the costs common from an acquisition by merger, and in "Investments in group companies" in an acquisition of a subsidiary jointly controlled company or an associated company. Goodwill is not amortised and is subject to impairment tests at least once a year, on a specified date, and whenever there are changes in the test's underlying assumptions at the date of the statement of financial position which may result in a possible loss of value. Any impairment loss is recorded immediately in the income statement in "Impairment losses" and is not liable to subsequent reversal.

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

On disposal of a subsidiary, associate or jointly controlled entity, the corresponding goodwill is included in determining the corresponding gain or loss realized.

## **2.6. Impairment of tangible and intangible assets, excluding goodwill**

At each reporting date is carried out a review of the carrying amounts of tangible and intangible assets of the Company to determine whether there is any indication that the recorded amount may not be recoverable. If there is any indicator, we estimate the recoverable amount of the respective assets in order to determine the extent of the impairment loss (if any). When it is not possible to determine the recoverable amount of an individual asset, the recoverable amount is estimated for the cash-generating unit to which the asset belongs.

The recoverable amount of the asset or cash-generating unit is the greater of (i) the fair value less costs to sell and (ii) the current use value. In determining the current use value, the estimated future cash flows are discounted using a discount rate that reflects market expectations for the time value of money and the risks specific to the asset or cash-generating unit for which the estimates of future cash flows have not been adjusted.

Where the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, is recognised as an impairment loss. The impairment loss is recognised immediately in the income statement under "Depreciation, amortisation and impairment losses" unless such loss offset a revaluation surplus recorded in shareholder's equity.

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 captions referred in the previous paragraph. The reversal of the impairment loss is made up to the amount that would be recognised (net of amortisation) if no impairment loss had been recorded in previous years.

## **2.7. Investments in group companies**

Investments in Group companies (companies in which the Company holds directly or indirectly controlling, considering that control over an entity exists when the Group is exposed, and or has rights, as a result of their involvement, on the variable returns the entity's activities, and has the ability to affect this return through the power over the entity) are recorded under the caption "Investments in Group companies", at their acquisition cost, in accordance with IAS 27, as Company presents, separately, consolidated financial statements in accordance with IAS/IFRS.

Under this caption are also recorded at nominal value, supplementary capital granted to subsidiaries.

An evaluation of investments in Group companies is performed when there are indications that the recorded amount may not be recoverable or impairment losses recorded in previous years no longer exist.

Impairment losses detected on the realizable value of the investments in Group companies are recognised in the year in which they are estimated, under the caption "Net losses / (gains) of affiliated companies" in the income statement.

The expenses incurred with the acquisition of investments in Group companies are recorded as cost when they are incurred.

## 2.8. Financial assets

Financial assets are recognised in the statement of financial position of the Company on the trade or contract date, which is the date on which the Company 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 Company's contractual rights to receive their cash flows expire; (ii) the Company 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 Company has transferred control of the assets.

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

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

### Financial assets at fair value through profit or 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 "Net 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 "Net losses / (gains) on financial assets", where the right to receive the payment is established.

### **Borrowings and receivables**

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

Accounts receivable are initially recognised at fair value and subsequently valued at amortised cost, less adjustments for impairment, where applicable. Impairment losses on customers and accounts receivable are recorded where there is objective evidence that they are not recoverable under the initial terms of the transaction. The identified impairment losses are recorded in the 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 Company's assets after deducting the liabilities. The equity instruments issued by the Company are recorded at the amount received, net of the costs incurred in their issue.

Financial liabilities and equity instruments are recognised only when extinguished, ie when the obligation is settled, canceled or extinguished.

### **Borrowings**

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

## Accounts payable

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

## 2.10. Impairment of financial assets

At the date of each statement of financial position, the Company 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 Company will not receive all the amounts to which it is entitled under the original terms of the contracts. Various indicators are used to identify impairment situations, such as: default; financial difficulties of the debtor; 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 as a contra entry 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 Company 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 Company 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 Company'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.

### **2.12. Subsidies**

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

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

Investment subsidies are recognised in the statement of financial position as deferred income and it is recognised as income on a systematic and rational basis over the useful life of the asset.

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

### 2.13. Provisions, contingent liabilities and contingent assets

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 Company 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 Company are made in accordance with the risk assessments carried out by the Company and by their legal advisers, based on success rates.

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

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.

### 2.14. 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 income statement 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.

## 2.15. Income taxes

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

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

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

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

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

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

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

## 2.16. Share-based payments

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

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

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

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

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

### **2.17. Revenue**

Revenue corresponds to the fair value of the amount received or receivable for the services rendered in the ordinary course of the Company's activity. Revenue is recorded net of any taxes, trade discounts granted.

Revenue from services rendered is recognised according to the percentage of completion or based on the period of the contract where the services rendered are not associated with the implementation of specific activities, but the continuous service provision.

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

### **2.18. Accruals**

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

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

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

### **2.19. Financial charges on 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 capitalized in the acquisition cost of that asset.

## **2.20. Statement of cash flows**

The statement of cash flows is prepared in accordance with the direct method. The Company 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.

## **2.21. 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. Risk management**

## **3.1. Financial risk factors**

NOS as a holding company (SGPS) develops direct and indirect management activities over its subsidiaries. Thus, the fulfillment of assumed obligations depends on the cash flows generated by these. So the company depends on the eventual distribution of dividends by its subsidiaries, the payment of interest, repayment of loans and other cash flows generated by those companies.

The ability of NOS's subsidiaries to have available funds will depend, in part, on its ability to generate positive cash flows and, on the other hand, is dependent on the respective results, available reserves and financial structure.

NOS has a program of risk management that focuses its analysis on the financial markets in order to minimize potential adverse effects on its financial performance. Risk management is handled by the Financial Management in accordance with the policy approved by the Board. There is also on NOS an Internal Control Committee with specific functions in the control area of risks of the activity of the Company.

### 3.2. Exchange rate risk

Exchange rate risk is mainly related to exposure resulting from payments made to suppliers of terminal equipment and producers of audiovisual content for the Pay TV and audiovisual businesses respectively. Business transactions between the Company's subsidiaries and these suppliers are mainly denominated in US dollars.

Depending on the balance of accounts payable resulting from transactions in a currency different from the Group's operating currency, the Company's subsidiaries contract or may contract financial instruments, namely short-term foreign currency forwards, in order to hedge the risk associated with these balances.

NOS has investments in foreign companies whose assets and liabilities are exposed to exchange rate variations. NOS has not adopted any policy of hedging the risk of exchange rate variations for these companies on cash flows in foreign currencies, as they are insignificant in the context of the Company.

Additional disclosures are made in the consolidated financial statements of NOS.

### 3.3. Interest rate risk

The risk of fluctuations in interest rates can result in a cash flow risk or a fair value risk, depending on whether variable or fixed interest rates have been negotiated.

NOS has adopted a policy of hedging risk through the use of interest rate swaps to hedge future interest payments on Bond loans and other borrowings.

NOS uses a sensitivity analysis technique which measures the expected impacts on results and equity of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates, for the rates applying at the date of the statement of financial position for each class of financial instrument, with all other variables remaining constant. This analysis is for illustrative purposes only, since in practice market rates rarely change in isolation.

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest receivable or payable on financial instruments with variable rates;
- Changes in market interest rates only affect interest receivable or payable on financial instruments with fixed interest rates when they are recognised at fair value;
- Changes in market interest rates affect the fair value of derivatives and other financial assets and liabilities;
- Changes in the fair value of derivatives and other financial assets and liabilities are estimated by discounting future cash flows from current net values using market rates at the end of the year.

Under these assumptions, an increase or decrease of 0.25% in market interest rates for loans that are not covered or loans with variable interest at 31 December 2014 would have resulted in an increase or decrease in annual profit before tax of approximately 1,073 thousand euros (2013: 885 thousand euros).

In the case of the interest rate swaps contracted, the sensitivity analysis which measures the estimated impact of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates results in changes in the fair value of the swaps of over 1,649 thousand euros (2013: over 124.6 thousand euros) and down 1,731 thousand euros (2013: 124.9 thousand euros) at 31 December 2014, respectively.

Additional disclosures are made in the consolidated financial statements of NOS.

### **3.4. Credit risk**

Credit risk is mainly related to the risk of a counterparty defaulting on its contractual obligations, resulting in a financial loss to the Company's subsidiaries. The Company's subsidiaries are exposed to credit risk in its operating and treasury activities.

This risk is monitored on a regular business basis, and the aim of management is to: i) limit the credit granted to customers, using the average payment time by each customer; ii) monitor the trend in the level of credit granted; and iii) analyse the impairment of receivables on a regular basis.

The Company's subsidiaries does not face any serious credit risk with any particular client, insofar as the accounts receivable derive from a large number of clients from a wide range of businesses and the subsidiaries obtain credit guarantees, whenever the financial situation of the customer requires.

Additional disclosures are made in the consolidated financial statements of NOS.

### **3.5. Liquidity risk**

NOS manages liquidity risk in two ways:

- (i) ensuring that its debt has a high component of medium and long-term maturities appropriate to the characteristics of industries where its subsidiaries exert their activity; and
- (ii) through contractual arrangements with financial institutions of credit facilities available at any time, for an amount that ensures adequate liquidity;

Based on estimated cash flows and taking into consideration the compliance with any covenants typically existing in loans payable, management regularly monitors the forecasts of liquidity reserves by subsidiaries of NOS, including the amounts of unused credit lines, amounts of cash and cash equivalents.

Additional disclosures are made in the consolidated financial statements of NOS.

## **4. Relevant estimates and judgements presented**

The estimates and assumptions that impact the Company's financial statements are continually evaluated, representing each reporting date to the best estimate of the Board of Directors, taking into account historical performance, the experience and expectations of future events that, in the circumstances concerned, are believed to be reasonable.

The intrinsic nature of the estimates may cause the actual reflection of the situations that had been the target of estimation may, for financial reporting purposes, come to differ from the estimated amounts. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

#### **4.1. Relevant accounting estimates**

##### **4.1.1. Provisions**

The Company 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.

##### **4.1.2. Tangible and intangible assets**

The determination of the useful lives of assets as well as the amortisation/depreciation method to be applied is crucial in determining the amount of amortisation/depreciation to be recognised in the statement of comprehensive income for each year. These two parameters are defined using management's best estimates for the assets and businesses concerned, and taking account of the practices adopted by sector companies at international level.

##### **4.1.3. Impairment assets, excluding goodwill**

The determination of a possible impairment loss can be triggered by the occurrence of various events, many of which outside the Company's sphere of influence, such as future availability of financing, cost of capital, as well as any other changes, either internal or external, to the Company.

The identification of impairment indicators, the estimation of future cash flows and determining the fair value of assets involve a high degree of judgment by the Board of Directors with regard to the identification and evaluation of different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

##### **4.1.4. Impairment of goodwill**

Goodwill is subjected to impairment tests annually or whenever there are indications of a possible loss of value. 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.

##### **4.1.5. 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 Company's financial assets and liabilities, valuation techniques generally accepted in the market, based on market assumptions, are used.



The Company uses evaluation techniques for unlisted financial instruments such as derivatives. The valuation models that are used most frequently are discounted cash flow models and options models, incorporating, for example, interest rate curves and market volatility.

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 Company uses internal estimates and assumptions.

#### 4.2. Misstatement, estimates and changes to accounting policies

During the financial years ended on 31 December 2013 and 31 December 2014, no material misstatements relating to previous years were recognised.

### 5. 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 RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
<b>ASSETS</b>							
Cash and cash equivalents (Note 14)	84,390,085	-	-	-	84,390,085	-	84,390,085
Accounts receivable - current (Note 9)	701,738,917	-	-	-	701,738,917	66,542	701,805,459
Accounts receivable - non current (Note 9)	491,259,396	-	-	-	491,259,396	-	491,259,396
Available-for-sale financial assets (Note 11)	-	19,329,212	-	-	19,329,212	-	19,329,212
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,277,388,398</b>	<b>19,329,212</b>	<b>-</b>	<b>-</b>	<b>1,296,717,610</b>	<b>66,542</b>	<b>1,296,784,152</b>
<b>LIABILITIES</b>							
Borrowings - current (Note 16)	-	-	-	172,283,734	172,283,734	-	172,283,734
Borrowings - non current (Note 16)	-	-	-	682,099,301	682,099,301	-	682,099,301
Accounts payable - current (Note 21)	-	-	-	414,117,102	414,117,102	-	414,117,102
Accrued expenses - current (Note 18)	-	-	-	3,892,303	3,892,303	-	3,892,303
Derivative financial instruments (Note 20)	-	-	2,682,069	-	2,682,069	-	2,682,069
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>2,682,069</b>	<b>1,272,392,440</b>	<b>1,275,074,509</b>	<b>-</b>	<b>1,275,074,509</b>

Financial assets and liabilities classified in accordance with the IAS 39 categories at 31 December 2014

	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
<b>ASSETS</b>							
Cash and cash equivalents (Note 14)	12,693,944	-	-	-	12,693,944	-	12,693,944
Accounts receivable - current (Note 9)	326,406,877	-	-	-	326,406,877	131,278	326,538,155
Accounts receivable - non current (Note 9)	600,996,332	-	-	-	600,996,332	-	600,996,332
Available-for-sale financial assets (Note 11)	-	76,727	-	-	76,727	-	76,727
<b>TOTAL FINANCIAL ASSETS</b>	<b>940,097,153</b>	<b>76,727</b>	<b>-</b>	<b>-</b>	<b>940,173,880</b>	<b>131,278</b>	<b>940,305,158</b>
<b>LIABILITIES</b>							
Borrowings - current (Note 16)	-	-	-	468,383,974	468,383,974	-	468,383,974
Borrowings - non current (Note 16)	-	-	-	494,689,880	494,689,880	-	494,689,880
Accounts payable - current (Note 21)	-	-	-	29,322,924	29,322,924	-	29,322,924
Accrued expenses - current (Note 18)	-	-	-	3,000,041	3,000,041	-	3,000,041
Accrued expenses - non current (Note 18)	-	-	-	229,886	229,886	-	229,886
Derivative financial instruments (Note 20)	-	-	1,898,830	-	1,898,830	-	1,898,830
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>1,898,830</b>	<b>995,626,705</b>	<b>997,525,535</b>	<b>-</b>	<b>997,525,535</b>

Considering its nature, the balances of the amounts to be paid and received to/from state and other public entities were considered outside the scope of IFRS 7. Also, the captions of "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.

## 6. Tangible assets

During the years ended at 31 December 2013 and 2014, the movements in acquisition costs and accumulated depreciation in this item were as follows:

	BUILDINGS AND OTHER CONSTRUCTIONS	BASIC EQUIPMENT	TRANSPORTATION EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS	TOTAL
<b>ASSETS</b>							
<b>BALANCE AS AT 1 JANUARY 2013 (RESTATED)</b>	253,332	226,972	1,743,618	2,262,901	450,149	-	4,936,972
Acquisitions	-	-	251,022	29,853	-	-	280,875
Disposals	-	-	(490,229)	(11,451)	-	-	(501,680)
Adjustments, transfers and write-offs	-	-	(308,356)	-	-	-	(308,356)
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATED)</b>	253,332	226,972	1,196,055	2,281,303	450,149	-	4,407,811
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>							
<b>BALANCE AS AT 1 JANUARY 2013 (RESTATED)</b>	(253,332)	(225,639)	(1,028,991)	(2,188,399)	(264,815)	-	(3,961,175)
Depreciation and impairment losses	-	(1,333)	(180,358)	(56,620)	(14,804)	-	(253,115)
Disposals	-	-	450,931	11,451	-	-	462,382
Adjustments, transfers and write-offs	-	-	307,382	-	-	-	307,382
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATED)</b>	(253,332)	(226,972)	(451,036)	(2,233,568)	(279,619)	-	(3,444,526)
<b>NET VALUE AT 31 DECEMBER 2013 (RESTATED)</b>	-	-	745,020	47,735	170,530	-	963,285

	BUILDINGS AND OTHER CONSTRUCTIONS	BASIC EQUIPMENT	TRANSPORTATION EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS	TOTAL
<b>ASSETS</b>							
<b>BALANCE AS AT 1 JANUARY 2014</b>	253,332	226,972	1,196,055	2,281,303	450,149	-	4,407,811
Acquisitions	-	-	67,691	4,805	-	6,866	79,362
<b>BALANCE AS AT 31 DECEMBER 2014</b>	253,332	226,972	1,263,746	2,286,108	450,149	6,866	4,487,173
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>							
<b>BALANCE AS AT 1 JANUARY 2014</b>	(253,332)	(226,972)	(451,036)	(2,233,568)	(279,619)	-	(3,444,526)
Depreciation and impairment losses	-	-	(83,243)	(30,757)	(9,836)	-	(123,837)
<b>BALANCE AS AT 31 DECEMBER 2014</b>	(253,332)	(226,972)	(534,279)	(2,264,325)	(289,455)	-	(3,568,363)
<b>NET VALUE AT 31 DECEMBER 2014</b>	-	-	729,467	21,783	160,694	6,866	918,810

## 7. Intangible assets

During the years ended at 31 December 2013 and 2014, the movements in acquisition costs and accumulated amortization in this item were as follows:

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
<b>ASSETS</b>				
<b>BALANCE AS AT 1 JANUARY 2013 (RESTATED)</b>	-	460,828	5,531,664	5,992,492
Acquisitions	453,888,879	517	-	453,889,396
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATED)</b>	453,888,879	461,345	5,531,664	459,881,888
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>				
<b>BALANCE AS AT 1 JANUARY 2013 (RESTATED)</b>	-	(460,188)	(4,609,719)	(5,069,907)
Amortisation	-	(485)	(921,945)	(922,430)
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATED)</b>	-	(460,673)	(5,531,664)	(5,992,337)
<b>NET VALUE AT 31 DECEMBER 2013 (RESTATED)</b>	453,888,879	672	-	453,889,551

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
<b>ASSETS</b>				
<b>BALANCE AS AT 1 JANUARY 2014</b>	453,888,879	461,345	5,531,664	459,881,888
Acquisitions	-	-	-	-
<b>BALANCE AS AT 31 DECEMBER 2014</b>	453,888,879	461,345	5,531,664	459,881,888
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>	-	-	-	-
<b>BALANCE AS AT 1 JANUARY 2014</b>	-	(460,673)	(5,531,664)	(5,992,337)
Amortisation	-	(370)	-	(370)
<b>BALANCE AS AT 31 DECEMBER 2014</b>	-	(461,043)	(5,531,664)	(5,992,707)
<b>NET VALUE AT 31 DECEMBER 2014</b>	453,888,879	302	-	453,889,181

### Goodwill

At 31 December 2014, the value of goodwill results from the merger occurred on 27 August 2013, by the merger through the incorporation of Optimus SGPS into ZON, by overall transfer of the assets of Optimus SGPS into ZON pursuant to subparagraph a) of paragraph 4 of Article 97 of the Commercial Companies Code, with effect from the date of the merger.

The detail of the net assets of the Optimus Group and the Goodwill established under this transaction is as follows:

Fair value of assets and liabilities acquired

	FAIR VALUE
Net value of assets and liabilities from Optimus SGPS incorporated in ZON Optimus (excluding Financial investments)	19,229,162
Fair value of Financial investments	
Optimus	318,226,713
Be Artis	32,346,991
Be Towering	28,216,530
Permar	1,749,976
Sontária	2,676,028
<b>TOTAL FAIR VALUE OF FINANCIAL INVESTMENTS (NOTE 8)</b>	<b>383,216,237</b>
<b>TOTAL NET ASSETS ACQUIRED</b>	<b>402,445,400</b>
GOODWILL	453,958,879
<b>ACQUISITION PRICE (NOTE 15)</b>	<b>856,404,279</b>

Additional disclosures are made in the consolidated financial statements of NOS.

### Impairment tests on goodwill

In 2014 impairment tests were performed based on assessments in accordance with the discounted cash flow method, which corroborate the recoverability of the book value of the Goodwill. The amounts in these assessments are based on the historical performances and forecast growth of the businesses and their markets, incorporated in medium/long term plans approved by the Board.

These estimates are based on the following assumptions:

Discount rate (before taxes)	8.2%
Assessment period	5 years
EBITDA* growth	2.7%
Perpetuity Growth rate	2.0%

\* EBITDA = Operational result + Depreciation and amortization

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

Sensitivity analyses were performed on variations in discount rates 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.

## 8. Financial investments – investments in group companies

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

Investments in group companies

	SUPPLEMENTARY CAPITAL	INVESTMENTS	2013 RESTATED	SUPPLEMENTARY CAPITAL	INVESTMENTS	2014
NOS Comunicações 1)	318,226,713	-	318,226,713	512,078,753	-	512,078,753
NOS Audiovisuais	69,271,165	9,200,000	78,471,165	78,471,165	40,000,000	118,471,165
Teliz	76,360,000	325,000	76,685,000	76,360,000	370,000	76,730,000
Be Artis	(18,598,820)	50,945,811	32,346,991	2,159,968	30,187,023	32,346,991
Sport Tv	(12,044,959)	46,213,937	34,168,978	(12,044,959)	42,213,937	30,168,978
Be Towering	2,094,838	26,121,692	28,216,530	2,094,838	26,121,692	28,216,530
NOS Cinemas	(209,316)	29,300,000	29,090,684	(209,316)	22,239,961	22,030,645
NOS Lusomundo SII	16,368,058	-	16,368,058	16,368,058	-	16,368,058
Mstar	5,518,502	-	5,518,502	5,518,502	-	5,518,502
NOS Lux	-	-	-	5,000,000	-	5,000,000
Sontária	2,676,028	50,000	2,726,028	2,676,028	50,000	2,726,028
Per Mar	540,798	1,209,178	1,749,976	540,798	1,209,178	1,749,976
Upstar	26,528	-	26,528	26,528	-	26,528
ZON TVC Portugal 2)	193,852,040	-	193,852,040	-	-	-
ZON II	50,000	-	50,000	-	-	-
ZON III	50,000	-	50,000	-	-	-
Canal 20 TV	4,882	-	4,882	-	-	-
ZON Finance BV	2,392	49,500	51,892	-	-	-
Lusomundo España	-	-	-	-	-	-
	<b>654,188,849</b>	<b>163,415,118</b>	<b>817,603,967</b>	<b>689,040,365</b>	<b>162,391,791</b>	<b>851,432,156</b>

1) Formerly named Optimus Comunicações, S.A. ("Optimus").

2) Company merged into Optimus, so the amount of the investment has been added to NOS Comunicações.

During the years ended at 31 December 2013 and 2014, the movement in "Financial Investments" of NOS was the following:

	SUPPLEMENTARY CAPITAL	INVESTMENTS	TOTAL
<b>BALANCE AS AT 1 JANUARY 2013</b>	<b>349,530,561</b>	<b>80,000,937</b>	<b>429,531,498</b>
Increases	-	5,137,501	5,137,501
Incorporation of new companies (Note 7)	304,939,557	78,276,680	383,216,237
Foreign exchange adjustment	(281,269)	-	(281,269)
<b>BALANCE AS AT 31 DECEMBER 2013 (RESTATED)</b>	<b>654,188,849</b>	<b>163,415,118</b>	<b>817,603,967</b>
<b>BALANCE AS AT 1 JANUARY 2014</b>	<b>654,188,849</b>	<b>163,415,118</b>	<b>817,603,967</b>
Increases	42,733,789	40,055,000	82,788,789
Decreases	(100,000)	(37,018,827)	(37,118,827)
Reclassification from impairment of accounts receivable	(7,775,000)	-	(7,775,000)
Impairments (Note 29)	(7,273)	(4,059,500)	(4,066,773)
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>689,040,365</b>	<b>162,391,791</b>	<b>851,432,156</b>

During the year ended on 31 December 2014, the movements in the caption were as follows:

i) NOS Audivisuais: Supplementary capital paid in the amount of 9.2 million euros; Capital increase to cover losses in the amount of 9.2 million euros and supplementary capital increase of 40 million euros;

ii) Be Artis: Supplementary capital paid in the amount of 20.8 million euros and Capital increase to cover losses in the amount of 20.8 million euros;

iii) NOS Cinemas: Supplementary capital paid in the amount of 7.1 million;

iv) Sport TV: an impairment was recorded in the amount of 4 million euros. The assessment of impairment was based on the last business plan approved by the Board of Directors, which was prepared through the use of discounted cash flows for periods of 5 years. The discount rate used was 8.2%. In perpetuity, a growth rate of 2.5% was considered;

v) Lusomundo España: Capital increase to cover losses in the amount of 7.8 million euros and reclassification of a previous impairment recorded in accounts receivable in the same amount;

vi) Constitution of NOS Lux and subsequent capital increase in the amount of 5 million euros;

vii) Liquidation of ZON II and ZON III which did not generate any gain or loss in the year.

The investments in Canal 20 TV, ZON Finance BV and Lusomundo Espanã are fully provisioned, once it is expected their liquidation / dissolution during the year ended on 31 December 2015.

Assets, liabilities and shareholder's equity, income and statutory results of Group companies at 31 December 2013 are as follows:

	ASSETS	LIABILITIES	SHAREHOLDER'S EQUITY	TOTAL INCOME	TOTAL EXPENSES	NET INCOME / (LOSS)	% HELD
NOS Comunicações	1,820,246,532	1,193,119,171	627,127,361	1,251,168,197	(1,240,027,996)	11,140,201	100%
NOS Lux	10,865,676	16,674,927	(5,809,251)	10,330,806	(21,140,057)	(10,809,251)	100%
Teliz	60,185	8,561	51,624	-	(50,450)	(50,450)	100%
Sport TV	111,895,357	58,351,922	53,543,435	111,418,791	(117,658,120)	(6,239,329)	50%
NOS Audiovisuais	96,432,314	93,620,301	2,812,013	59,641,931	(102,052,426)	(42,410,495)	100%
Be Artís	397,511,204	361,089,757	36,421,447	145,800,658	(143,569,934)	2,230,724	100%
NOS Cinemas	26,639,311	22,302,331	4,336,980	47,971,506	(47,397,706)	573,799	100%
Be Towering	156,676,662	125,672,260	31,004,402	34,803,641	(30,706,390)	4,097,250	100%
NOS Lusomundo SII	17,142,377	46,627	17,095,750	139,427	(43,866)	95,561	100%
Mstar	13,508,644	13,719,156	(210,512)	16,496,110	(15,230,091)	1,266,019	29%
Sontária	3,630,631	3,437,468	193,163	608,804	(458,241)	150,563	100%
Per Mar	1,854,137	550,300	1,303,836	273,412	(220,320)	53,092	100%
Upstar	42,823,050	42,601,613	221,437	58,149,810	(58,127,915)	21,896	30%
Canal 20 TV	54,898	56,614	(1,716)	-	-	-	50%
ZON Finance BV	4,557	7,434	(2,877)	16	(25,786)	(25,770)	50%
Lusomundo España	45,193	18,355	26,837	-	(69,090)	(69,090)	100%

The assessment of the existence or not of impairment for major investments in Group companies recorded in the financial statements is performed taking into account the cash-generating units based on the most recent business plans approved by the respective Boards of Directors, which are prepared through the use of discounted cash flows for periods of five years. The discount rates used were 16% and 8,2% for Teliz and other companies, respectively. In perpetuity, were considered growth rates between 0% and 2%, depending on the company.

## 9. Accounts receivable

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

	2013 RESTATED		2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
<b>ACCOUNTS RECEIVABLE</b>				
Advances to suppliers	66,542	-	131,278	-
Accrued income - Interests i)	9,033,972	-	7,808,808	-
Group companies i)	692,612,878	491,259,396	317,694,146	600,916,763
Others	92,067	-	903,923	79,569
	<b>701,805,459</b>	<b>491,259,396</b>	<b>326,538,155</b>	<b>600,996,332</b>

i) Amounts receivable from related parties correspond predominantly to short-term loans, shareholder loans of medium and long term interest to group companies (Note 31). At the end of the year 2014 these loans bear interest at the rate of 5.36%.

## 10. Taxes payable and receivable

At 31 December 2013 and 2014, these items were composed as follows:

	2013 RESTATED		2014	
	DEBIT BALANCES	CREDIT BALANCES	DEBIT BALANCES	CREDIT BALANCES
<b>CURRENT:</b>				
Income taxes	7,685,498	-	-	12,589
Personnel income tax withholdings	-	791,379	-	241,031
Value-added tax	560,759	-	38,296	511,435
Social Security contributions	-	139,037	-	113,797
Others	-	-	-	4,458
	<b>8,246,257</b>	<b>930,416</b>	<b>38,296</b>	<b>883,310</b>
<b>NON-CURRENT</b>				
Tax Authorities i)	780,300	-	709,685	-
	<b>780,300</b>	<b>-</b>	<b>709,685</b>	<b>-</b>
	<b>9,026,557</b>	<b>930,416</b>	<b>747,981</b>	<b>883,310</b>

i) During the years 2003 to 2014, certain subsidiaries of the NOS Group were subject to Tax Inspection for the years 2001 to 2012. Following these inspections, NOS, while parent company of Tax Group, was notified of the corrections made by the Tax Inspection Services to the tax losses of the Group and to make payments corresponding corrections to the above exercises. The total amount of the notifications is 25.8 million euros. Note that the Group considered that the corrections made were unfounded, and contested those corrections and amounts. The Group has provided bank guarantees required by the Tax Authorities, within these processes, as described in Note 30.

At the end of the year 2013 and enjoying the extraordinary settlement scheme of tax debts, the Company settled 780 thousand euros (corresponding to all of the notifications in the amount of 1.3 million euros net of accrued interest). This amount was recorded as "Taxes receivable" not current.

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

At 31 December 2013 and 2014, amounts receivable and payable in respect of income tax were as follows:

	2013 RESTATED	2014
Current income taxes estimative	(5,322,531)	(2,007,221)
Payments on account	9,724,446	751,270
Withholding income taxes	2,685,431	644,551
Income tax receivable	598,152	598,811
<b>INCOME TAX (PAYABLE) / RECEIVABLE</b>	<b>7,685,498</b>	<b>(12,589)</b>

## 11. Available-for-sale financial assets

At 31 December 2013 and 2014, the item "Available-for-sale financial assets" was composed as follows:

	2013 RESTATED	2014
"Fundo de investimento para o cinema e audiovisual" (FICA)	19,246,485	-
Others	82,727	76,727
	<b>19,329,212</b>	<b>76,727</b>

At 31 December 2013, the balance stated in this item relates mainly to the "Fundo de Investimento para o Cinema e Audiovisual" (Cinema and Audiovisual Investment Fund) set up in 2007, in compliance with Article 67 of Decree-Law 227/2006 of 15 November. The fund was established to invest in cinematographic, audiovisual and multiplatform works, with the aim of increasing and improving the supply and potential value of these productions.

NOS subscribed for 30.12% of the units in this fund jointly with other audiovisual companies. The item "Accounts Payable" (Note 21) includes the value of the contribution obligation to the fund, totalling 17,500,000 euros, corresponding to the current value of the instalments due.

On 26 December 2014 the fund was liquidated. Following Liquidation, NOS derecognised the assets and liabilities related to the fund and recognised a net loss of 626,624 euros (note 21).

The movements occurred in the year ended on 31 December 2014 were as follow:

	2013 RESTATED	IMPAIRMENT 2014	LIQUIDATION	2014
Available-for-sale financial assets	19,246,485	(900,000)	(18,346,485)	-
Accounts payable - other (Note 21)	(17,500,000)	-	17,500,000	-
<b>NET ASSETS</b>	<b>1,746,485</b>	<b>(900,000)</b>	<b>(846,485)</b>	<b>-</b>
Amount received at the settlement date			1,119,861	
<b>LOSSES IN FINANCIAL ASSETS RECOGNISED</b>		<b>900,000</b>	<b>(273,376)</b>	<b>626,624</b>

## 12. Taxes

During the year ended at 31 December 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, this rate was raised to 3% on the amount of a company's taxable profit between 1.500 thousand euros and 7.500 thousand euros, and to 5% on the amount of a company's taxable profit exceeding 7.500 thousand euros. Additionally, in the measures approving the IRC restructuring, published by Law 2/2014 of 16 January, a new level was added to the IRC surcharge where the rate is raised in 7% over the company's taxable profit above 35 million euros.

In the calculation of taxable income, to which the above tax rates apply, amounts which are not fiscally allowable are added to and subtracted from the book results. These differences



between accounting income and taxable income may be of a temporary or permanent nature.

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

The companies covered by the RETGS in 2014 are:

- NOS (parent company)
- Be Artis (included in the RETGS during 2014)
- Be Towering (included in the RETGS during 2014)
- Empracine
- Lusomundo Imobiliária 2
- Lusomundo SII
- NOS Audiovisuais
- NOS Cinemas
- NOS Lusomundo TV
- NOS Madeira (included in the RETGS during 2014)
- NOS PUB
- NOS SA (included in the RETGS during 2014)
- Per-mar (included in the RETGS during 2014)
- Sontária (included in the RETGS during 2014)

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

The Board of Directors of NOS, based on information from its tax advisers, believes that these and any other revisions and corrections to these tax declarations, as well as other contingencies of a fiscal nature, will not have a significant effect on the financial statements as at 31 December 2014.

In accordance with Article 88 of the IRC Code, the Company is subject to autonomous taxation on a series of charges at the rates laid down in that Article.

Additionally, under the terms of current legislation in Portugal, tax losses generated up to 2009, or in 2010 and 2011, and from 2012 to 2013 and from 2014 onwards may be carried forward for a period of six years, four years, five years and twelve years, respectively, after their occurrence and may be deducted from taxable profits generated during that period, up to a limit of 75% of the taxable profit in 2013 and 70% of taxable profit in the following years.

## **A) Deferred taxes**

NOS has recorded deferred tax relating to temporary differences between the taxable basis and the book amounts of assets and liabilities.

The movements in deferred tax assets and liabilities for the financial years ended on 31 December 2013 and 2014 were as follows:

	31-12-2012	NET INCOME / (LOSS) FOR THE YEAR	SHAREHOLDER'S EQUITY	31-12-2013 RESTATED
<b>DEFERRED INCOME TAX ASSETS:</b>				
Derivatives	1,603,421	-	(946,314)	657,107
Share plans	368,428	(242,269)	-	126,159
Donations to Fundação PT	787,500	(59,434)	-	728,066
Conversion adjustments	133,966	(52,239)	-	81,727
Other provisions and adjustments	106,000	344,000	-	450,000
	<b>2,999,315</b>	<b>(9,941)</b>	<b>(946,314)</b>	<b>2,043,058</b>

	31-12-2013 RESTATED	NET INCOME / (LOSS) FOR THE YEAR	SHAREHOLDER'S EQUITY	31-12-2014
<b>DEFERRED INCOME TAX ASSETS:</b>				
Derivatives	657,107	-	(229,870)	427,237
Share plans	126,159	(61,483)	-	64,676
Donations to Fundação PT	728,066	(59,434)	-	668,632
Conversion adjustments	81,727	(81,727)	-	-
Other provisions and adjustments	450,000	1,881,800	-	2,331,800
	<b>2,043,058</b>	<b>1,679,157</b>	<b>(229,870)</b>	<b>3,492,345</b>

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

At 31 December 2014, the tax rate used to calculate the deferred tax assets relating to temporary differences was 22.5% (2013: 24.5%).

## B) Effective tax rate reconciliation

In the years ended at 31 December 2013 and 2014, the reconciliation between the nominal and effective rates of tax was as follows:

	2013	2014
Income before taxes	19,369,748	2,870,221
Statutory tax rate	26.50%	24.50%
Estimated tax	5,132,983	703,204
Permanent differences (i)	(7,725,750)	(1,383,314)
Underestimated / (overestimated) corporate tax	(266,501)	(1,235,118)
Record of deferred tax from previous year	-	(1,697,367)
Tax loss used under RETGS	(25,781)	-
Autonomous taxation	152,719	31,430
Impact of the changes in the deferred taxes as a result of the change in income tax rate to 23% from 2014 (ii)	113,139	272,454
Provisions (Note 17)	-	17,004
Other adjustments	12,844	26,073
<b>INCOME TAXES</b>	<b>(2,606,347)</b>	<b>(3,265,634)</b>
Effective income tax rate	(13,5%)	(113,8%)
Income tax	(2,616,288)	(1,586,477)
Deferred tax	9,941	(1,679,157)
	<b>(2,606,347)</b>	<b>(3,265,634)</b>

(i) At 31 December 2013 and 2014 the permanent differences were composed as follows:

	2013	2014
Tax provisions not accepted	2,354,671	-
Depreciation, amortisation and impairment losses not accepted fiscally	2,248,245	-
Dividends received	(33,200,000)	(5,300,000)
Others	(556,688)	(346,181)
	<b>(29,153,772)</b>	<b>(5,646,181)</b>
	26.50%	24.50%
	<b>(7,725,750)</b>	<b>(1,383,314)</b>

(ii) Impact of the changes in the deferred taxes as a result of the reduction of the statutory tax rate by 2%, both in the year 2013 (reduction from 25% to 23% for the 2014 financial year) and in 2014 (reduction from 23% to 21 % for the 2015 financial year and following years).

### 13. Prepaid expenses

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

	2013 RESTATED	2014
Insurances	150,828	330,030
Employees	1,599	2,925
Rentals	73	-
Other deferred costs	13,506	899
	<b>166,006</b>	<b>333,854</b>

### 14. Cash and cash equivalents

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

	2013 RESTATED	2014
Cash	2,500	5,600
Deposits	3,819,257	4,683,223
Other deposits (i)	80,568,328	8,005,121
	<b>84,390,085</b>	<b>12,693,944</b>

i) At 31 December 2013 and 2014, term deposits have short-term maturities and bear interest at normal market rates.

### 15. Shareholder's equity

#### 15.1. Share capital

At 31 December 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.

During the year ended at 31 December 2013, the company, completed a merger operation by incorporation of Optimus SGPS into ZON, which resulted in the issue of 206,064,552 registered shares for delivery to previous shareholders of Optimus SGPS, which corresponded to a capital increase in the amount of 2,060,646 euros.

The main shareholders at 31 December 2013 and 2014 are:

	31-12-2013		31-12-2014	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA <sup>(1)</sup>	257,632,005	50.01%	257,632,005	50.01%
Banco BPI, SA <sup>(2)</sup>	23,344,798	4.53%	23,287,499	4.52%
Morgan Stanley	-	-	11,902,331	2.31%
Sonaecom, SGPS, SA	37,489,324	7.28%	11,012,532	2.14%
Fundação José Berardo e Metalgest - Sociedade de Gestão, SGPS, SA	17,999,249	3.49%	-	-
Espírito Santo Irmãos, SGPS, SA	15,455,000	3.00%	-	-
Joaquim Alves Ferreira de Oliveira <sup>(3)</sup>	14,955,684	2.90%	-	-
<b>TOTAL</b>	<b>366,876,060</b>	<b>71.22%</b>	<b>303,834,367</b>	<b>58.98%</b>

(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 company, calculated in accordance with Article 20.<sup>a</sup> of the Security 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 dos Santos, and (ii) ZOPT, a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom under the shareholder agreement signed between them;
- 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, BPI Iberia LUX and BPI Alternative Fund LUX.

(3) At 31 December 2013, 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.

## **15.2. 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.

### 15.3. 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 dis-posed 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 31 December 2014 there were 2,496,767 own shares, representing 0.4847% of the share capital (31 December 2013: 403,382 own shares, representing 0.0783% of the share capital).

Movements in the years ended at 31 December 2013 and 2014 were as follows:

	QUANTITY	VALUE
<b>BALANCE AS AT 1 JANUARY 2013</b>	<b>401,523</b>	<b>913,504</b>
Acquisition of own shares	1,003,127	4,405,479
Distribution of own shares	(1,001,268)	(3,316,370)
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>403,382</b>	<b>2,002,613</b>
<b>BALANCE AS AT 1 JANUARY 2014</b>	<b>403,382</b>	<b>2,002,613</b>
Acquisition of own shares	5,701,335	28,582,802
Loan of own shares	950,000	4,868,750
Reimbursement of the loan of own shares	(576,100)	(2,947,602)
Distribution of own shares - share incentive scheme	(2,109,692)	(10,987,989)
Distribution of own shares - share Public Offering	(1,706,761)	(8,915,000)
Distribution of own shares - other remunerations	(165,397)	(812,674)
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>2,496,767</b>	<b>11,790,900</b>

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

NOS made a Public Offering in a maximum of 1,750,000 ordinary, registered and nominative shares, with a value of 0.01 euros each, representative of 0.340% of NOS's share capital, destined to the Group's employees. The Offer was made under the NOS's Short and Mid Term Variable Remuneration Regulation and relates to the employees' short term variable remuneration. Relating to that Offer, purchase orders in an amount of 1,706,761 shares representative of NOS's share capital were received and processed and therefore the same amount of 1,706,761 shares was acquired by the employees that presented the related purchase order, at the acquisition price corresponding to the NOS' shares' closing price as at 12 May 2014 (5.125 euros), with a discount of 90% over that price (price of 0.5125 euros per share).

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

### 15.4. Reserves

#### Legal reserves

Company law establishes 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

During the year ended at 31 December 2014 was recognised under the caption "Other reserves" the amount of 17,929,359 euros relating to Share Plans (including the reclassification of the Share Plans liabilities from the merged entities in 2013), and 11,790,900 euros of distribution of own shares under Share Plans.

Thus, on 31 December 2014, NOS had reserves which by their nature are considered distributable in the amount of approximately 177 million euros.

### 15.5. Dividends

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, totaling 48 thousand euros.

	2013
Dividends	37,091,619
Dividends of own shares	(47,917)
	<b>37,043,702</b>

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, totaling 1 thousand euros.

	2014
Dividends	61,819,366
Dividends of own shares	(734)
	<b>61,818,632</b>

### 15.6. Net earnings per share

Earnings per share for the years ended on 31 December 2013 and 2014, were calculated as follows:

	2013	2014
Net income / (Loss) for the year	21,976,095	6,135,855
Number of ordinary shares outstanding during the year( weighted average)	379,906,817	513,815,463
Basic earnings per share	0.06	0.01
Diluted earnings per share	0.06	0.01

During the year ended on 31 December 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.

## 16. Borrowings

At 31 December 2013 and 2014, the detail of borrowings is as follows:

	2013 RESTATED		2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
<b>Loans - Nominal value</b>				
Bank overdrafts	-	-	972,217	-
Foreign loans	-	98,945,471	99,397,414	104,957,753
Debenture loan	157,100,000	340,000,000	240,000,000	275,000,000
Commercial paper	20,000,000	245,000,000	130,000,000	115,000,000
<b>Loans - Accruals and deferrals</b>	(5,102,249)	(2,406,539)	(2,402,309)	(689,065)
<b>Financial leases</b>	285,983	560,369	416,652	421,192
	<b>172,283,734</b>	<b>682,099,301</b>	<b>468,383,974</b>	<b>494,689,880</b>

During the year ended at 31 December 2014, the average cost of debt of the used credit lines was approximately 4.48% (5.09% in 2013).

### 16.1. Debenture loans

At 31 December 2014, the Company has the follows bonds issued, totaling 240 million euros, with maturity in 2015:

- i) "ZON Multimédia Bonds 2012-2015", in the amount of 200 million euros. NOS launched a Public Offer for Subscription of Bonds for the general public in June 2012 with a maturity of three years and paid a fixed rate semiannually.
- ii) Bond loan of 40 million euros contracted by Sonaecom in March 2010 was transferred to NOS following the merger in 2013 (note 15), the loan bears interest at variable rates, indexed to Euribor and paid semiannually. This issue was organised and mounted, respectively, by Banco Espírito Santo de Investimento and Caixa - Banco de Investimento.

At 31 December 2014, the Company has the following bonds issued, totaling 275 million euros, with maturity after 2015:

- i) A bond loan in amount of 100 million euros organised by BPI bank and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.
- ii) A bond loan organised by four financial institutions, amounting to 175 million euros and maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.

At 31 December 2013, in addition to the bonds with maturity in 2015 abovementioned, the Company had the following bonds issued:

- i) Bonds issued via three banks totaling 157.1 million euros and maturing in November 2014, with semiannual 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 loan and simultaneously negotiated a new loan with BPI abovementioned. Additionally, in 30 September 2014, the



Company repurchased and repaid in advance 25 million euros, the debt retaining was paid in November 2014.

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

## 16.2. Commercial paper

The Company has borrowings of 245 million euros, in the form of commercial paper contracted with four banks, corresponding to four programs, earning interest at market rates. Grouped commercial paper programmes with maturities over 1 year totaling 115 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.

## 16.3. Foreign loans

In September 2009, NOS SGPS 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 603 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. At 31 December 2014, an amount of 5,042 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidized rate.

## 16.4. Financial leases

At 31 December 2013 and 2014, the item "Financial Leases" was composed as follows:

Financial leases – payments

	2013 RESTATED	2014
Until 1 year	321,789	448,500
Between 1 and 5 years	616,612	449,233
Over 5 years	-	-
	<b>938,401</b>	<b>897,733</b>
Future financial costs	(92,049)	(59,889)
<b>PRESENT VALUE OF FINANCE LEASE LIABILITIES</b>	<b>846,352</b>	<b>837,844</b>

## Financial leases – present value

	2013 RESTATED	2014
Until 1 year	285,983	416,652
Between 1 and 5 years	560,369	421,192
Over 5 years	-	-
	<b>846,352</b>	<b>837,844</b>

All bank borrowings contracted (with the exception of ZON Multimédia bonds 2012-2015, the new EIB loan of 110 million euros and finance leases) are negotiated at variable short term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	2013 RESTATED			2014		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	(220,768)	98,932,972	-	98,922,703	52,045,537	52,478,877
Commercial paper	16,532,567	243,677,765	-	129,286,171	114,744,275	-
Debenture loans	155,685,952	338,928,195	-	238,786,231	100,242,722	174,757,278
Bank overdrafts	-	-	-	972,217	-	-
Financial Leases	285,983	560,369	-	416,652	421,192	-
	<b>172,283,734</b>	<b>682,099,301</b>	-	<b>468,383,974</b>	<b>267,453,726</b>	<b>227,236,155</b>

## 17. Provisions

During the years ended at 31 December 2013 and 2014, the movements recorded in provisions are as follows:

	31-12-2012	INCREASES	DECREASES	31-12-2013 RESTATED
Contingencies - Other	400,000	5,404,117	(2,430,131)	3,373,986
	<b>400,000</b>	<b>5,404,117</b>	<b>(2,430,131)</b>	<b>3,373,986</b>

	31-12-2013 RESTATED	INCREASES	UTILIZATION	31-12-2014
Litigation and others	-	22,054	-	22,054
Contingencies - Other	3,373,986	2,527,313	(1,087,076)	4,814,223
	<b>3,373,986</b>	<b>2,549,367</b>	<b>(1,087,076)</b>	<b>4,836,277</b>

Net movements for the years ended at 31 December 2013 and 2014, reflected in the income statement, under Provisions were as follows:

	2013	2014
Provisions and adjustments	(400,000)	413,363
Restructuring costs - i)	1,016,458	-
Other losses / (gains) non-recurring (Note 27)	2,354,671	2,119,000
Income taxes (Note 12)	-	17,004
Others	2,857	-
<b>INCREASES AND DECREASES</b>	<b>2,973,986</b>	<b>2,549,367</b>

Additionally, during the year ended on 31 December 2014, was recorded an impairment adjustment for account receivable, in the caption "Provision an Adjustment" of the income statement, in the amount of 45.419 euros.

i) Restructuring costs mainly correspond to provisions for severance costs resulting from the merger.

## 18. Accrued expenses

At 31 December 2013 and 2014, this item was as follow:

	2013 RESTATED		2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Wages and salaries i)	2,705,879	2,705,879	1,889,210	-
Supplies and external services	1,186,424	1,186,424	1,080,915	-
Share Plan ii)	-	-	29,916	229,886
	<b>3,892,303</b>	<b>3,892,303</b>	<b>3,000,041</b>	<b>229,886</b>

i) The decrease of this item, when compared with 31 December 2013, is related to the transfer of the company staff to NOS SA on December 2014 (Note 24).

ii) The accounts payable to NOS SA related to the outstanding share plans of the employees who were transferred to that company (Note 31).

## 19. Deferred income

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

	2013 RESTATED		2014	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Investment grant i)	335,462	1,049,609	335,462	5,799,521
Others	-	-	200	-
	<b>335,462</b>	<b>1,049,609</b>	<b>335,462</b>	<b>5,799,521</b>

i) Deferred income related to the implicit subsidy calculated when the EIB loans were obtained at interest rates below market value (Note 16).

## 20. Derivative financial instruments

At 31 December 2014, NOS has contracted three interest rate swaps totaling of 275 million euros (31 December 2013: 257,5 thousand euros), whose maturities expire in 2015 (one swap in the amount of 100 million euros), 2017 (one swap in the amount of 75 million euros) and 2019 (one swap in the amount of 100 million euros). The fair value of interest rate swaps, in the

negative amount of 1.9 million euros (31 December 2013: negative amount of 2.7 million euros) was recorded in liabilities, against shareholder's equity.

		2013 RESTATED	
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
CASH FLOW HEDGE DERIVATIVES			
Interest rate swaps	257,500,000	2,682,069	-
	257,500,000	2,682,069	-
		2014	
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
CASH FLOW HEDGE DERIVATIVES			
Interest rate swaps	275,000,000	-	1,898,830
	275,000,000	-	1,898,830

Movements during the year ended on 31 December 2013 and 2014 were as follows:

	31-12-2012	INCOME	EQUITY	31-12-2013 RESTATED
Fair value interest rate swaps	(6,050,646)	-	3,368,577	(2,682,069)
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>(6,050,646)</b>	-	<b>3,368,577</b>	<b>(2,682,069)</b>
Deferred income tax assets (Note 12)	1,603,421	-	(946,314)	657,107
<b>DEFERRED INCOME TAX</b>	<b>1,603,421</b>	-	<b>(946,314)</b>	<b>657,107</b>
	<b>(4,447,225)</b>	-	<b>2,422,263</b>	<b>(2,024,962)</b>
	31-12-2013 RESTATED	INCOME	EQUITY	31-12-2014
Fair value interest rate swaps	(2,682,069)	-	783,238	(1,898,830)
<b>CASH FLOW HEDGE DERIVATIVES</b>	<b>(2,682,069)</b>	-	<b>783,238</b>	<b>(1,898,830)</b>
Deferred income tax assets (Note 12)	657,107	-	(229,870)	427,237
<b>DEFERRED INCOME TAX</b>	<b>657,107</b>	-	<b>(229,870)</b>	<b>427,237</b>
	<b>(2,024,962)</b>	-	<b>553,368</b>	<b>(1,471,593)</b>

## 21. Accounts payable

At 31 December 2013 and 2014, accounts payable to suppliers and other entities were as follows:

	2013 RESTATED	2014
<b>ACCOUNTS PAYABLE</b>		
Suppliers	4,399,408	944,480
Related parties i)	391,904,247	28,241,780
"Fundo de investimento para o cinema e audiovisuais" ii) (Note 11 and 31)	17,500,000	-
Fixed assets suppliers	10,907	86,849
Others	302,540	49,815
	<b>414,117,102</b>	<b>29,322,924</b>

- i) At 31 December 2013 and 2014, the amounts payable to related parties correspond predominantly to loans and interests obtained from group companies (Note 31).
- ii) At 31 December 2013, this balance refers to the obligation of performing the subscribed units in the Cinema and Audio-visual Investment Fund. At 31 December 2014, the obligation was extinguished once the fund was wound up (Note 11).

## 22. Services rendered

At 31 December 2013 and 2014, this caption corresponds to management services provided to NOS group companies (Note 31).

## 23. Other operating revenues

At 31 December 2013 and 2014, this caption comprises the following:

	2013	2014
Investment grant i)	498,576	-
Operating subsidy	8,678	-
Administrative services ii)	171,341	171,655
Others	2,700	346,561
	<b>681,295</b>	<b>518,216</b>

i) During 2014, the revenue related with investment grants was transferred to NOS Comunicações, Be Artis and Be Towering, since the investments related to the grant are being made by these companies.

ii) Administrative services are all provided to NOS group companies (Note 31).

## 24. Wages and salaries

In the years ended on 31 December 2013 and 2014, this item was composed as follows:

	2013	2014
Remunerations	10,091,517	7,887,567
Social taxes	1,261,577	1,454,654
Social benefits	164,103	107,489
Others	188,650	126,249
	<b>11,705,847</b>	<b>9,575,959</b>

In the years ended on 31 December 2013 and 2014, the average number of employees of the Company was 117 and 82, respectively.

At December 2014, the employees of the Company, except the Board of Directors, were transferred to NOS SA. At December 2014, the number of employees of the company was 5.

The valuation change in the item social taxes is related to the change in 2014 of the social security scheme of the governing bodies, which resulted in higher taxes and changes on their remunerations.

## 25. Supplies and external services

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

	2013	2014
Specialised works	1,780,568	1,291,344
Travelling costs	218,810	338,496
Rentals	676,811	329,930
Fees	264,395	243,896
Communications	80,602	112,000
Energy	74,683	83,896
Fuels	75,950	75,877
Maintenance and repairs	63,301	
Cleaning, hygiene and comfort	29,882	32,536
Vigilance and security	32,202	31,869
Insurances	242,700	20,214
Litigation and notaries	5,628	4,853
Offers	100	75
Other supplies and external services	175,546	96,923
	<b>3,721,178</b>	<b>2,698,309</b>

## 26. Other operational losses / (gains)

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

	2013	2014
Contributions	113,275	110,289
Others	3,345	877
	<b>116,620</b>	<b>111,166</b>

## 27. Other losses / (gains) non-recurring

The breakdown of this caption in the years ended at 31 December 2013 and 2014 is as follows:

	2013	2014
Miscellaneous costs i) (Note 26)	4,384,802	4,237,586
Donations	32,012	56,000
Fines and penalties	6,158	502
	<b>4,422,972</b>	<b>4,294,088</b>

i) During the year ended on 31 December 2013, this item includes several costs resulting from the alignment of estimates between the company and the merged companies, of which 2,354,671 euros were recorded against provisions (Note 17). During the year ended on 31 December 2014, this item includes extraordinary and non-recurring costs, of which 2,119,000 euros were recorded against provisions (Note 17).

## 28. Financial costs / (gains) and net other financial expenses / (income)

During the years ended at 31 December 2013 and 2014, financial costs / (gains) and other financial expenses / (income), were as follows:

	2013	2014
<b>FINANCIAL COSTS / (GAINS)</b>		
<b>INTEREST EXPENSES</b>		
Debenture loans	20,586,691	23,256,858
Commercial paper	5,437,623	6,423,901
Related Parties (Note 31) i)	9,614,051	3,216,471
Derivatives	3,546,965	3,286,806
Bank loans	1,310,455	2,284,377
Others	2,786	60,968
	<b>40,498,571</b>	<b>38,529,381</b>
<b>INTEREST EARNED</b>		
Bank deposits	(2,508,626)	(90,274)
Related Parties (Note 31) i)	(50,397,719)	(55,026,187)
	<b>(52,906,345)</b>	<b>(55,116,461)</b>
	<b>(12,407,774)</b>	<b>(16,587,080)</b>
<b>NET OTHER FINANCIAL EXPENSES / (INCOME)</b>		
Comissions on bank loans	1,293,003	1,804,672
Comissions on debenture loans	3,077,974	3,511,660
Comissions on commercial paper	5,364,063	4,955,824
Bank services	282,414	611,192
Others	113,160	1,213,149
	<b>10,130,614</b>	<b>12,096,497</b>

i) Interest earned and interest expenses relating to borrowings and loans granted during the year with related parties. The valuation in the interest expenses is related to the decrease in the amounts of related parties' borrowings.

## 29. Net losses / (gains) of affiliated companies

During the years ended at 31 December 2013 and 2014, this caption was as follows:

	2013	2014
<b>DIVIDENDS RECEIVED</b>		
NOS Lusomundo Audiovisuais	4,800,000	-
ZON TV Cabo Portugal i)	28,400,000	5,300,000
	<b>33,200,000</b>	<b>5,300,000</b>
<b>OTHERS:</b>		
Impairment losses on financial investments (Note 8)	-	(4,066,773)
Impairment allowances recorded for loans granted to Lusomundo España	-	(495,206)
Others	-	750
	-	<b>(4,561,229)</b>
	<b>33,200,000</b>	<b>738,771</b>

i) During 2014, ZON TV Cabo Portugal merger into Optimus Comunicações following the merger Optimus changed its designation to NOS Comunicações, S.A..

## 30. Guarantees and financial undertakings

### 30.1. Guarantees

At 31 December 2013 and 2014, the Company had furnished guarantees in favour of third parties corresponding to the following situations:

	2013	2014
<b>GUARANTEES IN FAVOUR OF:</b>		
Financial institutions (i)	100,193,122	210,424,541
Tax authorities	3,860,326	2,156,799
Suppliers	1,575,000	1,575,000
Regulators	750,000	-
Others	561,290	561,290
	<b>106,939,738</b>	<b>214,717,630</b>

(i) At 31 December 2013 and 2014, this amount relates to guarantees furnished by NOS in connection with the loan from EIB (Note 15).

#### Other guarantees:

At 31 December 2014, in connection with the finance obtained by Upstar from Novo Banco, totaling 20 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan.

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco in the amount of 30 million dollars, to pledge the fulfillment of the contract's obligations.

In connection with the finance obtained by Finstar from Banco BIC, Banco BNI and BFA, totaling 1,118 million AKZ, 653 million AKZ and 491 million AKZ, respectively, NOS signed three comfort letters accepting liability for up to 30% of the total amount of the loan. The comfort letter from the Banco Caixa Totta also covers 30% of 5 million USD of back to back letters of credit for importing goods.

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

### 30.2. Operating leases

The rentals due on operating leases have the following maturities:

	2013		2014	
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS
Equipment	2,392	1,367	-	-
Vehicles	-	-	80,029	5,848
	<b>2,392</b>	<b>1,367</b>	<b>80,029</b>	<b>5,848</b>



### 30.3. Other undertakings

#### Covenants

The EIB loan totaling 100 million euros with a maturity of 6 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, 91% are subject to cross-default clauses, 94% to pari passu clauses, 49% to ownership clauses and 67% to negative pledge clauses.

In addition, approximately 38% 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 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;
- b) 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.

### 31. Related parties

At 31 December 2013 and 2014, the balances with companies of NOS Group were as follows:

Balances with related parties 2013

	ACCOUNTS RECEIVABLE - CURRENT	ACCOUNTS RECEIVABLE - NON CURRENT	ACCOUNTS PAYABLE	ACCRUED EXPENSES	SUPPLEMENTARY CAPITAL
<b>SHAREHOLDERS</b>					
Sonaecom SGPS, S.A.	1,943,340	-	11,632,951	-	-
<b>SUBSIDIARIES</b>					
Be Artis - C.C.G.R.C., S.A.	14,010,425	337,764,000	13,374	-	50,945,811
Be Towering - G.T.T., S.A.	3,853,960	107,582,199	-	-	26,121,692
Lusomundo Espanhã, S.L.	405,952	-	-	-	-
Lusomundo-Soc.Inv.Imob, SGPS, S.A.	108,312	-	-	-	-
NOS Comunicações, S.A.	1,175,452	-	54,270,687	6,956	-
Per-Mar – Soc. de Construções, S.A.	14,462	388,000	30,568	-	1,209,178
Sontária - Emp. Imobiliário, S.A.	117,054	3,215,637	-	-	50,000
Sport-TV Portugal, S.A.	-	-	-	-	46,213,937
Teliz Holding B.V.	(2,040)	-	-	-	325,000
ZON Finance BV	74	-	-	-	49,500
NOS Lusomundo Audiovisuais, S.A.	26,479,674	23,415,166	138,422	-	9,200,000
NOS Lusomundo Cinemas, S.A.	1,114,132	18,894,394	25,347,826	-	29,300,000
ZON TV Cabo Portugal, S.A.	562,618,260	-	336,098	-	-
<b>ASSOCIATED COMPANIES</b>					
UPSTAR Comunicações, S.A.	1,702,777	-	-	-	-
<b>OTHER RELATED PARTIES</b>					
Dreamia - Serviços de Televisão, S.A.	203,539	-	-	-	-
Empracine-E.Pro.Act.Cinem, Lda.	-	-	475,375	-	-
FICA	-	-	17,500,000	-	-
Lusomundo Imobiliária 2, S.A.	4,920	-	14,959,692	-	-
NOSPUB, Publicidade e Conteúdos, S.A.	1,223,658	-	262,307,583	-	-
ZON Lusomundo Audiovisuais, SGPS	1,721,333	-	-	-	-
ZON Lusomundo Cinemas SGPS	108	-	43,365	-	-
ZON Lusomundo TV, S.A.	56,329,286	-	-	-	-
ZON Televisão por Cabo, SGPS	28,587,332	-	-	-	-
NOS Açores Comunicações, S.A.	21,992	-	5,916,433	-	-
NOS Madeira Comunicações, S.A.	9,993	-	16,431,873	-	-
Other Related Parties	2,855	-	-	-	-
	<b>701,646,850</b>	<b>491,259,396</b>	<b>409,404,247</b>	<b>6,956</b>	<b>163,415,118</b>

## Balances with related parties 2014

	ACCOUNTS RECEIVABLE - CURRENT	ACCOUNTS RECEIVABLE - NON CURRENT	ACCOUNTS PAYABLE	ACCRUED EXPENSES	SUPPLEMENTARY CAPITAL
<b>SHAREHOLDERS</b>					
Sonaeocom SGPS, S.A.	452,604	-	150	-	-
<b>SUBSIDIARIES</b>					
Be Artis -C.C.G.R.C., S.A.	75,207,773	235,638,888	21,822	21,848	30,187,023
Be Towering - G.T.T., S.A.	15,642,192	89,995,501	3,076	-	26,121,692
Lusomundo-Soc.Inv.Imob, SGPS, S.A.	32,216	-	5,098,448	-	-
NOS Comunicações, S.A.	222,074,382	205,132,760	1,553,941	35,897	-
Per-Mar - Soc. de Construções, S.A.	23,116	358,000	233,524	-	1,209,178
Sontária - Emp. Imobiliário, S.A.	54,618	3,190,637	1,833	-	50,000
Sport-TV Portugal, S.A.	-	-	239	-	42,213,937
Teliz Holding B.V.	(4,080)	-	-	-	370,000
NOS Lusomundo Audiovisuais, S.A.	(4,020)	65,959,684	3,626,631	-	40,000,000
NOS Lusomundo Cinemas, S.A.	373,556	168,139	4,651,697	-	22,239,961
NOS Lux	6,054,747	-	-	-	-
<b>ASSOCIATED COMPANIES</b>					
MSTAR, S.A.	666	-	-	-	-
UPSTAR Comunicações, S.A.	123,512	-	-	-	-
<b>OTHER RELATED PARTIES</b>					
Dreamia - Serviços de Televisão, S.A.	138,933	-	-	-	-
Empracine-E.Pro.Acf.Cinem, Lda.	47	-	451,190	-	-
FINSTAR - Soc.Inv.Part., S.A.	2,607	-	-	-	-
Lusomundo Imobiliária 2, S.A.	1,559	-	9,916,177	-	-
Lusomundo Moçambique, Lda.	602	-	-	-	-
NOS PUB, Publicidade e Conteúdos, S.A.	2,171,961	40,997	1,915,725	-	-
NOS Lusomundo TV, S.A.	(667,669)	5,644	329,525	-	-
Mainroad - Serviços de TI, S.A.	569,468	-	-	-	-
NOS Açores Comunicações, S.A.	1,117,854	39,432	30,301	-	-
NOS Madeira Comunicações, S.A.	2,123,030	98,226	38,873	-	-
Other Related Parties	13,281	-	25,401	-	-
	<b>325,502,954</b>	<b>600,916,763</b>	<b>28,241,780</b>	<b>57,744</b>	<b>162,391,791</b>

During the years ended at 31 December 2013 and 2014, transactions made with companies of NOS Group were as follows:

#### Transactions with related parties 2013

	SERVICES RENDERED	OTHER OPERATING REVENUES	WAGES AND SALARIES	SUPPLIES AND EXTERNAL SERVICES	FINANCIAL COSTS / (GAINS)	LOSSES / (GAINS) ON FINANCIAL ASSETS
<b>SHAREHOLDERS</b>						
Sonaecom SGPS, S.A.	-	-	7	8,385	1,467,571	-
<b>SUBSIDIARIES</b>						
Be Artis - C.C.G.R.C., S.A.	246,840	-	-	-	(7,281,822)	-
Be Towering - G.T.T., S.A.	151,902	-	-	-	(2,207,711)	-
Lusomundo Espanhã, S.L.	-	-	-	-	(56,345)	-
NOS Comunicações, S.A.	601,277	-	-	18,137	454,925	-
Sport-TV Portugal, S.A.	-	-	-	-	(66,377)	-
NOS Lusomundo Audiovisuais, S.A.	852,723	-	(398,185)	-	(2,548,039)	-
NOS Lusomundo Cinemas, S.A.	1,699,870	-	(48,796)	353	(450,560)	-
ZON TV Cabo Portugal, S.A.	8,906,685	-	845,797	2,012	(31,447,091)	-
<b>ASSOCIATED COMPANIES</b>						
UPSTAR Comunicações, S.A.	-	-	(2,475)	-	(970,013)	-
<b>OTHER RELATED PARTIES</b>						
Dreamia - Serviços de Televisão, S.A.	-	171,341	851	-	-	-
FICA	-	-	-	-	4,511	1,300,000
Lusomundo Imobiliária 2, S.A.	-	-	-	-	381,540	-
NOS PUB, Publicidade e Conteúdos, S.A.	565,307	-	114,413	-	6,286,571	-
ZON Lusomundo Audiovisuais, SGPS	-	-	-	-	(77,018)	-
NOS Lusomundo TV, S.A.	245,349	-	10,470	-	(3,170,959)	-
ZON Televisão por Cabo, SGPS	-	-	-	-	(1,480,975)	-
NOS Açores Comunicações, S.A.	-	-	(3,217)	-	124,643	-
Modelo e Continente Hipermercados	-	-	47,600	-	-	-
NOS Madeira Comunicações, S.A.	-	-	(7,837)	-	257,587	-
Other Related Parties	-	-	-	-	(4,106)	(450)
	<b>13,269,953</b>	<b>171,341</b>	<b>558,621</b>	<b>28,887</b>	<b>(40,783,668)</b>	<b>1,299,550</b>

#### Transactions with related parties 2014

	SERVICES RENDERED	OTHER OPERATING REVENUES	WAGES AND SALARIES	SUPPLIES AND EXTERNAL SERVICES	FINANCIAL COSTS / (GAINS)	LOSSES / (GAINS) ON FINANCIAL ASSETS
<b>SHAREHOLDERS</b>						
Sonaecom SGPS, S.A.	-	-	(452,604)	61,519	-	-
<b>SUBSIDIARIES</b>						
Be Artis - C.C.G.R.C., S.A.	968,228	(155,851)	(483,449)	-	(16,964,575)	-
Be Towering - G.T.T., S.A.	328,445	(27,666)	(9,955)	-	(5,977,267)	-
Lusomundo Espanhã, S.L.	-	-	-	-	(56,375)	-
Lusomundo-Soc.Inv.Imob. SGPS, S.A.	1,987	-	-	-	50,838	-
NOS Comunicações, S.A.	12,274,157	(613,043)	(466,354)	499,112	(25,173,543)	1,462
Per-Mar - Soc. de Construções, S.A.	5,089	-	-	-	(19,020)	-
Sontária - Emp. Imobiliário, S.A.	6,382	-	-	-	(177,014)	-
Sport-TV Portugal, S.A.	-	-	-	14,099	-	-
NOS Lusomundo Audiovisuais, S.A.	499,308	-	50,568	634	(2,815,588)	-
NOS Lusomundo Cinemas, S.A.	511,212	-	(5,110)	74	(210,601)	-
NOS Lux	12,379	-	-	(1,804)	(135,629)	-
<b>ASSOCIATED COMPANIES</b>						
UPSTAR Comunicações, S.A.	-	-	-	(55,364)	(118,874)	-
<b>OTHER RELATED PARTIES</b>						
Dreamia - Serviços de Televisão, S.A.	-	171,655	-	-	-	-
FICA	-	-	-	-	-	626,624
Lusomundo Imobiliária 2, S.A.	2,832	-	-	-	170,997	-
NOS PUB, Publicidade e Conteúdos, S.A.	133,479	-	1,484	-	2,154,624	1,373,718
NOS Lusomundo TV, S.A.	100,421	-	(235)	-	(2,904,971)	-
Mainroad - Serviços de TI, S.A.	78,844	-	(32,945)	-	(548)	-
NOS Açores Comunicações, S.A.	317,230	-	18,420	-	98,662	-
Raso - Viagens e Turismo, S.A.	-	-	-	124,507	-	-
NOS Madeira Comunicações, S.A.	496,633	-	(2,997)	(15,759)	262,508	-
Other Related Parties	3,090	-	-	302	6,660	-
	<b>15,739,716</b>	<b>(624,905)</b>	<b>(1,383,177)</b>	<b>627,320</b>	<b>(51,809,716)</b>	<b>2,001,804</b>

During the year ended on 31 December 2014, financial costs / (gains) were recognised in the amount of 3,826,224 euros from shareholders BPI.

During the year ended on 31 December 2013, financial costs / (gains) were recognised in the amounts of 7,126,324 euros and 1,701,590 euros from shareholders BPI and the related party Novo Banco, respectively.

During 2014, NOS received, reimbursed and paid the whole of the 950,000 own shares loaned by Sonaecom.

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 30 thousand euros.

## 32. Legal actions

### 32.1. Legal actions with regulators

NOS tendered in an auction for licenses for a nationwide free view 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, the company gave up for the appeal and ended the action.

## 33. Remuneration earned by management

The remuneration earned by management of NOS, for the years ended at December 2013 and 2014 were as follows:

	2013	2014
Fixed remunerations	3,557,571	3,002,994
Profit Sharing / Bonus	1,365,000	1,086,000
Share-based compensation plans	1,243,800	1,086,000
	<b>6,166,372</b>	<b>5,174,994</b>

The amounts presented in the table were calculated on an accruals basis for the Fixed remuneration and profit sharing / bonus (short-term remunerations). The amount of Share-based compensation plans corresponds to the amount assigned in 2015 related to 2014 performance (and assigned in 2014 related to the 2013 performance). The average number of key members of management in 2014 is 18 (18 in 2013). The Corporate Governance Report includes detailed information about NOS' remuneration policy.

The Company considered as Directors the members of the Board of Directors.

### 34. Share incentive schemes

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

In addition to the NOS Plan above mentioned, at 31 December, 2014, are still unvested:

i) The Share Incentive Schemes approved by the General Meetings of Shareholders on 27 April 2008 and 19 April 2010 ("Standard Plan" and "Senior 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, 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.

ii) The Optimus Group had implemented a share incentive scheme for more senior employees based on Sonaecom shares ("Optimus Plan"), subsequently converted into NOS shares in the date of the merger (Note 5). The vesting occurs three years after the award of each plan, assuming that the employees are still employed in the Group, during that period.

iii) The Mainroad had implemented a share incentive scheme for more senior employees based on Sonaecom shares ("Mainroad Plan"), subsequently converted into NOS shares in the date of the acquisition (Note 5). 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 31 December 2014, the unvested plans are:

	NUMBER OF SHARES
<b>SENIOR PLAN</b>	
Plan - 2012	149,201
Plan - 2013	160,591
<b>STANDARD PLAN</b>	
Plan - 2009	14
Plan - 2010	62,340
Plan - 2011	129,464
Plan - 2012	188,009
Plan - 2013	252,419
<b>OPTIMUS PLAN</b>	
Plan - 2011	4,435
Plan - 2012	1,539,236
Plan - 2013	1,190,469
<b>MAINROAD PLAN</b>	
Plan - 2012	105,986
Plan - 2013	86,382
Plan - 2014	44,436
<b>NOS PLAN</b>	
Plan - 2014	843,588

During the year ended on 31 December 2014, the movements that occurred in the plans, are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>583,000</b>	<b>921,859</b>	<b>353,502</b>	<b>-</b>	<b>-</b>
<b>MOVEMENTS IN THE PERIOD:</b>					
Changes in scope	-	-	-	236,804	-
Reclassification of Optimus plans (1)	-	-	3,688,363	-	-
Awarded	-	-	-	-	843,588
Vested	(188,325)	(311,740)	(1,609,627)	-	-
Cancelled / elapsed / corrected (2)	(84,883)	22,127	301,902	-	-
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>309,792</b>	<b>632,246</b>	<b>2,734,140</b>	<b>236,804</b>	<b>843,588</b>

(1) During the year ended on 31 December 2014, the responsibility of the Optimus plans was reclassified to other reserves.

(2) Refers mainly to corrections made for dividends paid, exit of employees not entitled to the vesting of shares and other adjustments resulting from the way the shares are vested, which may be made through the purchase of shares at 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 31 December 2014, the outstanding responsibility related to these plans is 13,045 thousand euros and is recorded in reserves.

The costs recognised in previous years and in 2014, were as follows:

	<b>TOTAL</b>
Costs recognised in previous years related to plans as at 31 December 2013	3,377,725
Reclassification of Optimus plans (1)	10,919,367
Changes in scope (2)	668,557
Costs of plans vested in the year	(8,578,618)
Costs recognised in the year	
Costs recognised by NOS SGPS	438,260
Costs passed to subsidiaries of NOS SGPS	6,219,796
<b>TOTAL COST OF THE PLANS (REGISTERED IN RESERVES)</b>	<b>13,045,087</b>

(1) During the year ended on 31 December 2014, the responsibility of the Optimus plans was reclassified to other reserves.

(2) Includes the responsibility recognised by Mainroad, at the date of acquisition.

### 35. Legally required disclosures

The fees charged for the year ended on 31 December 2014 by Statutory Auditor are detailed as follows:

	2013	2014
Statutory audit	107,814	39,500
Other guarantee and reliability services	74,790	1,600
<b>AUDIT SERVICES</b>	<b>182,604</b>	<b>41,100</b>
Tax advice	1,490	13,000
Others	121,675	-
<b>OTHERS</b>	<b>123,165</b>	<b>13,000</b>
<b>TOTAL</b>	<b>305,769</b>	<b>54,100</b>

### 36. Subsequent events

Subsequent events occurring up to the date of approval of the financial statements can be summarized as follows:

- a) On 15 January 2015 the decision was taken to dissolve Lusomundo España, SL which is in liquidation. This operation doesn't cause impact on the financial statements;
- b) Decision project registration of NOS Comunicações, SA, giving rise to the creation of a new entity, NOS Inovação, SA, to which shall be transferred the Product Development Department assets, which include, among others, the IRIS Platform;
- c) Contracting of two new commercial paper programs with CGD and Novo Banco, replacing existing lines, extending maturities and achieving significant reductions in average cost of debt;
- d) Presentation of resignation as member of the Board of Directors of NOS by Rodrigo Jorge de Araújo Costa.

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

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.



## Report and Opinion of the Fiscal Board

Shareholders,

According to the articles of association, the supervision of the Company is committed to a Fiscal Board, comprised of three full members and one alternate member, elected by the General Meeting, as well as to a Statutory Auditor or Firm of Chartered Accountants.

In these circumstances, as set forth in paragraph 1, sub-paragraph g), of Article 420º of the Portuguese Companies Code, we hereby submit our Report on our Supervision Activity and our Opinion on the Individual and Consolidated Annual Report and Accounts of NOS, SGPS, S.A. ("Company") for the financial year ended on 31 December 2014.

The Fiscal Board has regularly accompanied the activities of the Company and of its main subsidiaries, monitoring the compliance with the law and with the articles of association, supervising the Company's management, the effectiveness of its risk management systems, internal control and internal auditing and the preparation and disclosure of individual and consolidated financial information as well as verifying the regularity of its accounting records, the accuracy of the individual and consolidated financial statements, accounting policies and valuation criteria adopted by the Company in order to ensure that they led to a correct appraisal of its assets and individual and consolidated profits, as well as its cash flow statements.

As part of our duties, the Fiscal Board met with the Statutory Auditor and External Auditors in order to monitor their audits and learn their conclusions, supervising the works performed by the Statutory Auditor and External Auditors and their independence and competence. The Fiscal Board also met with the heads of the Internal Audit Department and Legal Department, and the Board Member responsible for the financial area whenever was deemed fit and appropriate. The Fiscal Board received full cooperation from all at all times.

The Fiscal Board monitored the whistleblowing system. This system is available to all shareholders, employees and to the general public. All reports received were duly analyzed.

As for the Corporate Governance report, it is the duty of the Fiscal Board to merely verify that it includes the elements referred to in Article 245-A of the Securities Code, which the Fiscal Board did.

The Fiscal Board also received from the Statutory Auditor a letter confirming its independence in relation to the Company.

As such, the Fiscal Board issues the following

### **OPINION:**

The Fiscal Board was informed about the conclusions of the work of the examination of the Company's accounts and external auditing on the Individual and Consolidated Financial Statements for the financial year of 2014, which include the individual and consolidated financial position in 31 December 2014, the individual and consolidated Statements by nature, the individual and consolidated Statements of comprehensive income, the individual and consolidated Statement of changes in equity, the individual and consolidated cash flow

Statement and its respective Annexes. The Fiscal Board scrutinized the Audit Report from the Statutory Auditor and External Auditors on these documents which express no reservations.

Within our powers, we verified that, to our knowledge, the Management Report, and the Individual and Consolidated Financial Statements for the financial year ended on 31 December 2014 faithfully state the businesses' evolution, and the performance and position of the Group. They also comply with the applicable legal requirements and accounting standards as well as with the articles of association. We have verified that the Company's Corporate Governance Report, which will be announced at the same time as the Management Report, includes the elements referred to in Article 245-A of the Portuguese Securities Code.

As such, taking into account the opinion and the information received from the Board of Directors, the Company's departments, the Statutory Auditor and the External Auditor, we are of the opinion that:

- i) The Management Report for 2014 may be approved;
- ii) The Individual and Consolidated Financial Statements for 2014 may be approved;
- iii) The Proposal for the Application and Distribution of Profits presented by the Board of Directors, namely taking into account Article 32 of the Portuguese Companies Code, as per the Law Decree nr 185/2009 of 12 August, may be approved.

Lisbon, 31 March 2015

#### **The Fiscal Board**

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Paulo Mota Pinto

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Eugénio Ferreira

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Nuno Sousa Pereira

# Report and Opinion of the Statutory Auditor



Ernst & Young  
Audit & Associados - SROC, S.A.  
Avenida da República, 90-6º  
1600-206 Lisboa  
Portugal

Tel: +351 217 912 000  
Fax: +351 217 957 586  
www.ey.com

*(Translation of a report originally issued in Portuguese)*

## Statutory and Auditor Report on the Consolidated and Separate Financial Information

### Introduction

1. In accordance with applicable legislation, we present the Statutory and Auditor's Report on the consolidated and separate financial information contained in the Consolidated Directors' Report and in the consolidated and separate financial statements of NOS, S.G.P.S., S.A., comprising the consolidated and separate Statements of Financial Position as at 31 December 2014 (which shows a total of 2.955.931 thousand euros and 2.251.119 thousand euros, respectively, a consolidated and separate shareholders' equity of 1.060.129 thousand euros and 1.241.739 thousand euros, respectively, including a consolidated net gain for the year attributable to the equity holders of the parent of 74.711 thousand euros and a separate gain for the year of 6.136 thousand Euros), the consolidated and separate Statements of Income and Other Comprehensive Income, the consolidated and separate Statements of Changes in Equity and the consolidated and separate Statements of Cash Flows, for the year then ended, and the related Notes to the financial statements.

### Responsibilities

2. The Company's Board of Directors is responsible for:
  - a) the preparation of the Directors' Report and of consolidated and separate financial statements that present a true and fair view of the financial position of the company and the consolidated companies, the consolidated and separate results and comprehensive income of their operations, the consolidated and separate changes in equity and consolidated and separate cash flows;
  - b) the historical financial information that is prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union, that is complete, accurate, current, clear, objective and complies with regulations, as determined by the Securities Exchange Code ("Código dos Valores Mobiliários");
  - c) the adoption of appropriate accounting policies and accounting methods;
  - d) the maintenance of adequate systems of internal control; and
  - e) the disclosure of all significant facts which have had an impact on the activity of the company and the consolidated companies, their financial position, results and comprehensive income.

Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 9011 na Comissão do Mercado de Valores Mobiliários  
Contribuinte N.º 505 960 283 - C. R. Comercial de Lisboa sob o mesmo número  
A member firm of Ernst & Young Global Limited

3. Our responsibility is to audit the financial information contained in these documents, to ascertain if it is complete, accurate, current, clear, objective and compliant with applicable regulations established by the Securities Exchange Code ("Código dos Valores Mobiliários"), with the objective of expressing a professional and independent opinion, on such information, based on our audit.

#### Scope

4. Our audit was conducted in accordance with the auditing and technical standards issued by the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require an audit to be planned and performed with the objective of obtaining an acceptable level of assurance as to whether the consolidated and separate financial statements are free of material misstatement. As such, our audit included:
  - the verification that the financial statements of the companies included in the consolidated financial statements were appropriately examined and the assessment of the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements;
  - the verification of the consolidation process and the application of equity accounting, when applicable;
  - the assessment as to whether the accounting policies adopted, their uniform use and their disclosure are appropriate under the circumstances;
  - the verification of the appropriateness of the going concern principle;
  - the assessment as to whether the overall presentation of the consolidated and separate financial statements is reasonable; and
  - the assessment as to whether the consolidated and separate financial information is complete, accurate, current, clear, objective and compliant.
5. Our examination also covered the verification of the consistency of the financial information in the Directors' Report, with the other documents comprising the consolidated and separate financial statements, as well as the verifications set out in paragraphs 4 and 5 of Article 451 of the Companies Code ("Código das Sociedades Comerciais").
6. We believe that this examination provides an acceptable basis for the expression of our opinion.

#### Opinion

7. In our opinion, the consolidated and separate financial statements referred to above, present a true and fair view, in all material respects, of the consolidated and separate financial position of NOS, S.G.P.S., S.A. at 31 December 2014, the consolidated and separate results and comprehensive income of its operations, the consolidated and separate changes in equity and consolidated and separate cash flows for the year then ended in conformity with International Financial Reporting Standards as endorsed by the European Union, and the information therein is complete, accurate, current, clear, objective and compliant.

#### Report on other legal requirements

8. It is also our opinion that the financial information presented in the Directors' Report is in agreement with the consolidated and separate financial statements for the period and that the Corporate Governance Report satisfies the requirements of the Article 245 - A of the Securities Exchange Code ("Código dos Valores Mobiliários").

Lisbon, 25 February 2015

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)

## Statement under the terms of Article 245, Paragraph 1, Sub-paragraph c) of the Portuguese Securities Code

In accordance with Article 245, paragraph 1, c) of the Securities Code, the Board of Directors of NOS, SGPS, S.A., whose names and roles are listed below, declare that, to their knowledge:

a) The management report, the annual individual and consolidated accounts, the legal certification of accounts, required by law or regulation, relative to the year ended 31 December 2014, 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 evolution of the company's business, performance and position, as well as those of the companies included in its consolidation perimeter and, when applicable, contains a description of the main risks and uncertainties that they face.

Lisbon, 25 February 2015

### **The Board of Directors**

Jorge Brito Pereira  
(Chairman of the Board of Directors)

Miguel Nuno Santos Almeida  
(Chief Executive Officer)

José Pedro Faria Pereira da Costa  
(Vice-President)

Manuel Ramalho Eanes  
(Executive Member of the Board of Directors)

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

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

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 Távira  
(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)

# Corporate Governance Report





## 1. Introduction

NOS, SGPS, S.A. ("NOS" or "Company") is public company, issuer of shares admitted to trading on the NYSE Euronext Lisbon regulated market.

NOS is firmly committed to creating sustainable value for its shareholders and stakeholders.

Seeing corporate governance as a means to optimising Company performance and, hence, as a real tool for competition and value creation , NOS aims to be a national and international benchmark, not only in the governance model, but also in the way it discloses Company information to interested parties, permanently and actively improving its practices in this area.

NOS corporate governance practices, being a transversal undertaken commitment by all Company, are notably based on the following principles:

- (i) Commitment with the shareholders;
- (ii) Ethics;
- (iii) Transparency;
- (iv) Independence;
- (v) Supervision; and
- (vi) Risk assessment.

## **PART I - MANDATORY INFORMATION CONCERNING SHAREHOLDER STRUCTURE, ORGANIZATION AND CORPORATE GOVERNANCE**

### **A. Shareholder Structure**

#### **I. Capital structure**

##### **1. Share capital, number of shares, categories, admission or not to trading**

NOS share capital is 5,151,613.80 euros and it is fully subscribed and paid up. The share capital is represented by 515,131,380 ordinary shares.

All NOS shares are admitted to trading on the NYSE Euronext Lisbon regulated market.

##### **2. and 6. Restrictions on the transfer of shares, shareholder agreements and limits on owning the shares**

The Articles of Association do not set out limitations or restrictions to the transfer of the shares that represent the share capital of NOS.

Notwithstanding, pursuant to article 9(1) of the Articles of Association, shareholders who directly or indirectly compete with the activity performed by the companies owned by NOS, cannot hold shares that represent more than 10% of the Company's share capital, without prior authorisation from the General Meeting.

NOS is aware of a shareholders agreement between shareholders of ZOPT, SGPS, S.A. ("ZOPT") under the terms of the announcement to the market issued on 27 August 2013.

As disclosed, Sonaecom, SGPS, S.A. ("Sonaecom"), Kento Holding Limited and Unitel International Holdings, B.V. (where Kento and Unitel International hereinafter jointly referred to as "Grupo KJ") entered into a shareholder agreement regarding ZOPT, SGPS, S.A. on 14 December 2012, in which they own the following stakes ("Shareholders Agreement"):

- a) SONAECON owns 50% of the share capital and voting rights of ZOPT;
- b) Grupo KJ owns 50% of the share capital and voting rights of ZOPT, where 17.35% is owned by Kento Holding Limited and 36.65% is owned by Unitel International Holdings, B.V.

In turn, ZOPT – which initially owned 28.81% of the share capital and voting rights of ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON" or "ZON Multimédia") – holds now, as result of the merger, more than 50% of the share capital and voting rights of NOS.

Due to the Shareholders Agreement, this qualified shareholding can be attributed on the one hand to Kento Holding Limited and Unitel International Holdings B.V., as well as to Isabel dos Santos, and, on the other hand, to Sonaecom and to all entities in a control relationship with the latter and to Belmiro Mendes de Azevedo.

As disclosed, to the market, the Parties signed the Shareholders Agreement to govern their legal positions as shareholders of ZOPT, SGPS, S.A., under the terms summarized below:

#### *"1. Corporate Bodies*

*1.1 ZOPT's Board of Directors will be formed by an even number of members. SONAECOM and KJ Group will each have the right to appoint half the members of the Board of Directors, among which the Chairman will be appointed by agreement of the Parties.*

*1.2 ZOPT's Board of Directors will be able to meet regularly when at least the majority of its members is present, and its resolutions will be made with the favourable vote of the majority of Directors and always with the favourable vote of, at least, one member appointed by each Party.*

*1.3 The Chairman of the General Meeting and its Secretary will be appointed by agreement of the Parties. The General Meeting can only meet, in first or second calling, once more than fifty per cent of the Company's share capital is present or duly represented.*

*1.4 The Company will be supervised by a Fiscal Board whose members will be appointed by agreement of the Parties.*

*1.5 Any member of the corporate bodies appointed under this Agreement can be removed or replaced at any time, by way of a proposal submitted to that effect by the Party that appointed him/her or, if he/she is a member appointed by agreement, by any of the Parties; in such case the other Party must vote in favour and undertake all actions necessary for such removal or replacement.*

*1.6 The exercise of ZOPT's voting right concerning the appointment and election of members of the corporate bodies of any subsidiary or of any companies in which ZOPT owns a shareholding, as well as concerning any other matters, will be determined by the Board of Directors.*

#### *2. Shares Transfer*

*2.1 The Parties shall abstain from transferring any shares representing ZOPT's share capital that they hold, as well as from allowing that they become encumbered in any way.*

*2.2 The Parties shall undertake all actions necessary to prevent ZOPT from transferring any shares representing ZON OPTIMUS' share capital that it may own in the future, as well as to ensure that such shares will not become encumbered in any way, with the exception of the shares that exceed the number of shares necessary for its shareholding not to be equal to or lower than half of ZON OPTIMUS' share capital and voting rights.*

*2.3 The Parties shall abstain from acquiring or holding (directly or on behalf of anyone with whom they have a relationship under article 20 of the Portuguese Securities Code) any shares representing ZON OPTIMUS' share capital, unless via ZOPT and/or, in SONAECOM's case, as a result of the Merger.*

*2.4 Two years after the commercial registry of the Merger, KJ Group will have the right to purchase SONAECOM, or whomever it appoints, up to half of the shares representing ZON OPTIMUS' share capital held by SONAECOM or anyone with whom it has a relationship under article 20 of the Portuguese Securities Code – with the exception of ZOPT and the entities covered by article 20(1)(d) – unless the Parties agree that, at the end of that period, the relevant shares will be acquired by ZOPT.*

### 3. Termination

3.1 *The Shareholders Agreement will remain in force for an undetermined period, and shall only expire in case ZOPT ceases to exist following its dissolution and liquidation, or in case one of the Parties acquires the shares representing the share capital of the Company held by the other Party.*

3.2 *In a deadlock situation and in the absence of an agreed solution, as well as once twelve months have passed as from the commercial registry of the merger, any of the Parties is entitled to demand the dissolution of ZOPT.*

3.3 *Should a deadlock situation occur, the Parties will endeavour to find a mutually accepted solution for the situation, appointing each a representative to that effect, whose identity will be notified to the other Party within five days from the occurrence of the deadlock. If, in the following fifteen days, the deadlock has yet to been solved, any Party will have the right to demand the dissolution of ZOPT."*

There are no special rules that apply to the amendment of the Company's Articles of Association, being the process to alter the Articles of NOS governed by the legal system in force from time to time.

There are no special rights attributed to shareholders nor rules about employees' sharing in the Company's share capital.

### 3. Treasury Shares

On 31 December 2014, NOS owned 2,496,767 own shares, which corresponded to 0.487% of the share capital and 0.487% of the voting rights.

Voting rights attached to own shares are suspended under the applicable law.

### 4. Significant agreements that vary with a change of control

As far as the Company's Board of Directors is aware, NOS is not a party to any significant agreements that come into force, are amended, or terminate if there is a change of Company control or change in the members of the Board of Directors following a takeover bid, except for normal market practice regarding debt issues.

### 5. Defensive measures

NOS has not adopted any defensive measures that could automatically cause a serious erosion of the Company assets in the case of change of control or change to the composition of the Board of Directors.

The Company, independently, or jointly with other Group companies has signed financing agreements with financing entities which set out the possibility of termination if there are significant alterations in the Company's shareholding structure and/or in the respective voting rights.

There are no other significant agreements signed by NOS or by its subsidiaries that include change of control clauses (including following a takeover bid), i.e., that come into force, are altered or terminate if there is a change of control, as well as the respective effects.

There are no agreements between the Company and the board members or other NOS senior managers, in the sense of article 248-B (3) of the Portuguese Securities Code, that set out a compensation in the event of dismissal, unfair dismissal or termination of the labour relationship following any change in the Company's control.

### Measures that could interfere with the success of a takeover bid

NOS has not adopted any measures in order to impede the success of takeover bids contrary to the interests of the Company and its shareholders.

NOS considers that there are no defensive clauses that could automatically cause erosion to the Company's assets in the event of a transfer of control or of a change to the composition of the board.

## II. Shareholdings and bonds

### 7. Owners of qualified shareholdings

Pursuant to article 9(1)(c) of Regulation no. 5/2008 from the Portuguese Securities Market Commission ("CMVM"), NOS hereby discloses the below information regarding qualified shareholdings by third parties in the share capital of NOS that the Company has been notified of.

The structure of qualified shareholdings in NOS notified to the Company was, on 31 December, 2014, as follows:

Shareholders	Nr. of Shares	% Share Capital and Voting Rights
ZOPT, SGPS, SA <sup>(1)</sup>	257 632 005	50,01%
Banco BPI, SA <sup>(2)</sup>	23 287 499	4,52%
Morgan Stanley	11 902 331	2,31%
Sonaecom, SGPS, SA <sup>(3)</sup>	11 012 532	2,14%
<b>Identified Total</b>	<b>303 834 367</b>	<b>58,98%</b>

(1) Pursuant to Article 20(1)(b) and (c) and to Article 21, both of the Portuguese Securities Code, it is assignable a qualified holding of 52,15% of share capital and voting rights of the Company, to ZOPT, Sonaecom and to the following entities:

a. Kento Holding Limited and Unitel International Holdings, BV, as well as to DI Isabel dos Santos, being (i) Kento Holding Limited and Unitel International Holdings, BV, companies directly or indirectly controlled by DI Isabel dos Santos, and ii) ZOPT, a company jointly controlled by its shareholders Kento Holding Limited, Unitel International Holdings, BV and Sonaecom considering the shareholders agreement entered into between them;

b. To entities in a control relationship with Sonaecom, namely, SONTEL, BV, Sonae Investments, BV, SONAE, SGPS, S.A., EFANOR INVESTIMENTOS, SGPS, S.A. and DI Belmiro Mendes de Azevedo, also considering the referred control relationship and the shareholders agreement mentioned on paragraph a.

(2) Pursuant to Article 20(1) of the Portuguese Securities Code, voting rights correspondent to 4.52% of NOS share capital are attributed to Banco BPI, S.A. held by Pension Fund of Banco BPI, by BPI Iberia LUX and by BPI Alternative and Fund LUX.

(3) Qualified shareholding according with the results of the Public Offer released by Sonaecom, SGPS, S.A. on 20 February, 2014.

Note 1: On 5 May 2014 a Long Position statement was released by the Lancaster Investment Management LLP, referring to 2.02% of voting rights of NOS SGPS, S.A.

Note 2: The calculation of the voting rights corresponding to each shareholder does not consider own shares held by the Company.

The following table shows the shareholding of Banco Português de Investimento, S.A. ("BPI") calculated pursuant to article 20(1) of the Portuguese Securities Code.

Shareholders	Nr. of Shares	% Voting Rights
Fundo de Pensões do Banco BPI	23 287 499	4,52%
<b>Total</b>	<b>23 287 499</b>	<b>4,52%</b>

The following table shows the shareholding of Morgan Stanley calculated pursuant to article 20(1) of the Portuguese Securities Code.

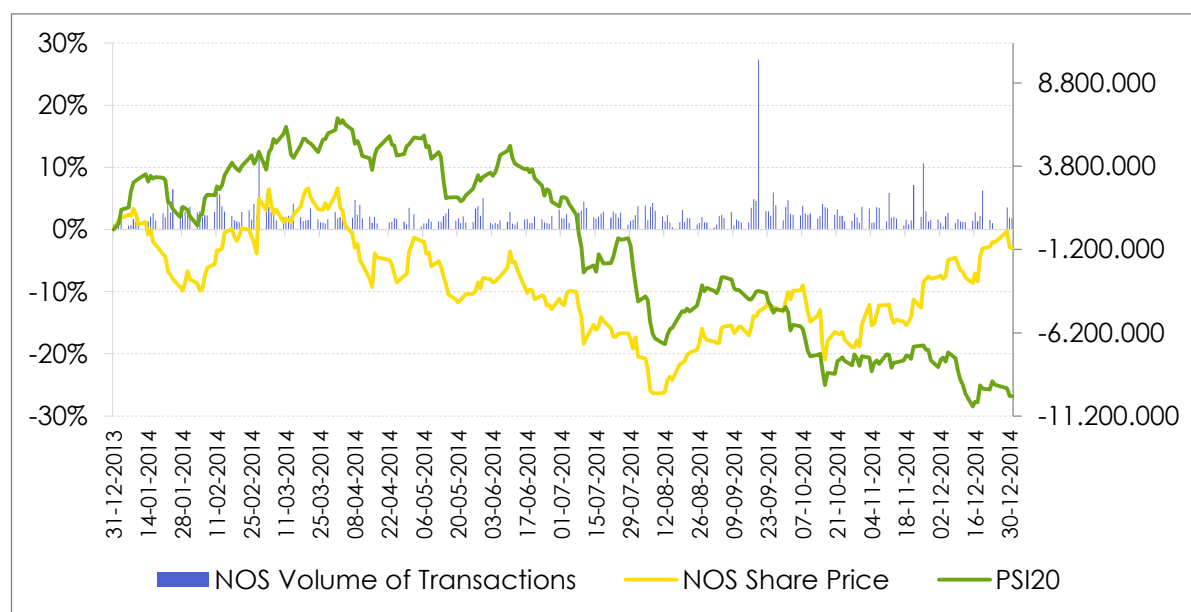
Shareholders	Nr. of Shares	% Voting Rights
Morgan Stanley & Co. International PLC	11 901 739	2,31%
Morgan Stanley Smith Barney LLC	592	0,00%
<b>Total</b>	<b>11 902 331</b>	<b>2,31%</b>

There is a detailed record of the communications regarding qualified shareholdings on NOS institutional website, on <http://www.nos.pt/ir>.

### Share price performance of NOS / PSI 20

The share price of NOS ended 2014 at € 5.236, which represents a decline of almost 3% since the end of 2013, which is compared with a devaluation of the PSI 20 index of 26.8% in the same period.

The changes in the price of NOS shares over the year, along with the number of shares traded each day are shown in the following chart.



The following table shows the year's main events, such as results presentations, Extraordinary General Meetings of shareholders and dividend payments:

Date	Event
27-02-2014	Full Year 2013 Earnings Announcement
28-02-2014	Strategy Day Presentation
07-05-2014	First Quarter 2014 Earnings Announcement
23-05-2014	Dividend payment for the 2013 financial year
20-06-2014	Approval on Shareholders General Meeting of the change of the Company's name to "NOS, SGPS, SA"
30-07-2014	First Half 2014 Earnings Announcement
22-09-2014	Disclosure of the agreement in order to acquire Mainroad - Serviços em Tecnologias de Informação, SA
05-11-2014	Third Quarter 2014 Earnings Announcement

During 2014, the share price of NOS reached a maximum of € 5.830 and a minimum of € 3.903.

In total, 227,208,900 NOS shares have changed hands in 2014, which corresponds to an increase of 34.8% over the volume of transactions in the previous year.

The average volume in 2014 amounted to 887,535 shares per session – which means 0.17% of the issued shares, compared with 0.13% during 2013.

The main Portuguese share index, the PSI20 showed during 2014 a reduction of 26.8%, and the Spanish index, IBEX 35, grew 3.7% from the end of 2013. Other international indices presented, during the year 2013 a slightly positive or negative performances, and the FTSE100 (United Kingdom) and CAC40 (France) reported decreases of 2.7% and 0.5%, respectively. The DAX (Germany) and the Dow Jones EuroStoxx 50 appreciated by 2.7% and 1.2% during the year 2014.

At the end of 2013 NOS directly held a total of 403.382 own shares.

During the year of 2014 the following own shares transactions occurred, summarized in the table below:

Description	Nr. of Shares
Initial Value	403 382
Acquisition for Staff Shares Plan	6 659 676
Allocation for Staff Shares Plan	4 566 291
Final Balance	2 496 767

As a result, NOS held directly 2,496,767 own shares at the end of 2014.



## 8. Shares and bonds held by members of the board of directors and the audit and finance committee and fiscal board

Name	Position/Job	Shares					Bonds	
		Balance 31-12-2013	2014 Transactions				Shares Balance 31-12-2014	Bonds Balance 31-12-2014
			Acquisitions	Conveyances	Unit Price	Date		
Jorge Manuel de Brito Pereira	Chairman of Board of Directors	0	-	-	-	-	0	
Miguel Nuno Santos Almeida	Chairman of Executive Committee	0	64.859	-	4,970 €	03-06-2014	0	
			-	64.859	4,970 €	05-06-2014		
José Pedro Faria Pereira da Costa	Executive Member	100.000	2.125	-	5,039 €	31-01-2014	100.000	30
			58.872	-	4,970 €	03-06-2014		
			-	15.575	*	03-06-2014		
			-	20.795	*	04-06-2014		
			-	16.545	*	05-06-2014		
			-	8.082	4,979 €	06-06-2014		
Manuel Ramalho Eanes	Executive Member	0	27.304	-	4,970 €	03-06-2014	0	
			-	27.304	*	09-06-2014		
André Nuno Malheiro dos Santos Almeida	Executive Member	7.700	300	-	5,039 €	31-01-2014	8.000	50
			16.110	-	4,970 €	03-06-2014		
			-	16.110	4,970 €	06-06-2014		
Ana Paula Garido de Pina Marques	Executive Member	0	24.683	-	4,970 €	03-06-2014	24.683	
			-	24.683	5,100 €	10-12-2014	0	
Cônjuge		0	21.158	-	4,970 €	03-06-2014	0	
			-	21.158	5,100 €	10-12-2014		
Ângelo Gabriel Ribeiro dos Santos Paupério	Non-executive Member	0	-	-	-	-	0	
Sonaecom, SGPS, SA		37.489.324	-	26.476.792	-	25-02-2014	11.012.532	
ZOPT, SGPS, SA		257.632.005	-	-	-	-	257.632.005	
António Bernardo Aranha da Gama Lobo Xavier	Non-executive Member	0	-	-	-	-	0	
Sonaecom, SGPS, SA		37.489.324	-	26.476.792	-	25-02-2014	11.012.532	
António Domingues <sup>(3)</sup>	Non-executive Member	0	-	-	-	-	0	
Grupo BPI		23.344.798	57.414	114.713	-	-	23.287.499	
Catarina Eufémia Amorim da Luz Távira	Non-executive Member	0	-	-	-	-	0	
Fe+A30:H45mando Fortuny Martorell	Non-executive Member	0	-	-	-	-	0	
Isabel dos Santos <sup>(4)</sup>	Non-executive Member	0	-	-	-	-	0	
ZOPT, SGPS, SA		257.632.005	-	-	-	-	257.632.005	
Joaquim Francisco Alves Ferreira de Oliveira <sup>(5)</sup>	Non-executive Member	0	-	-	-	-	0	
Contrinveste International, Sarl		7.965.980	-	7.965.980	*	*	0	
Gripcom, SGPS, SA.		6.989.704	-	-	-	-	6.989.704	
Lorena Solange Fernandes da Silva Fernandes	Non-executive Member	0	-	-	-	-	0	
Maria Cláudia Teixeira de Azevedo <sup>(4)</sup>	Non-executive Member	0	-	-	-	-	0	
Sonaecom, SGPS, SA		37.489.324	-	26.476.792	-	25-02-2014	11.012.532	
ZOPT, SGPS, SA		257.632.005	-	-	-	-	257.632.005	
Mário Filipe Moreira Leite da Silva <sup>(7)</sup>	Non-executive Member	0	-	-	-	-	0	
ZOPT, SGPS, SA		257.632.005	-	-	-	-	257.632.005	
Rodrigo Jorge de Araújo Costa <sup>(8)</sup>	Non-executive Member	0	-	-	-	-	0	100
Paulo Cardoso Correia da Mota Pinto	Chairman of Audit Committee	0	-	-	-	-	0	
Eugénio Luís Lopes Franco Ferreira	Member of Audit Committee	0	-	-	-	-	0	
Nuno Tiago Bandeira de Sousa Pereira	Member of Audit Committee	0	-	-	-	-	0	
Luís Filipe da Silva Ferreira	Substitute Member of Audit Committee	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	Substitute Statutory Auditor	0	-	-	-	-	0	

\*Considering that several transactions have taken place, reference is made to the detailed unit price referred to in the communications to the market for this purpose.

(1) Ângelo Gabriel Ribeiro dos Santos Paupério is a member of the Board of Directors of ZOPT, SGPS, S.A., which owned, on 31 December 2014 a share correspondent to 50,01% of share capital and voting rights of NOS, SGPS, S.A. and a member of Board of Directors and Executive Committee of Sonaecom, SGPS, S.A., which owned, on 30 June 2014, a stake correspondent to 2.14% of share capital and voting rights of NOS, SGPS, S.A.

(2) António Bernardo Aranha da Gama Lobo Xavier is member of the Board of Directors and Executive Committee of Sonaecom, SGPS, S.A., which owned, on 31 December 2014 a share correspondent to 2.14% of share capital and voting rights of NOS, SGPS, S.A.

(3) António Domingues is member of Board of Directors of companies belonging to BPI which owned, on 31 December 2014, 24,271,047 shares of NOS, SGPS, S.A.

(4) Isabel dos Santos is a Member of the Board of Directors of ZOPT, SGPS, S.A., company holding a share correspondent to 50,01% of the share capital and of the voting rights of NOS, SGPS, S.A.

(5) Joaquim Francisco Alves Ferreira de Oliveira indirectly holds more than half of the capital share of Gripcom - SGPS, S.A., that held, on 31 December 2014, a block of 6,989,704 shares of NOS.

(7) Mário Filipe Moreira Leite da Silva is a Member of the Board of Directors of ZOPT, SGPS, S.A., company holding on 31 December 2014 a share correspondent to 50,01% of the capital share and of the voting rights of NOS, SGPS, S.A.

(8) On 03-02-2015, Rodrigo Jorge de Araújo Costa's resignation to his position as Member of the Board of Directors of NOS, SGPS, S.A. was disclosed to the market.

## 9. Special powers of the Board of Directors

The Company's Board of Directors exercises the legal and Articles of Association powers it is attributed to.

According to article 16 of the Articles of Association, the Board of Directors is especially responsible for managing the Company business and namely:

- a) The acquisition, divestment, leasing and encumbering real and personal property, commercial establishments, investments in companies and vehicles;
- b) Entering into financing and loan agreements, including medium and long-term, internal or external agreements;
- c) Representing the Company in and out of court, actively and passively, with the right to withdraw, settle and make admissions in respect of any judicial proceeding. It may also enter into arbitration agreements;
- d) Appointing attorneys-in-fact with whatever powers it deems appropriate, including powers of sub-delegation;
- e) Approving the management plans and business investment and operating budgets;
- f) Co-opting to replace Directors who are definitively unavailable;
- g) Preparing and submitting to the approval of the General Meeting a stock option plan for the members of the Board of Directors as well as for employees with positions of high responsibility in the Company;
- h) Appointing any other individuals or legal entities to perform corporate roles in the Company's subsidiary or affiliate companies;
- i) Passing resolutions for the Company to provide technical and/or financial support to its subsidiaries or affiliates;
- j) Exercising any other powers attributed to it by the General Meeting.

The Company's Articles of Association do not set forth any special powers for the Board of Directors regarding resolutions on increasing the share capital.

Additionally, pursuant to the provisions of article 17(1) of the Articles of Association, the Board of Directors can delegate day-to-day management of the Company to an Executive Committee.

## 10. Relevant commercial relations with owners of qualified shareholdings.

NOS carried out no significant operations or business, in economic terms for any of the parties involved, with members of the management or supervisory bodies or companies that are in a control or group relationship, that were not conducted under normal market conditions for similar operations and that were not part of the Company's current activity.

NOS has not conducted any business or operation with qualified shareholders - or entities that are in any relationship with them pursuant to article 20 of the Portuguese Securities Code - outside normal market conditions.

The Company regularly executed operations and agreements with various entities within NOS group. These operations were conducted under normal market terms for similar operations and were part of the contracting companies' current activities.

In this matter, the procedures and criteria that apply to the intervention of the Fiscal Board in taking resolutions as to the business dealings with qualified shareholders are detailed in items 89, 90 and 91 below in this report.

## **B. Corporate Bodies and Commissions**

### **I. General Meeting**

#### **11. Composition of the Board of the Shareholder Meeting**

Pursuant to article 12(1) of NOS Articles of Association, the board of the shareholder meeting is composed for a chairman and a secretary.

The board of the shareholder meeting is composed of:

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

The term of office of the members of the board of shareholders meeting is three years.

The current term of office began on 1 October 2013, with the election of the corporate bodies at an Extraordinary General Meeting for the three years 2013/2015 and thus the current members will be kept in the office up to 31 December 2015. The current members of the board of the shareholders meeting were elected for the first time.

The General Meeting, composed of shareholders with voting rights, meets at least once a year, pursuant to the provisions in article 376 of the Portuguese Companies Code ("CSC"). Pursuant to articles 23-A of the Portuguese Securities Code and 375 of the CSC, a General Meeting is also held whenever convened by the chairman of the board of shareholder meeting, on request from the Board of Directors or the Fiscal Board or by shareholders who represent at least 2% of the share capital, and even in the special cases provided by law, when convened by the Fiscal Board.

Pursuant to article 21-B of the Portuguese Securities Code, the notice to call a General Meeting is published with at least 21 days' prior notice on the portal of the Ministry of Justice (<http://publicacoes.mj.pt>). The notice is also published on the Company's website, on the information broadcasting system of the Portuguese Stock Exchange Commission (CMVM) (<http://www.cmvm.pt>) and on the Euronext Lisbon website.

The board of the shareholder meeting is provided with all the resources needed to perform their duties, namely with the assistance from the Company's general secretary.

In 2014, the chairman and secretary were respectively paid a total sum of € 18,000 and € 5,000 as fees for the two meetings, as explained in the item 82 below.

#### **12. Voting right restrictions**

Pursuant to the Company's Articles of Association, there are no restrictions on voting rights.

Pursuant to article 11 of the Company's Articles of Association, shareholders with voting rights can attend the General Meetings.

Every 100 shares corresponds to a vote.

The law and Articles of Association state that shareholders with voting rights who, on the record date, which is at 0:00 (GMT) on the fifth trading day before the General Meeting, own shares that grant them at least one vote pursuant to the law and the Company Articles of Association and who comply with the legal formalities as described in the corresponding notice, have the right to participate, discuss and vote at the General Meeting.

The shareholdings, as a whole, are not subject to limits on the respective voting power, as there are no cap limits on voting. Additionally, considering the relationship of proportionality there is no time lag between the right to receive dividends or to subscribe new securities and the voting right.

Legally, shareholders with fewer shares than they need for voting rights, can join together to reach the required number or more and be represented at the General Meeting by one of these shareholders.

The Company also has a system that allows, with no limitations, the provision to shareholders of the possibility to use their voting rights in electronic form, being this information duly and promptly sent to shareholders and made available to the public through the publication of the corresponding notice on the Company's website.

### **13. Maximum number of votes for any shareholder**

Pursuant to the Company's Articles of Association, there is no limit on the number of votes that can be held or exercised by each shareholder.

Notwithstanding, pursuant to article 9 of the Articles of Association, shareholders that directly or indirectly conduct any activity that competes with the companies owned by the Company, cannot own ordinary shares that represent more than 10% of the Company share capital without prior authorisation from the General Meeting. For this purpose, competing activity is understood to be an activity that is actually provided on the same market with the same services as those provided by companies owned by the Company.

Indirect competing activity is deemed to be carried out by those who, directly or indirectly, own at least 10% of the capital in a Company that performs the activity pursuant to the previous paragraph or who is held by them in the same percentage.

### **14. Matters requiring a qualified quorum under the articles of association**

Pursuant to article 13 of the Articles of Association, notwithstanding the qualified majority provided by law, the General Meeting takes its resolutions by the simple majority of votes cast.

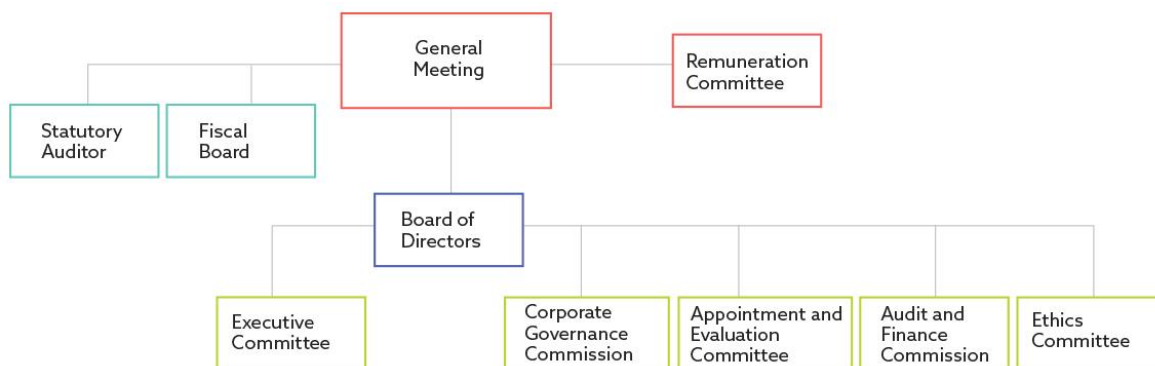
The General Meeting can run at a first meeting so long as shareholders representing more than 50% of the share capital are present or represented.

NOS Articles of Association do not, therefore, set any qualified quorum greater than that provided by law.

## II. Administration and oversight

### 15. Identification of the governance model

NOS adopts the one-tier governance model, set forth in article 278(1) (a), of CSC. Pursuant to article 278(1)(a) and (3) and article 413 (1)(b), both from the CSC and article 10(1) of the Company's Articles of Association, the Company bodies are the General Meeting, the Board of Directors (who manages the Company), the Fiscal Board and the Statutory Auditor (who supervises the Company).



NOS Board of Directors believes this model is fully and effectively implemented and there are no constraints on its operations.

In addition, the current governance model has proven to be balanced and open to the adoption of the best domestic and international practices in matters of corporate governance.

It is also believed that this governance structure allows the Company to work properly, enabling proper transparent dialogue between the different corporate bodies and between the Company, its shareholders and other stakeholders.

Pursuant and for the purposes of article 446-A of the CSC and article 10(2) of the Company's Articles of Association, the Company secretary and the alternate Company secretary are appointed by the Board of Directors and have the tasks established by law and cease their mandates with the termination of the Board of Directors that appointed them.

On 31 December 2014, the Company secretary and alternate Company secretary were:

- Company Secretary – Sandra Martins Esteves Aires
- Alternate Company Secretary – Francisco Xavier Luz Patrício Simas

## **16. Rules of the articles of association about the appointment and replacement of the Board of Directors**

Pursuant to article 15 of the Company's Articles of Association, the Board of Directors is composed of up to twenty three members elected by the General Meeting, which appoints a Chairman and if it so wishes, one or more Vice-Chairmen.

If the General Meeting does not appoint a Chairman of the Board of Directors, the Board will make the appointment.

One of the Company directors can be elected by the General Meeting pursuant to article 392(1) of the CSC.

The replacement of a director, if they cease their office before the end of the term of office, shall comply with applicable legal requirements, namely pursuant to article 393 of the CSC. Without prejudice to the above, article 16(2) and (3) of the Company's Articles of Association state that when the director who is definitively absent is the Chairman or Vice-Chairman, he/she shall be replaced through election at the General Meeting. For this purpose, a Board Director is considered to be definitively absent if, during their term of office, they miss two meetings in a row or five in total, without a justification that is accepted by the Board of Directors.

## **17. Composition of the Board of Directors**

Pursuant to article 15 of the Company's Articles of Association, the Board of Directors is composed of up to twenty three members elected by the General Meeting, which appoints a Chairman and if so wishes, one or more Vice-Chairmen. The Articles of Association set out no express provision on minimum number of directors to be part of NOS Board of Directors, following that the statutory minimum corresponds to the minimum legal requirement for a collegial body, such as the Board of Directors in the one-tier model, as set out in of article 278(1)(a) of the CSC.

If the General Meeting does not appoint a Chairman of the Board of Directors, the Board will make the appointment.

Article 10(3) of the Company's Articles of Association state that when the law or the articles of association do not set a specific number of members on a corporate body, this number shall be established, on a case by case basis, by the resolution to elect, corresponding to the number of members elected. This does not affect, pursuant to article 10(4), the possibility of changing the number of the corporate body members during the term of office, up to the legal limit or up to the limit set out by the Articles of Association.

The members of NOS corporate bodies and other bodies keep their terms of office for renewable periods of three calendar years, and the calendar year of their appointment counts as a complete year.

The current Board of Directors was elected at the Extraordinary General Meeting on 1 October 2013, for the three years 2013/2015, and at the date of the election, it was composed of 19 board directors with Jorge Manuel de Brito Pereira appointed as Chairman.

### Composition of the Board of Directors on 1 October 2013

	Board of Directors	Executive Committee	Non-executive Director	First appointed and end of term of office
Jorge de Brito Pereira	Chairman	---	X	01/10/2013 31/12/2015
Miguel Almeida	Member	Chairman	---	01/10/2013 31/12/2015
Luís Lopes	Member	Vice-Chairman	--	21/09/2007 31/12/2015
José Pedro Pereira da Costa	Member	Member	---	21/09/2007 31/12/2015
Ana Paula Marques	Member	Member	---	01/10/2013 31/12/2015
André Almeida	Member	Member	---	01/10/2013 31/12/2015
Manuel Ramalho Eanes	Member	Member	---	01/10/2013 31/12/2015
Miguel Veiga Martins	Member	Member	---	27/12/2012 31/12/2015
Ângelo Paupério	Member	---	X	01/10/2013 31/12/2015
António Lobo Xavier	Member	---	X	01/10/2013 31/12/2015
António Domingues	Member	---	X	01/09/2004 31/12/2015
Catarina Tavira	Member	---	X	27/11/2012 31/12/2015
Fernando Martorell	Member	---	X	07/11/2008 31/12/2015
Isabel dos Santos	Member	---	X	27/11/2012 31/12/2015
Joaquim Oliveira	Member	---	X	31/01/2008 31/12/2015
Lorena Fernandes	Member	---	X	01/10/2013 31/12/2015
Maria Cláudia Azevedo	Member	---	X	01/10/2013 31/12/2015
Mário Leite da Silva	Member	---	X	19/04/2010 31/12/2015
Rodrigo Costa	Member	---	X	21/09/2007 31/12/2015

As communicated to the market on 31 December 2013, Luis Miguel Gonçalves Lopes presented his resignation on 30 December 2013 to his position as member of the Board of Directors and, inherently, as Vice-Chairman of NOS Executive Committee.

Pursuant to article 404(2) of the CSC, and having not been appointed or elected a substitute, the resignation took effect on 31 January 2014.

As a consequence of the resignation, the Board of Directors approved at its meeting of 17 January 2014, the reorganization of the Executive Committee, with the correspondent reallocation of responsibilities. At the above mentioned meeting, José Pedro Faria Pereira da Costa and Miguel Filipe Veiga Martins were appointed Vice-Chairmen of the Company. Reference is made to item 21 where the information regarding the reallocation of responsibilities verified as a result of resignation is described.

In turn, on 31 October 2014, Miguel Veiga Martins' resigned as member of the Board of Directors and inherently as Vice-Chairman of the Executive Committee of NOS, at such same date, was disclosed to the market.

Pursuant to article 404(2) of the CSC, and having not been appointed or elected a substitute, the resignation took effect on 31 January 2014.

As a result of the referred resignation, a new reallocation of responsibilities took place as better detailed in item 21, which is referred hereto.

As a result of the above mentioned resignations, as of 30 November 2014, the Board of Directors is composed by 17 directors as follows:

	Board of Directors	Executive Committee	Non-executive director	First appointed and end of term of office
Jorge de Brito Pereira	Chairman	---	X	01/10/2013 31/12/2015
Miguel Almeida	Member	President	---	01/10/2013 31/12/2015
José Pedro Pereira da Costa	Member	Vice-Chairman	--	21/09/2007 31/12/2015
Ana Paula Marques	Member	Member	---	01/10/2013 31/12/2015
André Almeida	Member	Member	---	01/10/2013 31/12/2015
Manuel Ramalho Eanes	Member	Member	---	01/10/2013 31/12/2015
Ângelo Paupério	Member	---	X	01/10/2013 31/12/2015
António Lobo Xavier	Member	---	X	01/10/2013 31/12/2015
António Domingues	Member	---	X	01/09/2004 31/12/2015
Catarina Tavira	Member	---	X	27/11/2012 31/12/2015
Fernando Martorell	Member	---	X	07/11/2008 31/12/2015
Isabel dos Santos	Member	---	X	27/11/2012 31/12/2015
Joaquim Oliveira	Member	---	X	31/01/2008 31/12/2015
Lorena Fernandes	Member	---	X	01/10/2013 31/12/2015
Maria Cláudia Azevedo	Member	---	X	01/10/2013 31/12/2015
Mário Leite da Silva	Member	---	X	19/04/2010 31/12/2015
Rodrigo Costa*	Member	---	X	21/09/2007 31/12/2015

\* On 1 February 2015, Rodrigo Costa presented his resignation as Member of the Board of Directors of NOS, as well as, as Chairman of the Corporate Governance Committee, Member of the Audit and Finance Committee and Chairman of the Ethics Committee with effect on 31 March 2015, pursuant to article 404(2) of CSC.



## 18. Distinction between executive and non-executive (and independent) directors

Pursuant to article 17(1) of the Company's Articles of Association, NOS Board of Directors, elected at the Extraordinary General Meeting on 1 October 2013, approved, on its meeting of 2 October 2013, an Executive Committee composed by 7 members from the 19 elected directors. Currently, the Executive Committee is composed by 5 Directors due to the above mentioned resignations.

In order to maximise the pursuit of the Company's interests, the management body is composed of a number of non-executive members who ensure effective monitoring, oversight and assessment of the executive members of NOS.

Taking into account the above said, and based on the Company's dimension, its shareholder structure and the respective free-float, in line with the Recommendation II.1.7 of the Corporate Governance Code of 2013, the Company has among its non-executive directors, two independent directors.

It shall be noted that the non-executive directors of the Company have regularly and effectively developed their legal functions which generally consist in the supervision, oversight and evaluation of the executive members' activity. During the financial year of 2014, non-executive directors did not encounter any kind of constraint in performing their jobs.

Pursuant to applicable legislation and regulations, particularly the provision in article 407(8) of CSC, NOS non-executive directors have performed their functions so as to comply with their duties of vigilance regarding the activity of the members of the Executive Committee. According to that provision, non-executive directors shall proceed with the "general oversight (...) of the Executive Committee", and are liable "for any losses caused or acts or omissions by it, when they are aware of such acts or omissions or the intent to practice them, and do not call on Board intervention to take the proper measures".

Since the Chairman of the Board of Directors of NOS is a non-executive director, the functions of the non-executive directors are particularly facilitated, since the Chairman is empowered to coordinate the activities of the non-executive directors and to act as a link, shortening and simplifying the dialogue with the Executive Committee.

One should also note the efforts by the non-executive directors to keep up to date with different matters at all times, being studied and handled by the Board of Directors and their regular presence and participation in the meetings of that body, which largely contributes to the good performance of their jobs.

NOS non-executive directors have also made important contributions to the Company by performing their duties on the specialised Board of Directors committees (see item 27).

In order to better guarantee the due and effective monitoring, oversight and assessment of the Executive Committee's activity, as determined by the Board of Directors, the minutes of such Committee meetings are sent to the Chairman of the Board of Directors and the Executive Committee presents to the Board of Directors a summary of the most important points of its activity in the relevant period.

Quarterly, a summary of the Executive Committee activity is forwarded to the members of the Fiscal Board.

In addition, the members of the Executive Committee, when so requested by other members of the corporate bodies, also provide proper and timely information.

## 19. Board of Directors' qualifications

### a. **Jorge Brito Pereira:** Chairman of the Board of Directors

#### **Qualifications:**

- o Degree in Law from Universidade Católica Portuguesa, Faculdade de Direito;
- o Master's in Legal Sciences from Universidade de Lisboa, Faculdade de Direito;
- o Leading Professional Services Firms – Harvard Business School (2013).

#### **Professional Experience:**

- o Partner at PLMJ – A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice & Associados, Sociedade de Advogados, RL;
- o Member of the Board of Directors of de Grisogono S.A.;
- o Member of the Remuneration Commission of Glintt, S.A.;
- o Chairman of the Board of the Shareholders Meeting of Sport TV, S.A.;
- o Chairman of the Board of the Shareholders Meeting of SAPEC, SGPS, S.A.;
- o Chairman of the Board of the Shareholders Meeting of Oxy Capital - Sociedade de Capital de Risco, S.A.;
- o Chairman of the Board of the Shareholders Meeting of ONETIER Partners SGPS, S.A.;
- o Chairman of the Board of the Shareholders Meeting of CIMINVEST – Sociedade de Investimentos e Participações S.A.;
- o Chairman of the Board of the Shareholders Meeting of SANTORO FINANCE – Prestação de Serviços, S.A.;
- o Chairman of the Board of the Shareholders Meeting of SANTORO FINANCIAL HOLDINGS, SGPS, S.A.;
- o Chairman of the Board of the Shareholders Meeting of FIDEQUITY – SERVIÇOS DE GESTÃO S.A.;
- o Secretary of the Board of the Shareholders Meeting of Banco BIC Português, S.A.;
- o Member of the Board of Directors of CIMIPAR – Sociedade Gestora de Participações Sociais, S.A. (2006/2007);
- o Member of the Board of Directors of PARAREDE, SGPS, S.A. (2002-2005)

### b. **Miguel Nuno Santos Almeida:** Chairman of the Executive Committee

#### **Qualifications:**

Degree in Mechanical Engineering from Universidade do Porto, Faculdade de Engenharia, and MBA from INSEAD Business School.

**Professional Experience:**

- o Chairman of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A.;
- o Chairman of Be Towering – Gestão de Torres de Telecomunicações, S.A.;
- o Chairman of Per-Mar, Sociedade de Construções S.A.;
- o Chairman of Mainroad Serviços em Tecnologia de Informação S.A.;
- o Chairman of NOS Açores Comunicações S.A.;
- o Chairman of NOS Lusomundo Audiovisuais S.A.;
- o Chairman of NOS Lusomundo Cinemas S.A.;
- o Chairman of NOS Lusomundo TV S.A.;
- o Chairman of NOS Madeira Comunicações S.A.;
- o Chairman of NOS PUB Publicidade e Conteúdos S.A.;
- o Chairman of NOS Comunicações S.A.;
- o Vice- Chairman of Finstar – Sociedade de Investimentos e Participações, S.A.;
- o Former Chairman of Board of Directors of the Executive Committee of OPTIMUS Comunicações, S.A.;
- o Former Executive Director and Member of the Board Board of Directors of Sonaecom SGPS S.A..

**c. José Pedro Faria Pereira da Costa:** Vice-Chairman of the Executive Committee**Qualifications:**

Degree in Business Administration and Management from Universidade Católica Portuguesa and MBA from INSEAD Business School.

**Professional Experience:**

- o Member of the Board of Directors of NOS Comunicações S.A.;
- o Member of the Board of Directors of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A.;
- o Member of the Board of Directors of Be Towering – Gestão de Torres de Telecomunicações, S.A.;
- o Member of the Board of Directors of Dreamia Holdings B.V.;
- o Member of the Board of Directors of Dreamia Serviços de Televisão S.A.;
- o Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.;
- o Member of the Board of Directors of Lusomundo Imobiliária 2 S.A.;
- o Member of the Board of Directors of Lusomundo Sociedade de Investimentos Imobiliários SGPS S.A.;
- o Member of the Board of Directors of Mainroad Serviços em Tecnologia de Informação S.A.;
- o Vice-Chairman of Mstar S.A.;
- o Member of the Board of Directors of NOS Açores Comunicações S.A.;
- o Member of the Board of Directors of NOS Communications S.à.r.l.;
- o Vice-Chairman of NOS Lusomundo Audiovisuais S.A.;
- o Vice-Chairman of NOS Lusomundo Cinemas S.A.;
- o Vice-Chairman of NOS Lusomundo TV S.A.;
- o Member of the Board of Directors of NOS Madeira Comunicações S.A.;

- Vice-Chairman of NOSPUB Publicidade e Conteúdos S.A.;
- Chairman of the Board of Directors of Per-Mar, Sociedade de Construções S.A.;
- Chairman of the Board of Directors of Sontária – Empreendimentos Imobiliários S.A.;
- Member of the Board of Directors of Sport TV Portugal S.A.;
- Member of the Board of Directors of Teliz Holding B.V.;
- Member of the Board of Directors of Upstar Comunicações S.A.;
- Member of the Board of Directors of ZON Finance B.V.;
- Manager of Empracine Empresa Promotora de Atividades Cinematográficas, Lda.;
- Former Member of the Board of Directors of Group Portugal Telecom acting as COO and responsible for PT Comunicações, PT.COM and PT Prime companies;
- Vice-Chairman of the Executive Committee of Telesp Celular Participações;
- Member of the Executive Committee of Banco Santander de Negócios Portugal, responsible for Corporate Finance;
- Started his career in McKinsey & Company in Portugal and Spain.

**d. Miguel Filipe Veiga Martins:** Vice-Chairman of the Executive Committee<sup>4</sup>

**Qualifications:**

Degree in Electronic Engineering and Telecommunications from Instituto Superior Técnico (Universidade de Lisboa).

**Professional experience:**

- Former Member of the Board of Directors and CEO of Unitel;
- Former Executive Director of Vodafone Internet Service Group in United Kingdom;
- Former Executive Director of Vodafone Portugal, responsible for the technology area;
- Former Technical Director of Cisco Systems Portugal and Spain.

**e. Ana Paula Garrido de Pina Marques:** Executive Member

**Qualifications:**

Degree in Economics from Universidade do Porto, Faculdade de Economia, and MBA from INSEAD Business School.

**Professional experience:**

- Member of the Board of Directors of NOS Comunicações S.A.;

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<sup>4</sup> On 30 November 2014, Director Miguel Martins presented his resignation to his position as Member of the Board of Directors and inherently his position as Vice-Chairman of the Executive Committee.

- o Member of the Board of Directors of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A.;
- o Member of the Board of Directors of Be Towering – Gestão de Torres de Telecomunicações, S.A.;
- o Member of the Board of Directors of Mainroad Serviços em Tecnologia de Informação S.A.;
- o Member of the Board of Directors of NOS Communications S.à.r.l.;
- o Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- o Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- o Member of the Board of Directors of NOS Lusomundo TV S.A.;
- o Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- o Member of the Board of Directors of Per-Mar, Sociedade de Construções S.A.;
- o Member of the Board of Directors of Sontária – Empreendimentos Imobiliários S.A.;
- o Former Executive Director of OPTIMUS – Comunicações S.A., responsible for Home Service, Customer Service, Operations and Terminals Management;
- o Chairman of APRITEL (Associação dos Operadores de Comunicações Eletrónicas);
- o Former Manager of Marketing and Sales Private Mobile Service Business Unit. During her career in the company took over the management functions of Branding and Communication, as well as the position of Director of the Data Business Unit;
- o Start her career in the Marketing Department of Procter & Gamble.

**f. André Nuno Malheiro dos Santos Almeida:** Executive Member

**Qualifications:**

Degree in Engineering and Industrial Management from Instituto Superior Técnico and MBA from INSEAD Business School, Henry Ford II Award.

**Professional experience:**

- o Member of the Board of Directors of NOS Comunicações S.A.;
- o Member of the Board of Directors of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A.;
- o Member of the Board of Directors of Be Towering – Gestão de Torres de Telecomunicações, S.A.;
- o Member of the Board of Directors of Dreamia B.V.;
- o Member of the Board of Directors of Mainroad Serviços em Tecnologia de Informação S.A.;
- o Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- o Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- o Member of the Board of Directors of NOS Lusomundo TV S.A.;
- o Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- o Member of the Board of Directors of NOS Açores Comunicações S.A.;
- o Member of the Board of Directors of Teliz Holding B.V.;
- o Member of the Board of Directors of Upstar Comunicações S.A.;

- Member of the Board of Directors of ZON Finance B.V.;
- Former Executive Director of ZON TVCabo, ZON Lusomundo Audiovisuais, ZAP Angola and ZAP Mozambique, responsible for Business Development, Internacional Business, Planning and Control, and Corporate Finance of ZON Multimédia;
- Former Executive Director of ZON TVCabo, responsible for Product and Marketing; director of Product Management and Coordination of ZON TVCabo;
- Former Director of Wireline Business Development of PT;
- Former Director of Strategy and Business Development of PT and Project Manager of PT SGPS; associate of The Boston Consulting Group.

**g. Manuel António Neto Portugal Ramalho Eanes:** Executive Member

**Qualifications:**

Degree in Management from Universidade Católica Portuguesa and MBA from INSEAD Business School.

**Professional experience:**

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of Be Artis – Conceção, Construção e Gestão de Redes de Comunicações, S.A.;
- Member of the Board of Directors of Be Towering – Gestão de Torres de Telecomunicações, S.A.;
- Member of the Board of Directors of Mainroad Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Açores Comunicações S.A.;
- Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Member of the Board of Directors of NOS Lusomundo TV S.A.;
- Member of the Board of Directors of NOS Madeira Comunicações S.A.;
- Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Former Executive Director of Optimus – Comunicações, S.A, responsible for Companies and Operators;
- Former Director of Home Wireline, Central Marketing, Data Service, Particular Sales, SME's and Business Development of Optimus;
- Started his career in McKinsey & Co.

**h. Ângelo Gabriel Ribeirinho dos Santos Paupério:** Member

**Qualifications:**

Degree in Civil Engineering from Universidade do Porto, Faculdade de Engenharia, and MBA from Escola de Gestão do Porto-UPBS.

**Professional experience:**

- o Visiting Lecturer of Porto Business School;
- o Member of the High Council of Universidade Católica Portuguesa;
- o Member of the High Council of Porto Business School;
- o Chairman of the Board of APGEI;
- o Member of the Board of Directors of da Sonaecom;
- o Member of the Board of Directors of Sonae, SGPS, S.A.;
- o Member of the Board of Directors of Sonae Center Serviços II, S.A.;
- o Member of the Board of Directors of Sonae Investimentos, SGPS, S.A.;
- o Vice-Chairman of the Board of Directors of Sonae MC – Modelo Continente, SGPS, S.A.;
- o Vice-Chairman of the Board of Directors of Sonae – Specialized Retail, SGPS, S.A.;
- o Chairman of the Board of Directors of Sonaerp – Retail Properties, S.A.;
- o Chairman of the Board of Directors of Sonaegest – Sociedade Gestora de Fundos de Investimento, S.A.;
- o Member of the Board of Directors of Sonae Sierra, SGPS, S.A.;
- o Member of the Board of Directors of da Sonae, RE, S.A.;
- o Executive Director of Sonae Investments, B.V.;
- o Executive Director of Sontel B.V.;
- o Chairman of the Board of Directors of Sonaecom – Sistemas de Informação, SGPS, S.A.;
- o Chairman of the Board of Directors of Sonaecom, Serviços Partilhados, S.A.;
- o Chairman of the Board of Directors of WeDo Consulting, Sistemas de Informação, S.A.;
- o Chairman of the Board of Directors of Público – Comunicação Social, S.A.;
- o Chairman of the Board of Directors of PCJ – Público, Comunicação e Jornalismo, S.A.;
- o Chairman of the Board of Directors of ZOPT SGPS S.A.;
- o Chairman of the Board of Directors of MDS, SGPS, S.A.;
- o Chairman of the Board of Directors of MDS AUTO, Mediação de Seguros, S.A.;
- o Sole Director of Enxomil, SGPS, S.A.;
- o Sole Director of Enxomil – Sociedade Imobiliária, S.A.;
- o Member of the Board of Directors of Love Letters – Galeria de Arte, S.A.;
- o Sole Director of STTR – Construção e Imóveis, S.A.;
- o Former CEO of Sonae Capital, SGPS, S.A.;
- o Former CEO of Sonae Turismo, SGPS, S.A.;
- o Former Member of the Board of Directors of Modelo Continente, SGPS, S.A.

**i. António Bernardo Aranha da Gama Lobo Xavier: Member****Qualifications:**

Degree in Law and Master's in Economic Law from Universidade de Coimbra.

**Professional experience:**

- o Partner and Board Member of Morais Leitão, Galvão Teles, Soares da Silva & Associados;

- Executive Director of Sonaecom SGPS S.A.;
- Member of the Board of Directors of Sonaecom Sistemas de Informação, SGPS S.A.;
- Member of the Board of Directors of PCJ – Público, Comunicação e Jornalismo, S.A.;
- Member of the Board of Directors of Público Comunicação, S.A.;
- Member of the Board of Directors of Sonaecom – Serviços Partilhados, S.A.;
- Member of the Board of Directors of BPI, SGPS S.A.;
- Member of the Board of Directors of Riopele, S.A.;
- Member of the Board of Directors of Mota-Engil, SGPS, S.A.;
- Member of the Board of Directors of Vallis Capital Partners;
- Chairman of General Meeting of Textil Manuel Gonçalves S.A.

**j. António Domingues:** Member

**Qualifications:**

Degree in Economics from Instituto Superior de Economia de Lisboa

**Professional experience:**

- Vice-Chairman of the Executive Committee and Board of Directors of Banco Banco Português de Investimentos, S.A.;
- Vice-Chairman of Banco Português de Investimentos, do Banco Fomento Angola e do BCI Moçambique;
- Member of the Directors of Banco BPI;
- Chairman of BPI Moçambique;
- Member of the Board of Directors of UNICRE, SIBS and Allianz Portugal;
- Director of BPI-SGPS;
- Member of the Board of Directors of BPI Madeira, SGPS, S.A.;
- Member of the Board of Directors and Executive Director of BPI-SGPS, S.A.;
- Central Director of Financial Management of BPI and Member of the Executive Committee of BPI, responsible for the Financial and International sectors;
- Assistant General Director of the French branch of Banco Português do Atlântico;
- Technical Advisor of the International Department of Banco de Portugal;
- Director of the International Department of Macau Issuer Institute ;
- Economy technician at the Research and Planning Office in the Ministry of Industry and Energy.

**k. Catarina Eufémia Amorim da Luz Távira:** Member

**Qualifications:**

Degree in Management and Company Organisation from Instituto Universitário de Lisboa, ISCTE – Instituto Superior de Ciências do Trabalho e da Empresa.



**Professional experience:**

- Executive Member of the Marketing and Product team which she created, launched and currently manages in ZAP, distribution company of TV channels via satellite in Angola and Mozambique;
- Led the Products and Services team of Unitel, leading telecommunications operator in Angola;
- Created the Client's new services area of Unitel, leading telecommunications operator in Angola;
- Started her career in the USA as assistant manager in Sentis and Coral, partners of Shell Oil USA.

**I. Fernando Fortuny Martorell: Member****Qualifications:**

Degree in Economics and Finance from Instituto Superior de Economia.

**Professional experience:**

- Member of the Board of Directors of Santogal SGPS S.A.;
- Member of the Board of Directors of Imospell S.A.;
- Started his career at Companhia de Seguros Bonança, responsible for the life insurance area;
- In 1975, after Bonança was nationalised, he joined Santomar, Portuguese importer of Honda (Japan), as Finance Director and was later promoted to General Director and CEO;
- In 1989, he played an active role in the negotiations that gave rise to a joint venture with Honda Automobiles (Honda Motor de Portugal), and became CEO of the company. Until 1992, he drove a steep growth of the company making it the European branch with the largest market share and greatest profit per car sold;
- After 1992, Fernando Martorell launched Santogal, a company owned by the Moniz Galvão Espírito Santo family, transforming it into the largest car retail group, distributing 24 different brands and reaching the highest penetration of a single automobile group in Europe. He was also Chairman of ACAP, Associação Portuguesa Automóvel, from 2001 to 2007;
- He joined Espírito Santo Resources, as CEO in 2005. Supervised the main initiatives, including the implementation of the new governance model and strategic development, focusing on rationalisation and efficient operation of the existing portfolio. Then came the expansion of the activity in Brazil with investments in: Tourism (2 hotels in Salvador and São Paulo); Real estate (partnerships with top Brazilian investors around São Paulo); and the entry into the Brazilian electricity market through a company in the state of Minas Gerais;
- Vice – Chairman of Rioforte between January 2010 and December 2013.

**m. Isabel dos Santos:** Member

**Qualifications:**

- o Degree in Electro Technical Engineering from King's College London.

**Professional experience:**

- o Member of the Board of Directors of Banco de Fomento de Angola, S.A.;
- o Chairwoman of the Board of Directors of Unitel, S.A.;
- o Chairwoman of General Meeting of Nova Cimangola S.A.;
- o Member of the Board of Directors of ZOPT, SGPS, S.A.;
- o Member of the Board of Directors of Banco BIC S.A.;
- o Chairwoman of the Board of Directors of Upstar Comunicações S.A.;
- o Chairwoman of the Board of Directors of Finstar Sociedade de Investimentos e Participações S.A.;
- o Chairwoman of the Board of Directors of Mstar S.A.
- o Chairwoman of Red Cross Angola;

**n. Joaquim Francisco Alves Ferreira de Oliveira:** Member

**Professional experience:**

- o Chairman of Controlinveste, SGPS, S.A.;
- o Chairman of Controlinveste Media, SGPS, S.A.;
- o Chairman of Olivedesportos, SGPS, S.A.;
- o Chairman of Olivedesportos – Publicidade, Televisão e Media, S.A.;
- o Chairman of PPTV – Publicidade de Portugal e Televisão, S.A.;
- o Chairman of Sport TV Portugal, S.A.;
- o Chairman of Sportinveste Multimédia, SGPS, S.A.;
- o Chairman of Sportinveste Multimédia, S.A.;
- o Chairman of Gripcom, SGPS, S.A.;
- o Since 1984, the year he founded the Olivedesportos (leader and pioneer in the area of television and advertising rights linked to sporting events), he has been Chairman Board of Directors of several companies that make up the respective business group (Controlinveste);
- o In 1994, acquired the sports newspaper "O Jogo" and created, in 1996, PPTV, through which he founded jointly with RTP and PT Multimédia (now NOS) the first sports cable channel - Sport TV, presiding today to its Board of Directors. He also presides, since its foundation in 2001, the Board of Directors of Sportinveste Multimedia SGPS, SA and Sportinveste Multimedia, SA - joint venture, created to run multimedia content linked to sporting events;
- o In 2005, he acquired Grupo Lusomundo Media (now Controlinveste Contents), which currently holds 27.5% of the capital following the shareholder restructuring of that business sector, with the entry of new shareholders.

**o. Lorena Solange Fernandes da Silva Fernandes: Member**

**Qualifications:**

Degree in Business Management from the Economy and Management faculty at Universidade Lusíadas de Angola; Senior Executive Programme, London Business School; Post-graduate degree in Labour Law and Social Security from Lisbon Law School; MBA – Financial and Commercial Management from Brazilian Business School – Escola Internacional de Negócios;

**Professional experience:**

- o Store manager;
- o Responsible for stores and agent departments at Unitel, S.A.

**p. Maria Cláudia Teixeira de Azevedo: Member**

**Qualifications:**

Degree in Management from Universidade Católica Portuguesa and MBA from INSEAD Business School

**Professional experience:**

- o Member of the Board of Directors of Sonaecom SGPS S.A.;
- o Member of the Board of Directors of ZOPT SGPS S.A.;
- o Member of the Board of Directors of Sonaecom - Sistemas de Informação, SGPS, S.A.;
- o Member of the Board of Directors of Sonaecom – Serviços Partilhados, S.A.;
- o Chairwoman of the Board of Directors of Sonaecom – Cyber Security and Intelligence, SGPS, S.A.;
- o Chairwoman of ITRUST - CYBER SECURITY INTELLIGENCE SERVICES, S.A.;
- o Chairwoman of WeDo Consulting, Sistemas de Informação, S.A.;
- o Chairwoman of Saphety Level – Trusted Services, S.A.;
- o Chairwoman of Digitmarket – Sistemas de Informação, S.A.;
- o Member of the Board of Directors of Público - Comunicação Social, S.A.;
- o Member of the Board of Directors of PCJ – Público, Comunicação, e Jornalismo, S.A.;
- o Diretor of Sonaecom – Sistemas de Información Espana, S.L.;
- o Chairwoman of GRUPO S 21 SEC GESTIÓN, S.A.;
- o Member of the Board of Directors of WeDo Technologies (UK) Limited;
- o Member of the Board of Directors of Praesidium Services Limited (UK);
- o Manager of WeDo Poland Sp. Z.o.o.;
- o Diretor of WeDo Technologies Mexico, S. De R.L. De C.V.;
- o Chairwoman WeDo Technologies Americas Inc.;
- o General Manager of SAPHETY – TRANSACCIONES ELECTRONICAS, S.A.
- o Diretor of WeDo Technologies Egypt;
- o Member of the Board of Directors of WeDo Technologies Australia PTY Limited;
- o Member of the Board of Directors of CAPWATT - BRAINPOWER, S.A.;
- o Manager of CARVEMAGERE, MANUTENÇÃO E ENERGIAS RENOVÁVEIS, LDA;

- o Member of the Board of Directors of COMPANHIA TÉRMICA HECTARE, ACE;
- o Manager of C.T.E. - CENTRAL TERMOELÉCTRICA DO ESTUÁRIO, UNIPESSOAL, LDA;
- o Member of the Board of Directors of CONTACTO CONCESSÕES, SGPS, S.A.;
- o Member of the Board of Directors of ECOCICLO II - ENERGIAS, S.A.;
- o Manager of ENERLOUSADO - RECURSOS ENERGÉTICOS, UNIPESSOAL, LDA;
- o Chairwoman of IMOAREIA - INVESTIMENTOS TURÍSTICOS, SGPS, S.A.;
- o Member of the Board of Directors of INTEGRUM ACE, S.A.;
- o Member of the Board of Directors of INTEGRUM COLOMBO - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM ENGENHO NOVO - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM MARTIM LONGO - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM VALE DO CAIMA - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM VALE DO TEJO - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM II - ENERGIA, S.A.;
- o Member of the Board of Directors of INTEGRUM III - ENERGIA, S.A.;
- o Manager of RONFEGEN - RECURSOS ENERGÉTICOS, UNIPESSOAL, LDA;
- o Member of the Board of Directors of SC - ENGENHARIA E PROMOÇÃO IMOBILIÁRIA, SGPS, S.A.;
- o Member of the Board of Directors of SC, SGPS, S.A.;
- o Member of the Board of Directors of SISTAVAC, SGPS, S.A.;
- o Member of the Board of Directors of SISTAVAC, S.A.;
- o Member of the Board of Directors and Chairwoman of the Executive Committee of SONAE CAPITAL, SGPS, S.A.;
- o Chairwoman Board of Directors and Chairwoman of the Executive Committee of SONAE TURISMO - SGPS, S.A.;
- o Member of the Board of Directors of SPRED, SGPS, S.A.;
- o Chairwoman of EFANOR - SERVIÇOS DE APOIO À GESTÃO, S.A.;
- o Member of the Board of Directors of IMPARFIN, SGPS, S.A.;
- o Chairwoman of LINHACOM, SGPS, S.A.;
- o Member of the Board of Directors of SEKIWI, SGPS, S.A.;
- o Member of the Board of Directors of EFANOR - INVESTIMENTOS, SGPS, S.A.;
- o Member of the Council of Trustees of BELMIRO DE AZEVEDO FOUNDATION;

**q. Mário Filipe Moreira Leite da Silva:** Member

**Qualifications:**

Degree in Economics from Universidade do Porto, Faculdade de Economia.

**Professional experience:**

- o Chairman of the Board of Directors of de Grisogono, S.A.;
- o Chairman of the Board of Directors of Santoro Finance – Prestação de Serviços, S.A.;
- o Chairman of the Board of Directors of Santoro Financial Holding SGPS, S.A.;
- o Chairman of the Board of Directors of Fidequity – Serviços de Gestão, S.A.;
- o Member of the Board of Directors of ZOPT, SGPS, S.A.;

- Member of the Board of Directors of SOCIP – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of Esperaza Holding B.V.;
- Member of the Board of Directors of BFA – Banco de Fomento de Angola, S.A.;
- Member of the Board of Directors of Nova Cimangola, S.A.;
- Member of the Board of Directors of Banco BPI, S.A.;
- Member of the Board of Directors of Kento Holding Limited;
- Member of the Board of Directors of Victoria Holding Limited.

**r. Rodrigo Jorge de Araújo Costa: Member**

- On December 2014, he renounced to his position as Chairman and Chairman of the Executive Committee of Unicre and was appointed as Non-Executive Director of REN and appointed for the position of CEO with effect on February 2015;
- Between September 2007 and September 2013, he was Chairman of the Executive Committee of ZON Multimédia. Previously (2006-2007) he was a Director and Executive Vice President of PT Group and CEO of PTC. From 1990 to 2005, he was CEO of Microsoft Corporation, where, over 15 years, held various positions: Founder and Managing Director of Microsoft Portugal, General Manager of Microsoft in Brazil, 2001-2005, Corporate Vice-Chairman at company headquarters in Seattle.
- Between 1979 and 1990, he participated on the launch of several technology and retail companies and was a consultant in the areas of technology in national and international companies. On 2006, he was awarded by the President of the Republic with the insignia of Grand Officer of the Order of Prince Henry.
- On 1 February 2015, Rodrigo Costa submitted his resignation as Member of the Board of NOS as well as of the positions of Chairman of the Corporate Governance Committee, Member of the Audit and Finance Committee and Chairman of the Committee Ethics, with effect from 31 March 2015.

## 20. Relationship between directors and shareholders with a qualified shareholding over 2%

- **Jorge Brito Pereira: Chairman**

He acts as attorney of Mrs. Isabel dos Santos and companies controlled by her.

- **Ângelo Gabriel Ribeirinho dos Santos Paupério: Member of the Board**

He is a member of the Board of ZOPI, a company which its shareholding, on 31 December 2014, corresponds to 50.01% of the share capital and voting rights of NOS, and he is the Chairman of the Board of Directors of Sonaecom, a company which its

shareholding, on 31 December 2014, corresponds to 2.14% of the share capital and voting rights of NOS (disregarding own shares).

- **António Bernardo Aranha da Gama Lobo Xavier: Member of the Board**

He is a member of the Board of Directors and is a member of the Executive Committee of Sonaecom, a company which its shareholding, on 31 December 2014 corresponds to 2.14% of the share capital and voting rights of NOS (disregarding own shares). He is a member of the Board of Directors of Banco BPI, SA, which its shareholding, on 31 December 2014, corresponds to 4.52% of the share capital and voting rights of NOS (disregarding own shares).

- **António Domingues: Member of the Board**

He is the Vice-Chairman of the Executive Committee and member of the Board of Directors of Banco BPI, SA, which its shareholding, on 31 December 2014, corresponds to 4.52% of the share capital and voting rights of NOS (disregarding own shares).

- **Isabel dos Santos: Member of the Board**

She is a member of the Board of Directors of ZOPT, a company which its shareholding, on 31 December 2014, corresponds to 50.01% of the share capital and voting rights of NOS (disregarding own shares). She is a shareholder of Banco BPI, SA, which its shareholding, on 31 December 2014 corresponds to 4.52% of the share capital and voting rights of NOS (disregarding own shares).

- **Mário Leite da Silva: Member of the Board**

He is a member of the Board of Directors of ZOPT, a company which its shareholding, on 31 December 2014, corresponds to 50.01% of the share capital and voting rights of NOS (disregarding own shares). He is a member of the Board of Banco BPI, SA, which its shareholding, on 31 December 2014, corresponds to 4.52% of the share capital and voting rights of NOS (disregarding own shares).

- **Maria Cláudia Teixeira de Azevedo: Member of the Board**

She is a member of the Board of Directors of ZOPT, a company which its shareholding, on 31 December 2014, corresponds to 50.01% of the share capital and voting rights of NOS and she is a member of the Board of Directors of Sonaecom, a company which its shareholding, on 31 December 2014, corresponds to 2.14% of the share capital and voting rights of NOS (disregarding own shares).

## 21. Organograms and competence maps

As previously referred, the Company adopted a one-tier governance model where a Fiscal Board and a Statutory Auditor are responsible for Company oversight.

NOS Board of Directors is also responsible for managing the Company's activity and their responsibilities are defined in the Company's Articles of Association and the respective Regulations.

Considering the limits that are established and the best corporate governance practice, pursuant to article 17(1) and (3) of the Company's Articles of Association, NOS Board of Directors created and delegated the day-to-day management of the Company to an Executive Committee for the three year term of office 2013/2015, setting out the respective composition, operation and delegation of management powers.

In light of the above, the Board of Directors, upon a proposal from the Chairman of the Executive Committee, defined and attributed specific responsibilities to each member of the Executive Committee to oversee and coordinate the various areas of the Group activity.

Therefore and as a consequence of item 17, i.e. the effectiveness of Luís Miguel Gonçalves Lopes' resignation on 31 January 2014 as a member of the Board of Directors and inherently as Vice-Chairman of NOS Executive Committee, and as there was no appointment or election of a substitute, the Board of Directors reorganised the Executive Committee with a new reallocation of responsibilities, at its meeting on 17 January 2014, as detailed in the table below:

<b>Miguel Almeida</b> CEO	· General Secretary   PMO/Integration   Legal and Regulation   Corporate Communication   Business Development   ZON Madeira   ZON Açores
<b>Jorge Pedro Pereira Costa</b> VP CFO	· Administrative, Financial and Accounting   Corporate Finance   Programming   Management Control   Internal Audit and Risk   Investor Relations   Purchasing
<b>Miguel Martins</b> VP CTO	· Networks   IT/IS   TV product Development and Multimedia
<b>Ana Paula Marques</b> CEO	· Human Resources   Assets and General Services   Installations and Maintenance   Terminal Management, Operations and Logistics   Brand Management & Communication   Market & Customer Intelligence   Universal Service
<b>André Almeida</b>	· Private BU: Residencial Product Marketing   Personal Product and Marketing   Sales · ZAP
<b>Manuel Ramalho Eanes</b>	· Corporate BU: Corporate Product and Marketing   ICT and Technical Management   Corporate Sales   Sales Agents   Multi-Channel Sales   Wholesale and Roaming

Subsequently, as a result of the also referred to in item 17, the effectiveness of Miguel Filipe Veiga Martins' resignation, on 30 November 2014, regarding his position as member of the Board of Directors and Vice-Chairman of NOS Executive Committee and the absence of any appointment or election for the purposes of replacement, the areas previously allocated to Miguel Martins (networks, IT / IS; Product Development TV and Multimedia) were transferred to the competence of the CEO, Miguel Almeida.

## 22. Regulation for the operation of the Board of Directors

Following the election of NOS corporate bodies for the three years 2013/2015, namely the respective Board of Directors, which took place at the Extraordinary General Meeting on 1 October 2013, the Board of Directors, pursuant to article 18(1) of the Company's Articles of Association approved its internal Regulations on organisation and operations on 2 October 2013, which is available on the Company's website.

The Board of Directors is responsible for managing the Company's business, and to exercise the powers provided for in Article 16 of the Articles of Association, described in item 9 above, to which reference is made.

Pursuant to article 3 of the Regulations of the Company's Board of Directors, the Chairman of the Board is responsible for:

- a) Co-ordinating the activity of the Board of Directors;
- b) Convening and chairing meetings of the Board of Directors;
- c) Ensuring, in conjunction with the Chief Executive Officer, proper implementation of the resolutions of the Board of Directors;
- d) Ensuring, in conjunction with the Chief Executive Officer, that the Board of Directors is informed of all relevant actions and resolutions of the Executive Committee as well as ensuring that all the clarifications requested by the Board of Directors are provided in a timely and proper manner.

Pursuant to the Articles of Association, the Company Secretary or the corresponding alternate shall also attend Board of Directors' meetings, and they are responsible for organising the papers for the meetings, particularly ensuring that all members are notified, the agenda and supporting documents and for drawing up the minutes.

## 23. Meetings of the Board of Directors and attendance of each member

Under Article 4 of the Regulations of the Board of Directors, the Board of Directors of NOS meets at least 6 times a year and whenever is convened by the Chairman, on his initiative or on the initiative of two Directors.

Under the terms of the Company's Articles of Association, the meetings of the Board of Directors cannot be held without the attendance of the majority of its members then in office and the Chairman of the Board of Directors, in cases of recognised urgency, may dispense the attendance of that majority if it is ensured by postal votes or by proxy.

The Directors may attend the meetings of the Board of Directors by electronic means. The Company shall ensure the authenticity of the statements and the security of communications, recording the contents thereof and identifying the participants.

Postal votes and proxy votes are permitted, although a Director may not represent more than one other Director.

Resolutions of the Board of Directors shall be taken by a majority of the votes cast, the Chairman having a casting vote.



Resolutions taken at meetings of the Board of Directors, as well as explanations of vote, are recorded in the minutes, drawn up by the Company Secretary or by their Alternate.

During 2014, the current Board of Directors met 9 times.

	Board of Directors	Executive Committee	Non-executive Directors	Attendance of meetings of the Board of Directors
Jorge de Brito Pereira	Chairman	---	X	9/9 P
Miguel Almeida	Vice-Chairman	Chairman	---	9/9 P
José Pedro Pereira da Costa	Member	Vice-Chairman	---	9/9 P
Ana Paula Marques	Member	Member	---	9/9 P
André Almeida	Member	Member	---	9/9 P
Manuel Ramalho Eanes	Member	Member	---	9/9 P
Miguel Veiga Martins	Member	Vice-Chairman	---	9/8 P e 1R
Ângelo Paupério	Member	---	X	9/9 P
António Lobo Xavier	Member	---	X	9/8 P e 1R
António Domingues	Member	---	X	9/7 P e 2R
Catarina Tavira	Member	---	X	9/7 P e 2R
Fernando Martorell	Member	---	X	9/9 P
Isabel dos Santos	Member	---	X	9/6 R e 3 A
Joaquim Oliveira	Member	---	X	9/8 P e 1 R
Lorena Fernandes	Member	---	X	9/9 P
Maria Cláudia Azevedo	Member	---	X	9/8 P e 1 R
Mário Leite da Silva	Member	---	X	9/6 P e 3 R
Rodrigo Costa	Member	---	X	9/7 P e 2 R

**P – Present R – Represented A - Absent**

Eventual Directors' absences consecutive or not have always been duly justified and accepted by the Board of Directors.

## 24. Bodies with the power to conduct evaluation of executive directors

The Remuneration Committee is empowered to assess the achievement of goals by the Directors, supported by an opinion issued by the Appointment and Evaluation Committee (AEC).

By resolution taken on 2 October 2013, the Board of Directors, at the beginning of the new term of office corresponding to the three-year period 2013/2015, in its pursuit of the best

corporate governance practices and in compliance with the Recommendations of the CMVM concerning the need for the Board of Directors to create the committees revealed necessary, namely to ensure competent and independent evaluation of the performance of executive directors and of their own overall performance, as well as of the various existing committees, created the AEC, made up of a Chairman and three Members, who are:

<b>Chairman</b>	Ângelo Paupério
<b>Member</b>	Fernando Martorell
<b>Member</b>	Mário Leite Silva
<b>Member</b>	Jorge Brito Pereira

A description of the powers and operation of the AEC is presented in item 29 below.

## 25. Executive Directors evaluation criteria

The evaluation criteria for the members of the Executive Committee are measurable and pre-designed, globally considering the Company's growth and wealth creation in a mid-long term perspective.

As an example, the aggregated items considered for the purposes mentioned above generally combine financial and operational indicators. In this scope and for further detail please refer to items 70 and 71 of this report.

## 26. Availability of the Directors

All the members of the Company's Board of Directors are able to perform their duties with utmost diligence, guaranteeing careful management in accordance with best practices, scrupulously fulfilling their general and fundamental duties, namely: i) the duty of care; ii) the duty of diligent management; and iii) the duty of loyalty.

For a more assertive understanding of the effective availability of the members of the Board of Directors, reference is made to paragraph 19 of this report which contains not only the experience of the members of the Board of Directors, but also the positions currently performed by them.

## 27. Specialized committees

Considering the limits set out by law and the best corporate governance practices, the Board of Directors of NOS, at its meeting on 2 October 2013, created and delegated to an Executive Committee the day-to-day management of the Company, for the term of office corresponding to the three-year period 2013/2015.

In compliance with the legal or regulatory requirements applicable – always with merely ancillary duties, resolutions to be taken only by the Board of Directors – NOS Board of Directors created, in addition to the Executive Committee:

- a. Corporate Governance Committee;
- b. Audit and Finance Committee;

- c. Appointment and Evaluation Committee;
- d. Ethics Committee.

The Corporate Governance, Audit and Finance, Appointment and Evaluation and Ethics committees have operating regulations, available for consultation on the Company's website.

## 28. Composition of the Executive Committee

As previously mentioned, considering the limits set by law and the best corporate governance practices, the Board of Directors of NOS, at its meeting on 2 October 2013, created and delegated to an Executive Committee the day-to-day management of the Company, for the term of office corresponding to the three-year period 2013/2015.

The members of the Executive Committee are chosen by the Board of Directors and the Committee is made up of a minimum of three and a maximum of seven directors, as provided for in Article 17(1) of the Company's Articles of Association.

As mentioned in item 17, from 30 November 2014, the Executive Committee is composed by Miguel Nuno Santos Almeida as Chairman, the Vice-Chairman José Pedro Faria Pereira da Costa, and 3 members, whose professional profiles ensure their recognised standing and competence to perform their duties.

For more detailed information related with the professional experience and expertise to their positions by the Members of the Executive Committee, reference is made to paragraph 19 of this Report.

Additionally, the Board of Directors defined the operation and delegation of management powers to the Executive Committee, which is available for consultation on the Company's website.

The Executive Committee sets the dates and frequency of its ordinary meetings and meets extraordinarily whenever called by the Chairman, the Vice-Chairman or by two of its Members.

The Executive Committee is not able to function without the presence of a majority of its effective members. However, the Chairman may, when clearly urgent, waive the presence of such majority, provided it is represented.

Postal votes and proxy votes are allowed. However, any member of the Executive Committee cannot represent more than one other member. The attendance by means of video or conference call is also allowed.

Resolutions are taken by a majority of votes cast, and the chairman has a casting vote.

The resolutions taken at meetings of the Executive Committee, as well as explanations of vote are recorded in minutes drawn up by the Secretary of the Company or the Alternate.

The Board of Directors delegates to the Executive Committee the necessary powers to develop and implement the day-to-day management of the Company.

The following matters are not subject to delegation:

- a) Election of the Chairman of the Board of Directors;
- b) Co-optain and, where appropriate, election of members of the governing bodies of the Company and its subsidiaries;
- c) Requests to convene General Meetings;
- d) Approval of annual reports and accounts to be submitted to the General Meeting for approval, as well as of the half-yearly and quarterly accounts and of the results to be disclosed to the market;
- e) Approval of the Company's annual business plans, budgets and investment plans of the Company, as well as any material changes and significant impacts thereon;
- f) Definition of the general objectives and principles of the Company policies as well as of the options that must be considered strategic due to their amounts, risk or special characteristics;
- g) Posting bonds and providing personal or real guarantees by the Company;
- h) Major enlargements or reductions of the business or internal organisation of the Company or the Group;
- i) Alteration of the Company's registered office and capital increases;
- j) Approval of the merger, split or transformation of the Company or involving a Group company unless, in these cases, such operations constitute simple internal reorganisations within the framework of approved general objectives and principles;
- k) Appointment of Company Secretary and respective Alternate;
- l) Incorporation of companies and subscription, acquisition, encumbrance and sale of shareholdings involving amounts in excess of € 2,500,000;
- m) Acquisition, disposal and encumbrance of rights, movables and real estate, including any kind of securities, financial instruments, shares and bonds when involving amounts exceeding € 2,500,000;
- n) Conclusion of contracts for the pursuit of the corporate object involving amounts in excess of € 10,000,000;
- o) Entering into any transactions between the Company and shareholders holding qualifying holdings equal to or greater than 2% of the voting rights (Qualifying Shareholders) and/or entities with which they are in a relationship pursuant to Article 20 of the Securities Code (Related Parties), in excess of an individual amount of € 75,000 or of an annual aggregate per supplier entity of € 150,000 (without prejudice to the transactions having been approved in general or framework terms by the Board of Directors);
- p) Passing resolutions, under legal terms and under the Articles of Association, on the issuance of bonds and commercial paper, and on borrowing on domestic and foreign financial markets, one or more occasions, involving amounts in excess of the Company's net financial debt to EBITDA ratio of 2 and up to a limit of € 25,000,000 per contract or issue;

Alongside the day-to-day management of the Company, the Executive Committee is responsible in particular for the following:

- a) Proposing to the Board of Directors the strategic orientation of the Group and the key policies of the Company and its subsidiaries;
- b) Co-operating with the Board of Directors and its Committees as seen to be necessary for the fulfilment of their respective purposes;

- c) Defining the internal rules organization and working rules of the Company and its subsidiaries, in particular with regard to hiring employees and defining their categories, remuneration conditions and other benefits;
- d) Issuing binding instructions to companies that are in a group relationship consisting of total control and monitoring their implementation of the guidelines and policies defined in keeping with the preceding paragraphs;
- e) Exercising disciplinary powers and deciding on the application of any penalties in respect of the Company's employees.

The Chairman of the Executive Committee is responsible in particular for the following:

- a) Co-ordinating the activities of the Executive Committee;
- b) Convening and chairing the Executive Committee meetings;
- c) Ensuring the correct implementation of the resolutions of the Board of Directors;
- d) Ensuring correct implementation of the resolutions of the Executive Committee;
- e) Ensuring compliance with the limits of the delegation of powers, with the Company's strategy and with the duties of co-operation before the Chairman of the Board of Directors, other members of the Board of Directors and other governing bodies;
- f) Ensuring that the Board of Directors is kept informed of the relevant actions and resolutions of the Executive Committee as well as ensuring that all clarifications requested by the Board of Directors are provided in a timely and proper manner;
- g) Ensuring that the Board of Directors is informed on a quarterly basis, of the transactions that, under the delegated powers of the Executive Committee, have been entered into between the Company and shareholders having a qualifying holding of more than 2% of the voting rights (Qualifying Shareholders) and/or entities with which they are in a relationship pursuant to Article 20 of the Portuguese Securities Code (Related Parties), where they exceed the individual amount of €10,000.

The powers delegated to the Executive Committee may be subdelegated, in their entirety or in part, to one or more of its members, or to employees of the Company.

Under the terms defined in the Regulations of the Board of Directors and in the Regulations of the Fiscal Board, in the pursuit of their duties and functions, the Directors and the members of the Fiscal Board shall obtain information on the Company's course of activity, requesting information necessary or convenient at any time for the successful performance of the duties of their office and for the best pursuit of the corporate interest.

Considering the Company's internal rules (namely, pursuant to Regulations of the Board of Directors and the Fiscal Board, as well as the delegation of powers to the Executive Committee) and the practices it follows, NOS has appropriate mechanisms to prevent the existence of an information gap between the executive members and the members of other company bodies.

The Directors who, jointly or separately, intend to access information included within the framework of the powers delegated to the Executive Committee may request it directly from the Chairman of that committee or through the Chairman of the Board of Directors.

Moreover, as follows from the internal regulations on the functioning of the Executive Committee, its Chairman is responsible, in particular for "ensuring that the Board of Directors is informed of the relevant actions and resolutions of the Executive Committee and also

ensuring that all explanations requested by the Board of Directors are provided in a timely and appropriate manner".

In turn, under the terms of the Regulations of the Fiscal Board, whenever deemed necessary, this Board shall request from the Chairman of the Board of Directors:

- a) The minutes of the meetings of the Executive Committee, as well as the half-yearly reports on its activities that it has prepared; and
- b) The notices of meetings, the minutes of the Board of Directors and the corresponding support documents.

## 29. Powers of committees and of the Ethics Committee

### Corporate Governance Committee

By resolution taken on 2 October 2013, the Board of Directors, at the start of the new term of office corresponding to the three-year period 2013/2015, in the pursuit of best corporate governance practices and in compliance with the Recommendations of the Portuguese Securities Market Commission, concerning the need for the Board of Directors to create the committees deemed necessary, in particular, to reflect on the governance system, structure and practices adopted, verify their effectiveness and propose measures to the appropriate bodies with a view to their improvement, created a Corporate Governance Committee (CGC), made up of a Chairman and four Members:

<b>Chairman</b>	Rodrigo Costa
<b>Member</b>	Jorge Brito Pereira
<b>Member</b>	António Lobo Xavier
<b>Member</b>	Lorena Fernandes
<b>Member</b>	Joaquim Oliveira

The powers of the CGC are the following:

- a) To study, propose and recommend the adoption by the Board of Directors of the policies, rules and procedures necessary for compliance with legal, regulatory and Articles of Association's provisions applicable, including recommendations, opinions and best practices, both national and international, in the matter of corporate governance, rules of conduct and social responsibility;
- b) To strive for full compliance with legal and regulatory requirements, recommendations and best practices relating to the Company's governance model and for the adoption by the Company of corporate principles and practices in matters such as:
  - (i) structure, competences and working of the governing bodies and in-house committees and their internal articulation;
  - (ii) requirements as to qualifications, experience, incompatibilities and independence applicable to members of the management and supervisory bodies;
  - (iii) efficient mechanisms for the performance of duties by non-executive members of the management body;
  - (iv) exercise of voting rights, representation and equal treatment of shareholders;
  - (v) prevention of conflicts of interest;

- (vi) transparency of corporate governance, of information to be disclosed to the market and of the relationships with the investors and other Company's stakeholders;
- c) To maintain and supervise the compliance with the Company's Code of Ethics by all its governing bodies, managers and employees and those of its subsidiaries and also to perfect and update the said code, submitting to the Board of Directors such proposals as it may deem appropriate for the purpose, and proposing to the Board of Directors those measures it considers appropriate for the development of a corporate and professional ethics culture within the Company;
- d) To receive, discuss, investigate and evaluate alleged irregularities reported to it, as provided for in the Company's irregularities reporting policy;
- e) To support the Board of Directors in carrying out its supervisory role of the Company's activity in the matters of corporate governance, rules of conduct and social responsibility.

The CGC shall meet at least once a year and may additionally meet whenever convened by its chairman, by any of its members or by the Chairman of the Executive Committee. The resolutions taken are recorded in minutes signed by all the members of this committee taking part in each meeting.

The Regulations of the CGC are available for consultation on the Company's website.

### Audit and Finance Committee

By resolution taken on 2 October 2013, the Board of Directors, at the beginning of the new term of office corresponding to the three-year period 2013/2015, in the pursuit of best corporate governance practices, created an Audit and Finance Committee (AFC), made up of a Chairman and four Members:

<b>Chairman</b>	António Domingues
<b>Member</b>	Ângelo Paupério
<b>Member</b>	Catarina Tavira
<b>Member</b>	Mário Leite Silva
<b>Member</b>	Rodrigo Costa

The powers of the AFC are the following:

- a) to review the annual, half-yearly, quarterly and similar financial statements to be published, and to report its findings to the Board of Directors;
- b) to advise the Board of Directors on its reports for the market to be included in the publication of the annual, half-yearly and quarterly results;
- c) to advise the Fiscal Board, on behalf of the Board of Directors, on the appointment, duties and remuneration of the External Auditor;
- d) to advise the Board of Directors on the quality and independence of the Internal Audit function, and on the appointment and dismissal of the Internal Audit Manager;
- e) to review the scope of the Internal Audit and Risk Management functions, as well as their relationship with the work of the External Auditor;
- f) to review and discuss with the External Auditor and the person in charge of risk management the reports produced within the scope of their duties and, consequently, to advise the Board of Directors on matters deemed relevant;

- g) to review, discuss and advise the Board of Directors on the accounting policies and practices adopted by the Company;
- h) to review transactions between the Company and Shareholders of qualifying holdings equal to or greater than 2% of the voting rights (Qualifying Shareholders) and/or entities with which they are in any relationship pursuant to Article 20 of the Securities Code (Related Parties).

The AFC shall meet at least four times a year and may additionally meet whenever convened by its Chairman, by any of its members or by the Chairman of the Executive Committee.

The resolutions taken are recorded in minutes signed by all the members of this committee taking part in each meeting.

The AFC must coordinate with the Fiscal Board on areas that are the responsibility of that Board by virtue of the law or of the Articles of Association. In addition, the AFC must perform self-evaluations and, once a year, review and propose possible changes to its Regulations.

The Regulations of the AFC are available for consultation on the Company's website.

### Appointment and Evaluation Committee

As in the aforementioned committees, by resolution taken on 2 October 2013, the Board of Directors, at the beginning of the new term of office corresponding to the three-year period 2013/2015, created an Appointment and Evaluation Committee (AEC), made up of a Chairman and three Members, appointed by the Board of Directors from among its members.

At the moment, the AEC has the following composition:

<b>Chairman</b>	Ângelo Paupério
<b>Member</b>	Jorge Brito Pereira
<b>Member</b>	Mario Leite da Silva
<b>Member</b>	Fernando Martorell

The AEC is responsible in particular for the following:

- a) Planning the succession of the members of the Board of Directors;
- b) Monitoring the processes of identifying potential candidates for senior positions and for the firstline management;
- c) Establishing contingency plans for top managers;
- d) Reviewing the policies and proposals regarding the remuneration and other compensation of executive directors and senior managers, as presented by the Chief Executive Officer, and of the Chief Executive Officer or of the non-executive directors, as presented by the Chair of the Board of Directors. This review shall (i) take place once a year and (ii) the Chief Executive Officer and/or other directors present shall, individually, absent themselves from the meeting when their own remuneration is being reviewed. The proposals to be submitted by the Chief Executive Officer or the Chair of the Board of Directors shall be drawn up on the basis of market research and shall result from individual assessments and analysis of KPI (Key Performance Indicators) compliance; and



- e) Conducting the annual process of evaluation of the members of the Executive Committee and performing an overall evaluation of the Board of Directors and of its specialised committees.

The AEC meets at least twice a year and may additionally meet whenever convened by its chairman, by any of its members or by the Chairman of the Executive Committee.

The NEC shall coordinate, in the performance of its duties and whenever necessary, with the Company's Remuneration Committee.

The resolutions taken by the NEC are recorded in minutes signed by all the members of this committee taking part in each meeting.

The Regulations of AEC are available for consultation on the Company's website.

### **Ethics Committee**

The task of CGC is to maintain, oversight, improve and update the Code of Ethics and to suggest measures as may be appropriate to develop an enterprise culture and professional ethics within the Company.

In this regard, on 21 March 2014, the CGC, resolved to propose to the Board of Directors the creation of an Ethics Committee composed as follows:

<b>Chairman</b>	Non-executive Director
<b>Member</b>	Executive Director in charge of Human Resources and the Chairman of the Fiscal Board

Thus, the Ethics Committee is composed by the Chairman and two members, as following:

<b>Chairman</b>	Rodrigo Costa
<b>Member</b>	Ana Paula Marques
<b>Member</b>	Paulo Mota Pinto

The Ethics Committee is responsible in particular for the following:

- Receiving and responding to requests for clarification and expression of concerns related with the Code of Ethics and its observance, through an email created for this purpose;
- Analysing, discussing and appraising the requests for clarification of questions or concerns demonstrations related with the content of the Code or its observance , that have been submitted to the hierarchical managers, to the Human Resources Department or by e-mail created for this purpose;
- Requesting to the internal audit, within the framework of its powers, the investigations that may be deemed necessary at each moment;
- Issuing opinions about measures to be taken as a result of such investigation;
- Promoting and monitoring the implementation of the Code, in particular with regard to communication actions, awareness and training of employees, suppliers and partners, towards the strengthening of an ethical culture;
- Issuing, when requested to do so by any corporate body of the Company, opinions about ethics or conduct codes, or about professional practices which need to meet legal and / or regulatory requirements;
- Making an annual review of the suitability of the Code of Ethics and respective procedures concerning the needs of NOS;

- Suggesting to CGC policies, goals, instruments and indicators regarding the management system of corporate ethical performance;
- Ensuring the management system of corporate ethical performance is compatible with the requirements of NOS internal control system;
- Informing the CGC about the adopted resolutions;
- Reporting regularly to the Executive Committee and the CGC;
- Clarifying questions arising from the Code, including, without limitation, the clarification on the matters which are subject to the competence of the Fiscal Board under the Whistleblowing Regulation or other legal powers of this body as opposed to the matters that are under the Ethics Committee's competence under the Code;
- Preparing the annual report of activity in order to meet the Company's commitments concerning sustainability.

The resolutions of the Ethics Committee are taken by a majority or, in the event of a tie, by the casting vote of its Chairman.

The Ethics Committee is able to receive requests for clarification or the manifestation of concerns related with the Code of Ethics and its observance, presented by employees, partners, suppliers, customers or third parties, in person or in writing. The Ethics Committee also appreciates the requests for clarification and concerns relating with possible breaches of the Code of Ethics.

The Ethics Committee is assisted by the Internal Audit Director.

### III. Supervision

#### 30. Identification of the Fiscal Board

Pursuant to Article 278(1)(a) and (3) and Article 413(1)(b), all of CSC, and Article 10(1) and Article 21 both of the Articles of Association, the supervision of the Company is the responsibility of:

- a) a Fiscal Board;
- b) a Statutory Auditor;

Being their duties those prescribed by law.

#### 31. Composition of the Fiscal Board on 31 December 2014

##### Fiscal Board

Pursuant to Article 22 (1) of the Company's Articles of Association, the Fiscal Board is made up of three full members and an alternate member, elected by the General Meeting, which shall also elect its Chairman. It is made clear that there is no provision in the Articles of Association requiring a minimum or maximum number of members of the Fiscal Board, since it should necessarily be made of three members and one alternate member.

Pursuant to Article 10(6) of the Company's Articles of Association, the members of the corporate bodies perform their duties for renewable periods of three calendar years, the calendar year of their appointment being considered a full year.

At the extraordinary General Meeting, on 1 October 2013, the following members were elected for the first time as members of the Fiscal Board, for the three-year period 2013/2015:

<b>Chairman</b>	Paulo Cardoso Correia da Mota Pinto
<b>Member</b>	Eugénio Luís Lopes Franco Ferreira
<b>Member</b>	Nuno Tiago Bandeira de Sousa Pereira
<b>Alternate</b>	Luís Filipe da Silva Ferreira

The Fiscal Board members were elected for the period 2013/2015; hence, they will remain in office until the end of the calendar year 2015, that is, 31 December, 2015.

### Statutory Auditor

Pursuant to article 22 (3) of the Company's Articles of Association, the Statutory Auditor, full and alternate, are elected by the General Meeting acting on a proposal from the Fiscal Board.

Pursuant to article 10 (6) of the Company's Articles of Association, the members of the corporate bodies perform their duties for renewable periods of three calendar years, the calendar year of their appointment being considered a full year.

At the General Meeting, on 23 April 2014, the following were elected as full and alternate Statutory Auditors for the three-year period 2013/2015:

**Full:** Ernst & Young Audit & Associados, SROC, S.A., (ROC No. 178), represented by Ricardo Filipe de Frias Pinheiro (ROC No. 739).

**Alternate:** Paulo Jorge Luís da Silva (ROC No 1334)

The Statutory Auditors were elected for the period 2013/2015; hence they will be in office until the end of the calendar year 2015, that is, 31 December 2015.

## 32. Identification of independent members

All the members of the Fiscal Board are independent in the light of the criteria laid down in Article 414(5) of the CSC and have the relevant expertise to perform their duties.

## 33. and 36. Professional qualifications, availability and other offices held by the members of the Fiscal Board

The members of the Fiscal Board are manifestly suitable and have academic and professional experience appropriate to the exercise of supervisory functions.

The members of the Company's Fiscal Board are appointed, replaced or dismissed in accordance with the law, notably and respectively, under the terms of articles 415 and 419 of the CSC.

In order to ensure a more assertive understanding of the availability of the Fiscal Board members, the functions performed by them, as well as their academic and professional qualifications and professional activities in the last 5 years, are described below:

### **Paulo Cardoso Correia da Mota Pinto**

#### **Qualifications:**

Degree, Master's and Doctorate in Law at Universidade de Coimbra, Faculdade de Direito.

#### **Professional Experience:**

- He began his teaching career in 1990 and is a Professor at the Faculty of Law of the University of Coimbra, where he has taught, above all, the subjects of General Theory of Civil Law, Civil Contracts and Property Law. He has also taught and given lectures in the field of private law at other universities in Portugal and abroad (Brazil, Angola, Mozambique, Macau, Spain, Germany, etc.);
- Member of various Master's and Doctoral panels, particularly in the field of private law, sometimes as examiner. He has published studies (articles and books) mainly in the field of civil law and fundamental rights and has written preliminary drafts of laws (such as the legal rules governing the sale of consumer goods and direct-mail advertising);
- Corresponding member of the International Academy of Portuguese Culture, elected in 2012;
- Since April 2007 he has worked as a legal adviser and arbitrator. In this latter capacity, he has chaired or been a member of ad hoc arbitral tribunals, set up by the Centres for Commercial Arbitration of the Associação Comercial do Porto and the Associação Comercial de Lisboa or for the International Court of Arbitration of the International Chamber of Commerce;
- He is a member of the Luso-Brazilian Institute of Comparative Law, of the Deutsch Lusitanische Juristenvereinigung, of the European Research Group on Existing EC Private Law (Acquis Group) and of the Expert Group appointed by the European Commission to review the Draft Common Frame of Reference on Contract Law. He has been a member of the Committee for Reform of Consumer Law and for the Consumer Code;
- A Member of Parliament, he was Chairman of the Parliamentary Budget and Finance Committee of the 11th Legislature, from November 2009 to April 2011. He has been Chairman of the European Affairs Committee, of the 12th Legislature, since June 2011. In 2011, he was a member of the Political Committee for the new candidacy of Professor Cavaco Silva for the position of President of the Republic;
- Chairman of the Intelligence Oversight Committee of the Portuguese Republic, elected by the Assembly of the Republic, since March 2013;
- Constitutional Court Judge, elected by the Portuguese Parliament, from 11 March 1998 to 4 April 2007, having been rapporteur in that capacity for more than 550 judgments and more than 350 summary decisions on a variety of subjects (almost all available unabridged at [www.tribunalconstitucional.pt](http://www.tribunalconstitucional.pt));
- Legal advisor for BPI – Banco Português de Investimento, from 1991 to 1998;
- Vice-Chairman of the National Political Committee of the PSD between 2008 and 2010, he drew up the election programme that the PSD presented at the general elections on 27 September 2009 ("Compromisso de Verdade").

## **Nuno Tiago Bandeira de Sousa Pereira**

### **Qualifications:**

- Ph.D. in Applied Microeconomics from the Wharton School of the University of Pennsylvania, in 2006, with a dissertation entitled "Firm Boundaries, Performance and the Selection of Partners: Evidence from Pharmaceutical and Biotech Alliances";
- Master's in Economics from Universidade do Porto, Faculdade de Economia, in 2000;
- Degree in Economics from Universidade do Porto, Faculdade de Economia;
- Fundação Eng.º António de Almeida Prize as one of the students with the highest undergraduate grade averages.

### **Professional experience:**

- Director of Porto Business School;
- Assistant Professor at the Universidade do Porto, Faculdade de Economia;
- Member of the Board of Directors of BIAL Foundation;
- Member of the Deans Across Frontiers Committee of the European Foundation for Management Development (EFMD);
- General Director of the Office of Planning, Strategy, Assessment and International Relations of the Ministry of Finance and Public Administration;
- Representative of Portugal on the Board of Directors of the European Investment Bank, in 2008 and 2009, where he was a member of the Remuneration and Pensions Sub-Committee;
- He chaired the Portuguese representation on the Economic Policy Committees of OECD and European Commission from 2007 to 2009;
- He has represented Portugal at the World Bank, the Inter-American Development Bank, the African Development Bank and the Asian Development Bank;
- He chaired the Monitoring Committee for the Exchange Agreement between Portugal and Cape Verde, negotiated the exchange agreement between Portugal and São Tomé and Príncipe and the Portuguese membership of the CAF Development Bank of Latin America;
- He has been Chairman of the Fiscal Board and Vice-Chairman of the Board of Directors of the Portuguese Association for Health Economics.

## **Eugénio Luís Lopes Franco Ferreira**

### **Qualifications:**

Degree in Economics from the Universidade do Porto, Faculdade de Economia in 1976, where he taught Financial Mathematics on 1976/77. During his professional career, he had attended numerous training courses in several European countries and the United States.

### **Professional experience:**

- Started his career in 1966 in a small company. In 1977 he joined Price Waterhouse (PW), now PriceWaterhouseCoopers (PwC), where he became a Partner in 1991. At PW/PwC he joined the Auditing Department, and afterwards Transaction

Services, taking part in numerous audits of companies and other entities and consultancy projects. In most cases, the scope of his responsibilities as an auditor included the performance of duties as member of the Fiscal Board or as Statutory Auditor;

- o Member of the Fiscal Board of Corticeira Amorim, SGPS, S.A.;
- o Member of the Portuguese Association of Statutory Auditors (member of the management board 2009-2011), of the Association of Economists, of the Association of Chartered Accountants and Partner of the Portuguese Institute of Corporate Governance;
- o At different times played various internal functions in PW / PwC, notably (i) the head of the Oporto office (1989-1998); (ii) territorial responsibility for the technical audit function and risk management ("Technical Partner" and "Risk Management Partner"); (iii) responsibility for administrative functions, financial and internal computer ("Finance & Operations Partner"); (iv) responsible for the Audit Department; (v) member of the Executive Committee ("Territory Leadership Team"). (In accordance with the rules applicable to reforming Partners, he ceased his relation with PwC in 2009 and started to act professionally as a consultant in free regime).

## **Luís Filipe da Silva Ferreira (Alternate)**

### **Professional experience:**

- o Started his professional career on 1970 at Coopers & Lybrand (now PwC PricewaterhouseCoopers). On 1975, after carrying out obligatory military service (1973/75) started his career as an auditor. In January 1986 he was co-opted to Partner. On the same date, started the Consulting business line. As Partner kept responsibilities as Account Manager (Global Relationship Partner), including development projects of the three business lines - Assurance, Advisory and Tax, large clients of the Firm - EDP groups, REN, EDA, Generg, Portugal Águas, Cimpor, Tabaqueira, Vale de Lobo and public sector companies - ANA, REFER, Estradas de Portugal, Administração dos Portos de Lisboa and Sines. In some cases, the extent of responsibilities as auditor included the performance of functions in the Fiscal Board. (In accordance with the rules on reform of Partners, ceased connection PwC in 2012, and started to act professionally as a consultant in free regime);
- o Member of the Monitoring Committee for the concession of Águas do Vouga, SA;
- o Pro-bono contributor to BLC3 – Plataforma para o Desenvolvimento da Beira Interior, assuming the functions related with the Financial Risk Management of the Association and Projects;
- o Develops training activities for oil and gas;
- o Participation in the innovation and development of products arising of social and civic saving projects;
- o Advisor to public authorities on public service policy issues related to mobility;
- o Certified as a Financial Advisor Autonomous (Certified Financial Adviser) by the CMVM / Euronext Lisbon (2002), Financial Controller recognized by OROC – Ordem dos Revisores Oficiais de Contas (2001), CISA - Certified Information Systems Auditor, by ISACA - Information Systems Audit and Control Association, Illinois, USA. (1994), TOC - Accountant by the Câmara dos Técnicos Oficiais de Contas (1979) and Certified as a professional trainer;
- o Advisor to the Minister for Public Works, Transport and Communications from 2004 to 2011;

- He also held internal positions within the firms, notably: he was responsible for the launch of operations in Algarve, he was the head of the Auditing and Accountancy Technical Department and of the internal administrative, financial and IT services and responsible for the Governance and Audit Committee;
- Internal and external instructor, teaching Information Systems, Computer Auditing, Systems and Consolidated Financial Processes on specialised, postgraduate and master degrees.

### 34. Regulations of the Fiscal Board

Under the terms of the Company's Articles of Association and the Regulations of the Fiscal Board, this Committee carries out the functions and duties provided for in Articles 420, 420-A and 422, all of the CSC.

In the performance of its duties assigned by law and the Articles of Association, the Fiscal Board is responsible in particular for the following:

- a) Supervising the management of the Company;
- b) Ensuring that the law and the Articles of Association are observed;
- c) Verifying the regularity of all books, accounting registers and supporting documents;
- d) Whenever it deems such action convenient and by the means it considers appropriate, verifying the extent of cash and the stock of any kind of assets or securities belonging to the Company or received by it by way of guarantee, as a deposit or in any other capacity;
- e) Verifying the accuracy of the financial statements;
- f) Verifying whether the accounting policies and valuing criteria adopted by the Company lead to the correct valuation of the assets and the results;
- g) Drawing up an annual report on its supervision of the Company and issuing a statement of opinion on the annual report, accounts and proposals presented by the management, in which it must express its agreement or not with the annual management report, with the annual accounts and with the legal certification of accounts or declaration that it is impossible to certify the same accounts;
- h) Convening the General Meeting whenever the Chairman of the General Meeting fails to do so;
- i) Supervising the process of preparation and disclosure of financial information;
- j) Supervising the auditing of the Company's financial statements;
- k) Engaging the services of experts to assist one or more of its members in the exercise of their duties. The engagement and remuneration of experts must take into account the importance of the matters committed to their attention and the economic situation of the Company;
- l) Assessing the functioning of the risk management system, the internal control system and the internal auditing system and supervise their efficiency, proposing any adjustments that may be deemed necessary, as well as receiving the corresponding reports;
- m) Receiving notifications of irregularities ("whistleblowing") submitted by shareholders, Company employees or others, informing the Company entity responsible for handling the reported irregularity;
- n) Being the main counterpart of the external auditor and the first recipient of the relevant reports, and being responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the Company;

- o) Assessing the external auditor on an annual basis and proposing to the competent body its dismissal or termination of the contract for services when there is a valid basis for said dismissal;
- p) Proposing the appointment of the Statutory Auditor to the General Meeting;
- q) Supervising the independence of the Statutory Auditor, in particular with regard to the provision of additional services;
- r) Approving the engaging of the external auditor or any entity which are its affiliates or part of the same network, for services other than audit services, by the Company or any entities with which it is linked by a relationship of control. Such engagements must be clarified in the Annual Report on Corporate Governance and must not exceed more than 30% of the total value of services rendered to the Company;
- s) Issuing a prior opinion on relevant business activities with qualified shareholders, or entities with who they are in any relationship, according to article 20 of the Portuguese Securities Code;
- t) Confirming whether the corporate governance report disclosed includes the information listed in article 245-A of the Portuguese Securities Code;
- u) Carrying out any other duties required by law or by the Articles of Association.

In particular, the Fiscal Board must:

- a) Supervise and issue its opinion on the Company's annual, half-yearly and quarterly financial information, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy of the accounting documents;
- b) To make a decision, in advance and in good time, and give a prior opinion, within the limits of its legal powers and powers regulated under the Articles of Association and duties and whenever deemed necessary to fulfil its responsibilities and duties as set forth in these Regulations, on any reports, documentation or information of a financial nature, that are assessed by the Board of Directors and are to be disclosed to the market, or to be submitted by the Company to any competent supervisory authority.

For the exercise of their functions, any member of the Fiscal Board may, jointly or separately:

- a) Obtain from the management the presentation of any books, records and documents belonging to the Company for examination and certification thereof, and verify the existence of any types of assets, notably cash, securities and merchandise;
- b) Obtain from the management or from any of the directors information or clarifications about the course of the operations or activities of the Company or about any of its businesses;
- c) Obtain, under the terms of article 421 (2) of CSC, from third parties who have carried out operations on behalf of the Company, any information required for clarification of such operations;
- d) Attend board meetings, whenever it sees fit.

In addition to general and particular duties emerging from their duty of supervision, the members of the Fiscal Board have:

- a) The duty to exercise conscientious and impartial supervision, without taking any advantage of the information to which they have access in the course of their duties;
- b) The duty to attend meetings of the Board of Directors to which its Chairman calls them, to attend meetings of the Executive Committee of the Board of Directors in



which the quarterly, half yearly and annual accounts are reviewed and to attend the General Meetings;

- c) The duty to keep confidential any facts and information made known to them as a result of their supervisory activity, notwithstanding the duty to report any criminal activities to the competent authorities and to report at the first General Meeting that takes place, all irregularities and inaccuracies found and explanations asked for and received concerning them;
- d) The duty to report to the Company reasonably in advance or, if unforeseeable, immediately, any circumstances that affect their independence and impartiality or that constitute a legal conflict of interest to carry out their duties;
- e) The duty to report to the Company, within three days, any acquisition or sale of shares or bonds issued by the Company or any of its subsidiaries, made by themselves or by any person or entity as determined by law, in particular article 20 and article 248-B of the Portuguese Securities Code and article 447 of CSC.

The relationship between the Fiscal Board and the Board of Directors should be assured by the Chairman of the Fiscal Board and by the Chairman of the Board of Directors or by the Director that the Board of Directors designates for that purpose.

The Fiscal Board obtains from the Board of Directors, namely through the AFC of the Board of Directors, all the necessary information to carry out its duties, namely relating to the operational and financial progress of the Company, changes to its business portfolio, the terms of any transactions that have occurred and the details of the resolutions taken.

The Fiscal Board may, whenever deemed necessary, request from the heads of the different departments any information considered necessary for carry out its duties, generally giving prior notice to the Executive Committee.

The Fiscal Board, whenever deemed necessary, shall request from the Chairman of the Board of Directors:

- a) The minutes of the meetings of the Executive Committee, as well as the half-yearly reports on its activities that it has prepared; and
- b) The notices of meetings, the minutes of the Board of Directors and the corresponding support documents.

Each year the Fiscal Board obtains from the internal auditor information on the internal audit plan and a periodical summary of the main conclusions of the internal audit, without prejudice to it also being a recipient of the internal audit report.

The Fiscal Board keeps a record of all irregularities that are reported, taking necessary measures with the Board of Directors and/or the internal and/or external auditors, and prepares a report thereon.

The Regulations of the Fiscal Board are available for consultation on the Company's website.

## **35. Meetings of the Fiscal Board and attendance of each member**

The Fiscal Board meets at least quarterly and may meet extraordinarily on the initiative of its Chairman or at the request of any of its members, who must propose the date and agenda for such purpose.

Minutes shall be drawn up for each meeting, which are subject to formal approval at the following meeting and signed by all the members who attended the meeting.

The resolutions of the Fiscal Board are taken by a majority, the chairman having a casting vote.

Members who do not agree with the resolutions must state the reasons for their disagreement in the minutes.

During the year of 2014, the Fiscal Board met 13 times.

	Attendance at the meetings of the Audit Committee
Paulo Cardoso Correia da Mota Pinto	13/13 P
Eugénio Luís Lopes Franco Ferreira	13/12 P
Nuno Tiago Bandeira de Sousa Pereira	13/13 P

**P – Present**

### 37. Intervention in engaging additional services from the external auditor

In order to ensure the independence of the External Auditor, the Fiscal Board, according to its Regulations, has the following powers and duties with regard to the external audit:

- Approves the hiring of the external auditor, or any entities affiliated to the former, of other services other than audit services by the Company or any entity that keeps a control relationship with the Company. Any engagements shall be provided in the Annual Corporate Governance Report and shall not exceed 30% of the total value of services rendered to the Company;
- It is the main counterpart of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the Company; and
- It evaluates the external auditor on an annual basis and proposes to the relevant corporate body its dismissal or termination of the contract of services where there is a valid basis for the said dismissal.

In addition, the Fiscal Board, on 15 December 2014 approved a new version of the Regulation for the provision of services by the external auditors, which defines the rules applicable to services other than audit services ("Non Audit Services") or related to audit ("Audit Related Services") provided by the external auditor to NOS and its affiliated companies, included on the appropriate scope of consolidation. This Regulation shall apply to services provided by the external auditor and related companies.

Under the mentioned regulation, hiring services other than audit or audit-related services should be seen as exceptions or complements, respectively, and in accordance with the rules laid down in that Regulation.

The assessment of the eligibility of the service depends on the approval and authorization of the Fiscal Board, which considers the following principles: (i) an auditor cannot audit his own

work; (ii) an auditor cannot perform any function or perform work that is the responsibility of management; and (iii) an auditor cannot directly or indirectly act on behalf of his client.

The annual fees for Non Audit Services cannot exceed the amount corresponding to 30% of the total fees for auditing services provided annually to the Company and its subsidiaries, included in the consolidation perimeter using the full consolidation method.

According to the new Regulation for Services Rendered by External Auditors, approved on December 2014 by the Fiscal Board, the provision of Non Audit Services by the External Auditor, representing more than € 15,000, requires prior approval and authorization of the Fiscal Board.

### 38. Other functions

Under the terms of the Company's Articles of Association and their regulations, it is to be noted that the Fiscal Board:

- Evaluates the functioning of the risk management system, the internal control system and the internal auditing system and supervises their efficiency, proposing any adjustments that may be deemed necessary, as well as receiving the corresponding reports;
- Receives notifications of irregularities (whistleblowing) submitted by shareholders, Company employees or others, informing the Company's entity responsible for handling the irregularity reported;
- Issues a prior opinion on relevant business activities with qualified shareholders, or entities with which they are in any relationship, according to article 20 of the Portuguese Securities Code;
- Supervises and issues its opinion on the Company's annual, half-yearly and quarterly financial information, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy of the accounting documents; and
- Makes a decision, in advance and in good time, and gives a prior opinion on any reports, documents or information of a financial nature that may be evaluated by the Board of Directors and is to be disclosed to the market, or submitted by the Company to any competent supervisory authority.

## III. Statutory auditor

### 39. Identification of the statutory auditor

Pursuant to article 22 (3) of the Company's Articles of Association, the Statutory Auditor, full and alternate, is elected by the General Meeting acting on a proposal from the Fiscal Board.

At the General Meeting, on 1 October 2013, the following were elected as full and alternate Statutory Auditors for the three-year period 2013/2015:

**Full:** PricewaterhouseCoopers & Associados, SROC, Lda. (ROC No. 183), represented by (i) Abdul Nasser Abdul Sattar (ROC No. 958), or (ii) Paulo Alexandre Martins Quintas Paixão (ROC No. 1427);

**Alternate:** José Manuel Henriques Bernardo (ROC No. 903).

Nevertheless, as announced to the market on 3 January 2014, the Company received a notification on 30 December 2014, from its full Audit Firm - PricewaterhouseCoopers & Associados, SROC, Lda. - according to which it was then represented by: (i) Hermínio António Paulos Afonso (ROC No. 712), or (ii) Jorge Manuel Santos Costa (ROC No. 847).

Afterwards, on 24 March 2014, the full Statutory Auditors - PriceWaterhouseCoopers & Associados, SROC, Lda. (ROC No. 183), registered at the Commercial Registry of Lisbon under number 506 628 752 and represented by Herminio António Paulos Afonso (ROC No 712) or by Jorge Manuel Santos Costa (ROC No 847) and Alternate Statutory Auditor, José Manuel Henriques Bernardo (ROC No. 903), all elected for the period of 2013/2015 at the General Meeting held on 1 October 2013, submitted their resignation to the respective positions.

In this sense, at the General Meeting carried out on 23 April 2014, were elected as full and alternate Statutory Auditors for the period 2013/2015:

**Full:** Ernst & Young Audit & Associados, SROC, S.A., (ROC No. 178), represented by Ricardo Filipe de Frias Pinheiro (ROC No. 739); and

**Alternate:** Paulo Jorge Luís da Silva (ROC No. 1334).

#### 40. Number of years working for the company

As mentioned in the above item, in the General Meeting held on 23 April 2014, the new full and alternate Statutory Auditors were elected for the period 2013/2015.

Thus, new full and alternate Statutory Auditors began their functions in the Company on 2014.

#### 41. Description of the services provided

On 31 December 2014, Ernst & Young Audit & Associados, SROC, SA, also played the functions of External Auditor of the Company.

### IV. External auditor

#### 42. Identification of the external auditor and partner

The external auditors of NOS are independent entities with international reputation, being their actions closely monitored and supervised by the Company's Fiscal Board.

NOS does not grant its external auditors any damages protection.

The External Auditor should, within the framework of its powers, verify the implementation of policies and systems concerning the remuneration of corporate bodies, the efficiency and the effectiveness of internal control mechanisms and report any disabilities to the Fiscal Board, in full compliance with the recommendation IV.1 of the CMVM Corporate Governance Code (2013).

On 31 December 2014, NOS external auditor was Ernst & Young Audit & Associados, SROC, S.A., (ROC No. 178), represented by Ricardo Filipe de Frias Pinheiro (ROC No. 739).

#### **43. Number of years working for the company**

On 24 March 2014, PriceWaterhouseCoopers & Associados, SROC, Lda. (ROC No. 183), registered at the Commercial Registry of Lisbon under paragraph 506 628 752, and represented by Herminio António Paulo Afonso (ROC No. 712) or by Jorge Manuel Santos Costa (ROC No. 847), the External Auditor of the Company since 2008 and who was serving his third term, submitted his resignation.

Therefore, further the favourable opinion of AFC and the proposal of the Fiscal Board, the appointment of Ernst & Young Audit & Associados, SROC, S.A. as new external auditor of the Company was approved in the Board of Directors' Meeting on 24 March 2014.

Thus, 2014 is the year that the current External Auditor and the respective partner started their functions at the Company.

#### **44. Rotation of the external auditor and partner**

Pursuant to the Regulations of the AFC, this Commission advises the Fiscal Board, on behalf of Board of Directors, regarding the appointment, duties and remuneration of the External Auditor.

As provided for in the Regulations of the Fiscal Board, this Committee evaluates the external auditor on an annual basis and proposes to the competent body its dismissal or termination of the contract for services when there is a valid basis for said dismissal.

Neither the Articles of Association nor the internal regulations set out the periodic rotation of the External Auditor. However, the practices followed by the Company are aligned with the recommendation IV.3 of the CMVM Corporate Governance Code.

#### **45. Body responsible for assesment of the external auditor and periodicity**

In view of the above, in compliance with Recommendation II.2.3. of the CMVM Corporate Governance Code (2013) and pursuant to article 3 (1) (o) of the Regulations of the Fiscal Board, this Board annually evaluates the External Auditor, and proposes to the competent body its dismissal or the termination of the service agreement whenever there is a valid reason.

#### **46. Identification of non-audit services**

As mentioned in item 37, on December 2014, the Fiscal Board approved the Regulation for the provision of services by external auditors that defines the regime applicable to non-audit or audit related services provided by the external auditor to NOS and its subsidiaries included in its scope of consolidation. These regulations are applicable to the services provided by the External Auditor and related companies.

Under the aforementioned regulations, the hiring of non-audit or audit-related services must be considered as an exception or a complement, respectively, and in accordance with the rules set out in those Regulations. Assessment of the admissibility of the rendered services depends on an evaluation by the Fiscal Board, which will consider the following principles: (i)

an auditor may not audit his own work; (ii) an auditor may not hold a position or carry out work that is a management responsibility; (iii) an auditor may not act directly or indirectly in representation of his client.

The non-audit services mainly included, in 2014, tax advisory services to NOS and its Group companies.

The non-audit services were hired from the External Auditor in accordance with the policy previously defined and the Fiscal Board recognised that their hiring did not affect the independence of the External Auditor.

#### 47. Remuneration paid to the auditor and its network

On 2014, NOS Group (the Company and companies controlled by or in a group relationship with the Company) paid, as fees to NOS Statutory Auditor and External Auditor, Ernst & Young, S.A. (E&Y), and to its network of companies, the following amounts:

	NOS		Companies included in the group		Total	
	Value	%	Value	%	Value	%
Statutory audit and other auditing services	39,500	73%	120,500	76%	160,000	75%
Other reliability assurance services	1,600	3%	10,150	6%	11,750	6%
Auditing Services	41,100	76%	130,650	83%	171,750	81%
Tax advisory services	13,000	24%	27,500	17%	40,500	19%
Other services	-	0%	-	0%	-	0%
NOS	54,100	100%	158,150	100%	212,250	100%

The risk management policy at NOS, supervised by the Fiscal Board in coordination with the AFC, monitors and controls the services requested from the External Auditor and their network of companies, in order for their independence not to be undermined. The fees paid by NOS Group to E&Y represent less than 1% of the total annual turnover of E&Y, in Portugal. In addition, every year a "Charter of independence" is prepared, in which E&Y guarantees the compliance with international guidelines on auditor independence.

In addition, pursuant to the regulations approved by the Fiscal Board, the annual fees for non-audit or audit-related services in total may not exceed an amount corresponding to 30% of the total fees with auditing services. In 2014, the auditing services represented 81% of total fees. Quarterly, the Fiscal Board receives and analyses the information concerning the fees and services provided by the External Auditor.

The Fiscal Board, in the course of its duties, carries out each year a global assessment of the performance of the external auditor and also of its independence. In addition, whenever necessary or appropriate on the basis of developments in the Company's activity or configuration of the market in general, the Fiscal Board reflects on the suitability of the

external auditor to carry out its duties. The current external auditor of the Company started its work at NOS on 2014, ensuring the compliance with the Recommendation IV.3 of the CMVM Corporate Governance Code (2013), which stresses out a threshold of three terms of office.

## C. Internal organization

### I. Articles of association

#### 48. Rules on changing the articles of association

By law and under the Company's Articles of Association (article 12 (4) (d)), changes in the Articles of Association, including those concerning capital increases, always depend of Shareholders resolutions.

Such resolutions are taken by a majority of two thirds of the votes cast, corresponding to the majority provided for by law, not applying, therefore, any qualified meeting quorum or resolving quorum.

Thus:

- For the General Meeting to be able to vote, on first notice, on a change in the Articles of Association, shareholders must be present or represented holding at least shares corresponding to one third of the share capital. On second call, the meeting may vote whatever the number of shareholders present or represented and the capital they represent (article 383 (2) and (3) of CSC);

- Resolutions concerning changes in the Articles of Association must be approved by a minimum of two thirds of the votes cast, whether the General Meeting meets on first or on second call, unless, in the latter case, shareholders holding at least half of the share capital are present or represented, in which case these resolutions can be taken by a majority of the votes cast (article 386 (3) of CSC).

### II. Reporting of irregularities

#### 49. Means and policy

NOS has a policy for reporting irregularities occurring within the Company, and has a Regulation on Procedures to be Adopted in respect of the Irregularities Report ("Whistleblowing"), approved on 12 February 2014.

In connection with this Regulation, "irregularities" are considered to be all intentional or negligent acts or omissions occurring in the course of the Group's activities, contrary to legal or regulatory provisions, which set out violations of ethic or legal nature, with material impact in the following domains:

- a) Accounting;
- b) Auditing;

- c) Intern control and corruption combatting; and
- d) Any kind of financial crimes.

The members of the corporate bodies or other managers, directors, collaborators and other employees of the Group, regardless of their hierarchical rank or professional relationship, participate in the implementation of the irregularities communication policy through internal communications in accordance with the rules and procedures provided for in the Whistleblowing Regulation.

The existence of this Regulation was announced on NOS' intranet and on the Company's website.

Any communication covered by the Regulation shall be treated as confidential, unless the author expressly and unequivocally requests otherwise. Anonymous complaints will only be accepted and treated on an exceptional basis and, in any case, no reprisal or retaliation will be tolerated against those that make the mentioned communications.

The reporting of any signs of irregularities must be made in writing, with the indication "confidential", addressed to the Fiscal Board, by letter sent to the post box address Apartado 14026 EC, 5 de Outubro, 1064-001 Lisboa, or to the electronic mail address [comunicar.irregularidades@nos.pt](mailto:comunicar.irregularidades@nos.pt), choosing the author one of the above mentioned ways of communication.

The Fiscal Board is responsible for receiving, recording and processing the communications of irregularities that occur in NOS or in the companies within the respective group and for undertaking other acts which are necessarily related with those powers.

After being registered, the communications are subject to a preliminary analysis in order to ensure the degree of credibility of the communication, the irregular nature of the reported behaviour, the viability of research and the identification of the people involved or who have knowledge of the relevant facts and, in this regarding, must be confronted or surveyed. The report of the preliminary analysis shall conclude by the continuation - or not - of the investigation.

If the Fiscal Board considers that the communication is consistent and plausible, an investigation begins, conducted and supervised by the Fiscal Board, which will be made known to the CGC and the Ethics Committee. Once the investigation phase is concluded, the Fiscal Board shall prepare a report, duly substantiated on the facts found during the investigation, and will present its resolution, proposing to the Board of Directors or, as the respective delegation, to the Executive Committee, measures that are deemed appropriate in each case.

The Internal Audit must assist the Fiscal Board. The Fiscal Board may also hire external auditors or other experts to assist in the investigation, when the specialty of matters requires specialized services.

The Fiscal Board, within the limits of its powers, shall monitor the correct application of the procedure established by the aforementioned Regulation.



### III. Internal control and risk management

#### 50. Entities responsible for internal auditing and risk management

The internal control and risk management system at NOS consists of various key parties with the following responsibilities and goals:

- **Executive Committee** – The Executive Committee is responsible for the creation and functioning of the Company's internal control and risk management system, in exercise of the powers of day-to-day management conferred by the Board of Directors. It is also responsible for setting risk objectives, in order to ensure that the risks actually incurred are consistent with those objectives.
- **Areas of business** – Each functional department in NOS business units is, as part of its responsibility in corporate or functional processes, responsible for the implementation of internal controls and for the management of their specific risks. In addition, for the development of certain risk management programmes, specific risk management teams may be set up, such as risk committees or working teams. These normally include an executive coordinator, a committee of directors and a team of pivots (interlocutors) representing the business units.
- **Risk Management** – The risk management areas work to raise awareness, measure and manage business risks that interfere with the fulfilment of goals and with value creation within the organisation. They contribute with tools, methodologies, support and know-how to the business areas. They also promote and monitor the implementation of programmes, projects and actions aimed at bringing risk levels close to the acceptable limits laid down by the management.
- **Internal Auditing** – Assesses risk exposure and verifies the effectiveness of risk management and of internal control of both business processes and information and telecommunications systems. Proposes measures to improve internal controls, aimed at more effective management of business and technology risks. Monitors the evolution of risk exposure associated with the main findings and non-conformities identified in the audits.
- **External Auditor** – Verifies the effectiveness and functioning of internal control mechanisms and reports weaknesses identified to the Company's supervisory body. The external auditor is responsible for verifying the accounts and for issuing the legal certification of accounts and an audit report.

As a part of the Internal Control and Risk Management System, the Company has a corporate department specialising in risk – the Department of Internal Auditing and Risk Management – the mission of which is to contribute to effective management of NOS business risks. These Internal Auditing and Risk Management teams support the Company in the fulfilment of its objectives, adding value and improving the Company's operations, through a systematic and disciplined approach in order to assess and help to improve the effectiveness of risk management, internal control and corporate governance processes.

The area of **Risk Management** includes the teams from the Risk Management and Continuous Risk Monitoring Programmes. Within its scope is the maintenance of an integrated system that includes the following activities: the management of Enterprise Risk Management, the management of the Internal Control Manual, management of the Information Security Management programme and its certification to ISO 27001 – Information security

management systems, management of the Business Continuity Management programme, as well as the continuous monitoring of risks, through key indicators and follow-up of actions.

These teams perform risk analysis, propose risk management policies for the Company and coordinate cross-cutting programmes or projects to implement risk management or internal control processes, ensuring the review, assessment and adaptation of the internal control manuals implemented in the main NOS businesses. There are also risk management functions in some of the areas of business, particularly when the existence of specific pivots (interlocutors) is important for certain special aspects of risk management, such as Business Continuity Management, Information Security Management and Management of the Internal Control Manual.

The area of **Internal Auditing** covers the Business Process Auditing and Systems Auditing teams. The following activities fall within its scope: assurance audits of processes and systems, compliance audits of the Internal Control Manual and the ISO 27001 certification, incident and complaint audits, as well as independent and objective advisory work.

The activities of the Internal Auditing teams are defined under the Internal Audit Charter. The Internal Auditing activity is governed by the guidelines of the Institute of Internal Auditors (IIA), including the definition of internal audit, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IIA Standards). The annual Internal Audit plan is developed based on the Company's annual Actions and Resources Plan and on a prioritisation of audit work, using a risk-based methodology that includes the results of Enterprise Risk Management and considers the roadmap for coverage of business procedures, telecommunications platforms and legal obligations. The internal audit plan also considers the contributions of the Executive Committee, of other senior managers, of the Audit and Finance Committee and, separately, of the Fiscal Board which has a responsibility based on the law or on the articles of association to state its position on the working plan and the resources allocated to the Internal Auditing services.

In accordance with good international practices, the Internal Auditing and Risk Management teams have the majority of their staff certified in audit norms and risk management programmes, involving in total more 25 certifications. These include the *Certified Internal Auditor (CIA)*, the *Certified in Control Self Assessment (CCSA)*, the *Certified Information System Auditor (CISA)*, the *ISO 27001 Lead Auditor*, *Certified Fraud Examiner (CFE)*, the *Management of Risk Foundation and Practitioner (MoR)*, the *Certified Continuity Manager (CCM)*, the *Associated Business Continuity Professional (ABCP)*, the *Certified Information System Security Manager (CISM)*, the *Certified Information System Security Professional (CISSP)*, the *ISO 27001 Lead Implementer*, the *Certified in Risk and Information Systems Control (CRISC)*, the *ITIL Foundation (ITIL)*, the *Project Management Professional (PMP)* and the *Certified Project Management Associate (CPMA)*.

## 51. Relationships with other bodies or committees

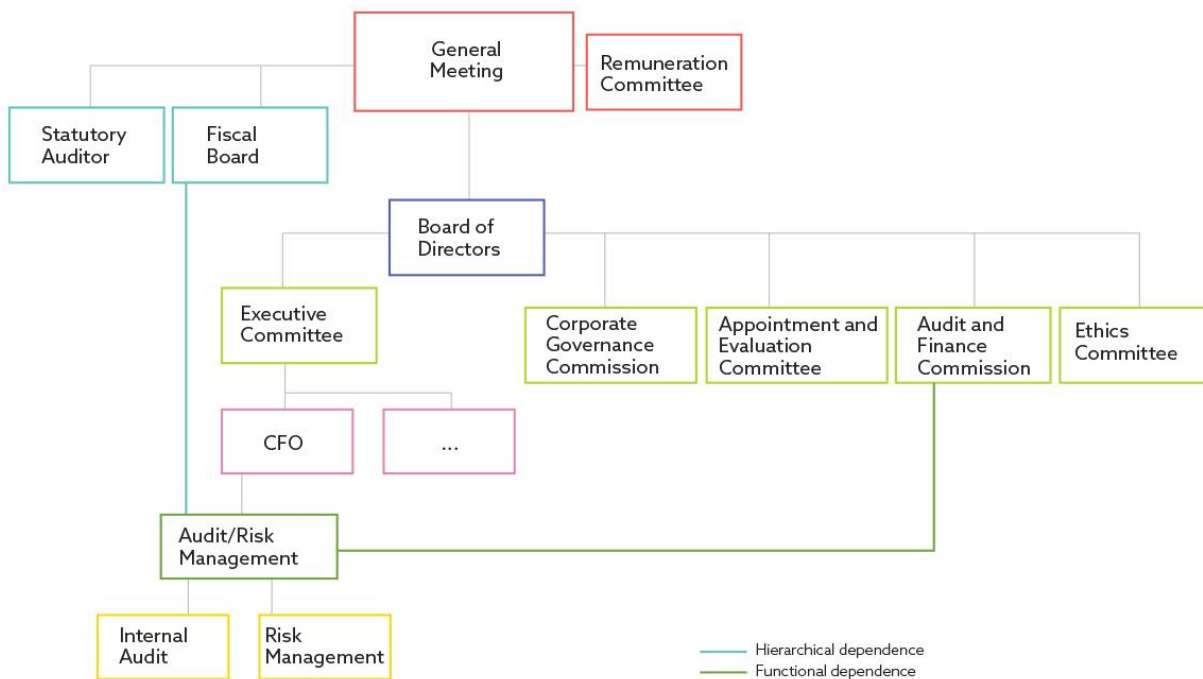
The hierarchical and functional relationships are those specified below:

- Internal Auditing reports hierarchically to NOS Executive Committee, namely to the CFO (*Chief Financial Officer*).
- The Internal Auditing reports functionally to NOS Fiscal Board, as the supervisory body with responsibility based on the law or on the Articles of Association for assessing the

performance of internal control and risk management systems, receiving the corresponding reports, and giving its opinion on the working plan and the resources allocated to the Audit Internal services.

- Internal Auditing also reports functionally to NOS AFC, as the specialised commission that advises the Board of Directors on certain matters, including those concerning the Auditing and Risk Management functions, thus reinforcing, complementarily, the supervision of these matters already carried out by the Fiscal Board.
- At NOS, Risk Management has reporting lines similar to those described for Internal Auditing.

The remaining responsibilities for the creation, operation and periodic assessment of the internal control and risk management system are defined in the Regulations of corresponding bodies or committees.



## 52. Other competent areas in risk control

In addition to the areas referred to in the preceding sections, the Company has other functional areas with competence in internal control and risk management that make a decisive contribution to maintaining and improving the control environment. Particularly notable in this context are the following business areas and processes:

- The areas of Planning and Control, in coordination with the corresponding pivots in the areas of business, are responsible for drawing up and monitoring the implementation of annual action and resource plans, as well as budgets and forecasts, in the financial and operational components;
- The various areas of business and individual employees are required to comply with

the procedures set out in the Internal Control Manual, ensuring that all acts or transactions engaged in are appropriate and properly documented;

- The different areas of business have processes and indicators to monitor operations and KPIs (*Key Performance Indicators*);
- There are areas dedicated to monitoring specific business risks and generating alerts, such as the Revenue Assurance, Fraud, Service Security, and Network and Services Supervision teams, in telecommunications business;
- The technical areas, including Networks and IT/IS, have indicators and alerts for interruptions in service and security incidents, on an operational level;
- The various areas of business have internal controls that ensure not only their commitment in the environment of risk management and internal control, but also the permanent monitoring of the pattern of effectiveness and adequacy of these controls.

### 53. Main types of risk

The Company is exposed to economic, financial and legal risks incidental to its business activities.

In the context of ERM - Enterprise Risk Management - NOS implements risk management cycles at least biannually. In these cycles the major risks are reviewed and prioritised, updating them and subjecting them to a vote by the Executive Committee aimed at classifying them according to their likelihood and impact. For the most critical risks, an analysis of risk drivers and of risk triggers may additionally be made, supplemented by identification of existing controls and of new actions for the management of these risks. The Company has been implementing activities that help to mitigate risks to levels of acceptance sought and laid down by the Executive Committee.

NOS classifies and groups types of risks using a BRM - Business Risk Model. This BRM incorporates a Risk Dictionary that can be used to systematically identify the risks that affect the Company (common language), define and group risks in categories and also facilitate the identification of the main risk drivers.

The main types of risks, ascertained in the last risk management cycles, and the corresponding strategies that have been adopted for their management will now be described.

#### Economic risks

- **Economical Influences** - The Company is exposed to the adverse economic climate experienced in Portugal during the last years 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, as well as 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, combination of offers related with different businesses of NOS and constant monitoring of customer preferences and/or needs. In addition, the conclusion of the process of operational integration of ZON and OPTIMUS businesses and the acquisition of new businesses are a structuring factor to mitigate the risk of competition in the various customer segments regarding the telecommunications market and they allow the acceleration the growth in some segments, particularly the business segment. These factors also allow the reinforcement of the competitive position of NOS Group before the movements of consolidation or acquisition in the industry of telecommunications by the competitors.
- **Technological Innovation** – This risk is associated with the need for investment in increasingly competitive businesses (multimedia services, fixed and mobile internet, and fixed and cloud services) and subject to accelerated and sometimes unpredictable changes in technology. NOS believes that having an optimised 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 an increasing 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 the biggest corporate group in the area of communications and entertainment in the country, 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 has an Information Security Committee (GRC – Governance Risk and Compliance Committee) that is authorised by the Executive Committee to, among other responsibilities, monitor the risks associated with security and privacy, propose rules and organise 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. The obligations are reinforced through the signature of terms of liability by its staff and partners. In addition, the Company has some business segments and processes, namely related to customer management (support, billing and collection), and to services of data centres of Mainroad Serviços em Tecnologia de Informação S.A. (housing service), 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 internal 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 GSM 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

- **Tax** – The Company is exposed to changes in tax legislation and varied interpretations of the application of tax and tax related regulations in several ways. 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 analysed 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 and, regarding some business segments, also subscribes credit insurances.

## 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). On a European level there are also regulations that have a relevant effect on the market, notably those measures established under the Connected Continent. Similarly, NOS has to 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.

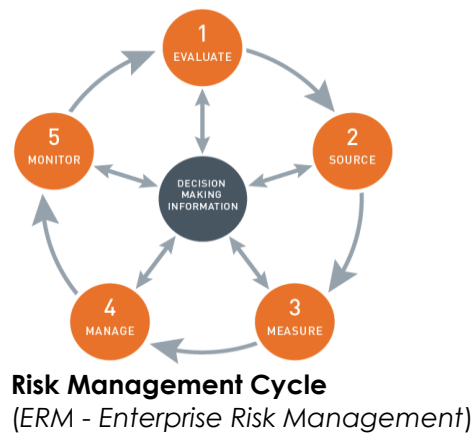
## 54. Risk management

The risk management and internal control processes at NOS, including the methodologies used to identify, assess and monitor risks, are described in this section.

The risk management and internal control processes are supported by a consistent and systematic methodology, based on the international standard Enterprise Risk Management - Integrated Framework, issued by COSO (Committee of Sponsoring Organisations of the Treadway Commission). In addition, for the management of risks related to Information Security and Business Continuity, specific methodologies were also considered in line with the standards from the ISO 2700x series - Information Security Management and with ISO 22301 - Business Continuity Management, as well as legal and regulatory requirements on network security and integrity (supervised by ICP-ANACOM) and on personal data privacy (supervised by CNPD).

The methodologies adopted for the internal control system also took into consideration the references provided by organisations responsible for promoting the existence of control mechanisms in markets, including recommendations from the CMVM Corporate Governance Code (Portuguese Securities Market Commission) and from the IPCC (Portuguese Institute of Corporate Governance), as well as the CSC. In addition, for aspects of internal control related to ICT (Information and Communication Technologies), the COBIT (Control Objectives for Information and Related Technology) framework was considered.

The diagram below illustrates the main stages of NOS risk management cycle, which can be applied to entities or to the business processes of its main subsidiaries.



In line with this general methodology, the management and control of risks are achieved using the main approaches and methods presented below:

<b>Enterprise Risk Management (ERM)</b>
<b>Approach:</b> This approach seeks to align the risk management cycle with tNOS strategic planning cycle. It enables NOS businesses to assign priorities and identify critical risks that may compromise its performance and its objectives, and to adopt actions to manage these risks, within predefined levels of acceptance. This is achieved through constant monitoring of risks and the implementation of certain corrective measures.
<b>Method:</b> 1. Identify business risks >> 2. Identify causes >> 3. Measure triggers >> 4. Manage risks >> 5. Monitor risks
<b>Business Continuity Management (BCM)</b>
<b>Approach:</b> It seeks to mitigate the risk of interruptions of critical business activities that may arise as a consequence of disasters, technical-operational failures or human failures. The scope of this process also includes the assessment and management of physical security risks at NOS' critical sites.
<b>Method:</b> 1. Understand the business >> 2. Define resilience strategies >> 3. Develop and implement continuity and crisis management plans >> 4. Test, maintain and audit the BCM plans and processes
<b>Information Security Management (ISM)</b>
<b>Approach:</b> It seeks to manage risks associated with the availability, integrity, confidentiality and privacy of information. Its goals are to develop and maintain the Information Security Policy, to verify the compliance of procedures with the policy, to develop training and awareness programmes, and to establish and monitor KPIs (Key Performance Indicators) for Information Security.
<b>Method:</b> 1. Identify critical information >> 2. Detail critical information support platforms/resources >> 3. Assess the security risk level >> 4. Define and implement indicators >> 5. Manage and monitor risk mitigation measures



## Continuous Monitoring of Risks and Controls (CM - Continuous Monitoring)

**Approach:** It can be used to continuously review business procedures, ensuring preventive, pro-active and dynamic maintenance of an acceptable level of risk and control. The Internal Control Manual systematises and references the controls, facilitating their disclosure and encouraging compliance by the different people involved in the organisation.

**Method:** 1. Define processes, business cycles and data structure >> 2. Establish the design of controls >> 3. Implement, disclose and ensure the effective application of controls >> 4. Analyse and report status metrics for the implementation of controls >> 5. Follow up action plans and update controls.

## 55. Main features of the internal control and risk management systems related to the disclosure of financial information

NOS recognises that, as is the case with other listed companies with similar activities, it is potentially exposed to risks related to accounting processes and financial reporting. The Company is thus committed to maintaining an effective internal control environment, especially in these processes. It intends to ensure the quality and improvement of the most important processes for preparation and disclosure of financial statements, in accordance with the accounting principles adopted and bearing in mind its goals of transparency, consistency, simplicity and materiality. In this context, the Company's attitude to financial risk management has been conservative and prudent.

Functional responsibilities for financial statements on the corporate level of NOS and in the Group's subsidiary companies are distributed as follows:

- Entity Level Controls are defined in corporate terms, including NOS, being applicable to all the group companies, and aim to establish internal control guidelines for NOS subsidiaries;
- Process Level Controls and IS/IT Controls are defined in corporate terms, being applied to NOS subsidiaries, adapted to their specific characteristics, organisation and responsibility for processes. In view of this division, the controls related to collection of the information that will be the basis for preparation of the financial statements can be found, usually, at the departments of each of the subsidiary companies; the controls related to processing, recording and filing this information in accounting books can be found at a corporate level in the Administrative and Finance Department.

The internal control and risk management system associated with financial statements includes the key controls specified below:

- The process of disclosure of financial information is institutionalised, the criteria for preparation and disclosure have been duly approved, are fully established and periodically reviewed;
- The use of accounting principles, explained throughout the notes to the financial statements, is one of the key pillars of the control system;
- The controls are aggregated by the business cycles that give rise to the financial statements, and by the corresponding classes and subclasses of transactions;

- Indexing is maintained between the risks and headings in the financial statements, in order to assess the impact on them as a result of fluctuations in risk levels, and the generation of various analysis reports.
- Indexing is maintained between the risks, the controls defined in the Internal Control Manual and the four commonly accepted financial assertions:
  - i) Completeness: to ensure that all transactions are recorded, that all valid transactions are submitted for processing and that there are no duplicate records;
  - ii) Accuracy: to ensure that transactions are recorded correctly including recording in the accounts in the correct period in which they occurred, with appropriate accrual accounting;
  - iii) Validity: which means that all transactions are valid, complying with two fundamental criteria: (i) they are properly approved in accordance with delegations of power and (ii) are related to the normal activities of the Company, in other words, they are legal;
  - iv) Restricted Access: it seeks to ensure that there are appropriate restrictions on access to information in electronic format or any other means of protecting assets.

In order to guarantee the know-how of all the those involved in the financial reporting process with regard to the Company's operations, to applicable regulations and to the technical knowledge necessary to fulfil their responsibilities, the Administrative and Finance Department prepared a set of documents on the implemented policies and procedures and their relevance to the IFRS (International Financial Reporting Standards) and also addresses potential causes of risk that may materially affect accounting and financial reporting.

These potential causes of risk include the following:

- Accounting estimates – The most significant accounting estimates are described in the notes to the financial statements. The estimates were based on the best information available during the preparation of the financial statements, and on the best understanding and best experience of past and/or present events;
- Balances and transactions with related parties – The most significant balances and transactions with related parties are disclosed in the notes to the financial statements.

NOS adopts various measures to help manage risks and maintain a robust internal control environment, including initiatives of the following type:

- Conformity tests – These include periodical control self-assessment of the internal control system and the consequent revision of the Internal Control Manual, ensuring that it is always up-to-date. They also include corrective actions concerning control procedures considered non-compliant, as a result of conformity assessment by Internal Auditing and by the External Auditor;
- The improvement of control documentation – This includes the implementation and revision of control procedures associated with processes or areas not yet covered by the Internal Control Manual. It also includes the identification of initial risks (inherent risk), the identification of processes with higher levels of materiality, the improvement of control documentation, and analysis of the current risk status (residual risk).

In addition to the financial risks referred to in the section on the main types of risks with an impact on the business, the Company is potentially exposed to other financial risks that may

have an impact on the financial statements, such as credit risk (related to balances receivable), liquidity risk (related to sufficient assets to cover liabilities), market risk (related to exchange rate and interest rate variations) and capital risk (related to financial loans and the remuneration of shareholders). Throughout the notes to the financial statements, more specific information can be found on financial risk management policies, as well as on how risks associated with the financial statements are managed and controlled.

## IV. Investor information

### 56. Department responsible for investor information

The Company has had an Investor Relations Department since it was first set up, to ensure proper relationships with shareholders, investors and analysts, under the principle of equal treatment, as well as with the financial markets in general and, in particular, with the regulated market where the shares representing the capital of NOS are admitted to trading - Euronext Lisbon - and with the regulator, the CMVM.

Each year the Investor Relations Department publishes the management report and accounts, also publishing annual, half-yearly and quarterly information, in accordance with national corporate law and the laws of Portuguese capital market. The Company discloses privileged information on its activity or the securities it has issued immediately and publicly and shareholders can access this information on the Company's website ([www.nos.pt/ir](http://www.nos.pt/ir)). All the information is made available on the Company's website in Portuguese and English.

The Investor Relations Department also provides up-to-date information on the activities of NOS to the financial community through regular press releases, presentations and announcements on the quarterly, half-yearly and annual results, as well as on any relevant facts that occur.

It also provides full explanations to the financial community in general – shareholders, investors (institutional and private) and analysts, also assisting and supporting shareholders in the exercise of their rights. The Investor Relations Department organises regular meetings between the executive management team and the financial community through the attendance in specialised conferences, roadshows both in Portugal and in the main international financial markets and frequently meets investors who are visiting Portugal. In 2014, the main Investor Relations events were:

Date	Format	Location
06/07 March	Roadshow	London
12/13 March		NY
20 March	XX Santander Portuguese Conference	Lisbon
26 March	HSBC 12th Equity Conference	Paris
28 March	Roadshow	Madrid
02 April		Frankfurt
03 April		Paris
08/09/10 April		Scandinavia
15 May		London
19 May		NY
20 May	Pan European Days	NY
21 May	Roadshow	S. Francisco
22 May		LA
28 May	Berenberg TMT Conference	Zurich
29 May	Fidentis Annual Conference	Madrid
04 June	Roadshow	Brussels
12 June	UBS Pan European SMC Conference	London
17 June	Goldman Sachs European Cable & Convergence Conference	London
18 June	UBS Benelux Investor Day	Amsterdam
02 September	Barclays Select European Media & Telecom Forum	London
11 September	BBVA Iberian Conference	London
12 September	BPI Iberian Conference	Cascais
16 September	CSFB European Telecoms Conference	London
01 October	Roadshow	Munich
02 October		Frankfurt
09/10 October		London
14 October		Milan
19 November	Morgan Stanley TMT Conference	Barcelona
04 December	Roadshow	Madrid
10 December	ESN European Conference	London
10 December	Roadshow	Chicago
11/12 December		NY

The composition of the Investor Relations Department is the following:

Maria João Carrapato – Head of the Investor Relations Department  
Tel.: +351 21 782 47 25

Henrique Rosado  
Tel.: +351 21 791 66 63

Clara Teixeira  
Tel.: +351 21 782 47 25

The functions, composition and contacts of the Investor Relations Department can also be found on the Company's website.

## **57. Market relations representative**

Maria João Carrapato is the Investor Relations Representative for NOS.

Any interested party may request information from the Investor Relations Department, through the following contacts:

Rua Ator António Silva, nº 9  
1600 - 203 Lisboa (Portugal)  
Tel. +(351) 21 782 47 25  
Fax: +(351) 21 782 47 35  
E-mail: [ir@nos.pt](mailto:ir@nos.pt)

## **58. Enquiries**

The Company has a record of all enquiries and their processing, all of which have been properly dealt with in good time.

It is to be noted that, as at 31 December 2014, there were no enquiries unanswered.

## **V. Website**

### **59. Addresses**

Through its website (<http://www.nos.pt/institucional/PT/Paginas/default.aspx>), NOS offers access to information in Portuguese and English on its evolution and its current economic, financial and governance situation.

**60 to 65. Location for the provision of: (i) information on the company; (ii) articles of association and regulations; (iii) information on members of company bodies and other structures; (iv) accounting documents and other financial documents; (v) notice of meeting and preparatory and subsequent information; and (vi) archive of resolutions**

In line with Recommendation VI.1 of the CMVM Corporate Governance Code, the Company offers on its website (<http://www.nos.pt/institucional/PT/investidores/governo-de-sociedade/Paginas/default.aspx>) the following information and/or documentation, in Portuguese and English:

- Company name, its public company status, location of its headquarters and other elements referred to in Article 171 of the CSC;
- Articles of Association and regulations governing the functioning of the internal bodies and committees (particularly the Executive Committee);
- Identity of the members of the Company bodies;
- Investor Relations Department, including, identity of the representative for the relationships with the market, duties and contacts;
- Financial statements from the last five years, as well as the half-yearly calendar of corporate events, disclosed at the beginning of each half-year, including, among other things, the general meetings, and disclosure of annual, half-yearly and quarterly accounts.
- Notices convening the general meeting, proposals presented and extracts from minutes;
- Archives with resolutions taken by the Company's general meeting, the share capital represented and the results of votes for at least the last three years.

## **D. Remuneration**

### **I. Power of decision**

#### **66. Identification**

Under article 399 of the CSC and Article 14 of the Company's Articles of Association, the General Meeting of Shareholders or a committee that it appoints is responsible for setting the remuneration of the members of the statutory boards and other corporate bodies, taking into account the duties performed and the financial situation of the Company.

When there is a Remuneration Committee, it shall be made up of two or more members, shareholders or not and elected by the General Meeting (article 14(2) of the Company's Articles of Association).

## II. Remuneration committee

### 67. Composition of the Remuneration Committee

At an extraordinary General Meeting, on 1 October 2013, a Remuneration Committee was appointed for the three-year period 2013/2015.

The Remuneration Committee is made up of two members with recognised experience, particularly in the field of business, who have the necessary knowledge to handle and decide on all the matters within the competence of the Remuneration Committee, including the remuneration policy.

In order to determine the remuneration policy, the Remuneration Committee accompanies and evaluates, constantly and with the support of the Appointment and Evaluation Committee, the performance of the Directors, verifying to what extent the objectives proposed have been achieved, and it shall meet whenever necessary.

The composition of the Remuneration Committee, on 31 December 2014, was the following:

<b>Chairman</b>	Ângelo Gabriel Ribeirinho dos Santos Paupério
<b>Member</b>	Mário Filipe Moreira Leite da Silva

The Company provides members of the Remuneration Committee with permanent access, at the expense of the Company, to third party consultants specialised in various different fields, whenever needed by the committee. During 2014, the Remuneration Committee did not engage any services to support the performance of its duties.

The Remuneration Committee met 4 times in 2014, having decided on matters of assessment, remuneration and definition of the goals of the Executive Committee.

### 68. Knowledge and experience of members

The members of the Remuneration Committee hold a vast and recognized management experience, namely in listed companies as presented in item 19 of this report.

## III. Remuneration structure

### 69. Description of the remuneration policy

A Remuneration Committee declaration on the remuneration policy for NOS management and supervisory board members was submitted to the Company's shareholders at NOS general meeting on 23 April 2014, in compliance with article 2 of Law 28/2009, of 19 June a general outline of which is given below.

Rewarding systems have a strategic role in the organisation's ability to attract, to retain and to motivate the best professionals in the market.

Best practices in remuneration systems for listed companies suggest the use of models that incorporate different components: a fixed component that works as "basis" remuneration and a variable one that may be annual bonus, profit sharing and/or the implementation of share plans.

The components of NOS compensation scheme for executive directors are in line with practices in other comparable companies according to the benchmarking of market values for these compensations. The peer groups used for comparison, as considered in independent studies, were the following: i) benchmark PSI 20 and PSI 10; ii) benchmark Telecom – Tier 1 and Tier 2; iii) benchmark – Virgin, Telenet and Liberty Global. The variable remuneration associated with the achievement of management goals is applied through the following components: annual bonus, profit sharing and share plan.

The annual bonus, ensuring alignment with the results, also seeks to maximize the long-term performance of the Company.

The Profit sharing can be proposed to shareholders by the Board of Directors. After assessment of the total amount to be distributed, the amount to be received by each member will also depend on alignment with the results.

The Share Plans, approved, over time, at the general meeting aim to guarantee the alignment of individual interests with the corporate goals and interests of NOS shareholders, rewarding the achievement of objectives that imply sustained value creation.

The non-executive members of the Board of Directors, as they are not responsible for carrying out the defined strategies in a daily basis, have a compensation system that does not include any variable remuneration components, only a fixed amount.

### **Remuneration policy for members of the supervisory bodies**

The members of the Fiscal Board, like other non-executive directors, only receive a fixed component.

The Statutory Auditor is remunerated under the terms established in the contract, in accordance with the law.

In view of the above, NOS considers that its remuneration model is properly structured, since: i) it defines a potential maximum total remuneration; ii) it rewards performance, through a remuneration which is adequate if the mechanisms of defense of the stakeholders' interests are considered; iii) it discourages excessive risk-taking, since fifty per cent of the variable components – Annual Bonus and Share Allocation Plan – are deferred in time, during three years; iv) it actively guarantees the adoption of policies that are sustainable over time, namely through the previous definition of business goals and because the effective payment of the deferred variable components depends on the achievement of objective conditions, associated with the economic soundness of the Company; v) it enables talent to be obtained and retained; and vi) it is in line with the comparable benchmarking.

## **70. Remuneration structure and alignment of interests**

The aforementioned compensation system also has to ensure that the interests of the Board of Directors members (in particular, executive directors, who may benefit from a variable component of remuneration) are in line with the business objectives. The success of this



strategy lies in ensuring that the alignment is conducted through clear objectives that are consistent with the strategy, strict metrics to assess individual performance, along with appropriate performance incentives that simultaneously encourage ethical principles, while discouraging excessive risk-taking.

Therefore the creation of value needs not just excellent professionals, but also a framework of incentives that reflect both size and complexity of challenges.

Each year the Remuneration Committee, in coordination with the AEC, defines the large variables to be assessed and their respective objective amounts.

The variable component of the executive directors' was calculated using the performance of NOS as measured by the previously defined business indicators. In 2014, Telecommunications Market Share Revenues, EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization"), Free Cash after interest and taxes and before dividends and acquisitions.

On the other hand, the goal of the component associated with the Share Allocation Plan, apart from complying with the already mentioned objectives for the Annual Bonus, is also to ensure the alignment with the creation of shareholder value and the strengthening of loyalty mechanisms.

NOS has in operation a Share Allocation Plan, approved at the general meeting on 23 April 2014, applicable to collaborators that belongs to different organizational groups, including executive directors.

It shall be highlighted, however, that, due to the deferral of the delivery of shares, there are still in operation plans of the companies prior to the merger: one called "Senior Executive", another called "Standard", and the Optimus Plans. In other words, it is still possible to deliver these shares under these plans, as long as the conditions of delivery are verified, such as the Company's positive performance. In addition, shares may be delivered under the so called Mainroad plans, similar to Optimus plans, as better described below.

## **71. Variable component and performance**

The variable remuneration, using the components referred to above, seeks to consolidate a correct policy for setting objectives with systems that properly reward the ability to execute and to obtain results and to achieve ambitious performances, discouraging short-term policies and instead fostering the development of sustainable medium and long-term policies.

The Share Allocation Plans approved at the general meeting on 23 April 2014 defines the terms of the deferred shares vesting (deferral of 3 years), in compliance with the legal requirements in force regarding variable remuneration deferral.

It should also be noted that despite the current Share Plans being (or may being) deferred in time (the Share Allocation Plans approved at the general meeting on 23 April 2014 and the Senior Executiver, Standard plans and the Optimus Plans), the Remuneration Committee limited the transformation of rights awarded under the current Plans to the confirmation of Company's positive results, which requires compliance with the following additional condition:

The consolidated net situation in the year  $n+3$ , excluding any extraordinary movements occurred after the end of year  $n$ , and discounting an amount for each financial year

correspondent to a pay-out of 40% on the net profit in the consolidated accounts of each year of the deferral period (irrespective of the effective pay out), must be higher than the one calculated found at the end of financial year n. Extraordinary movements, in the period between year n and n+3, include capital increases, purchase or sale of own shares, extraordinary dividends, annual pay-out other than 40% of the consolidated profit of the respective business year or other movements that affect the net situation but do not arise from the Company's operating profits. The net situation of year n+3, must be calculated based on the accounting rules used in financial year n, so that comparability is ensured.

The distribution of shares, under the approved plans, being totally dependent on Group and individual performance, primarily aims to ensure the maximum creation of value in a medium and long-term perspective, thus encouraging sustainable policies in the long term.

These plans are described in a more detailed way in item 86 of Chapter VI below. The objectives that are assessed generally correspond to profitability and growth variables that ensure the development of the Company and, consequently and also indirectly, national economy and its stakeholders as a whole.

### **Maximum limits on variable remuneration**

The value of the variable components (including the Share Plans), when the allocation is decided by the Remuneration Committee, is limited to a maximum amount of 120% with regard to the fixed remuneration, in compliance with the best corporate governance practices in force on this subject.

### **Guarantee of minimum variable remuneration**

There are no contracts with guaranteed minimums for the variable remuneration, regardless of the Company's performance, nor are there any contracts to mitigate the inherent risk of the variable remuneration.

## **72. Deferral of variable remuneration**

Half of the variable compensation that was allocated, i.e. the bonuses and shares allocated under their respective plans, was deferred for three years and its payment will be dependent on a positive future performance. The definition of this condition for future access to the variable remuneration was already explained in the previous item 71.

## **73. Allocation of the variable component in shares**

The general meeting approved on 23 April 2014 approved the Share Allocation Plan. In this context, it shall be noted that there are no hedging or risk transfer contracts concerning a predefined amount of the total annual remuneration of the executive directors. Consequently, the risk underlying the corresponding variability of the remuneration is not mitigated.

## 74. Allocation of the variable component in options

No remunerations in options are implemented for directors, that is to say the Share Allocation Plan only allows the allocation of shares but not of options and the Senior Executive Share Plan (as described in item 86 below) options were never allocated.

## 75. Annual bonuses and other non-cash benefits

In 2014, no significant other non-cash benefits were given.

## 76. Supplementary pension or retirement schemes

There are no supplementary pension or early retirement schemes for directors.

## IV. Disclosure of remunerations

### 77. Remuneration of Directors

NAME	FIXED REMUNERATION	COMPANY'S PROFIT SHARING	TOTAL
<b>EXECUTIVE DIRECTORS</b>			
MIGUEL ALMEIDA	480,000	264,000	744,000
ANA PAULA MARQUES	280,000	154,000	434,000
ANDRE ALMEIDA	280,000	154,000	434,000
JOSE PEDRO PEREIRA DA COSTA	405,000	220,000	625,000
MANUEL RAMALHO EANES	280,000	154,000	434,000
<b>NON EXECUTIVE DIRECTORS</b>			
JORGE BRITO PEREIRA	120,000	-	120,000
ANGELO PAUPERIO	70,000	-	70,000
ANTONIO DOMINGUES	50,000	-	50,000
ANTONIO LOBO XAVIER	45,000	-	45,000
CATARINA TAVIRA	45,000	-	45,000
FERNANDO MARTORELL	50,000	-	50,000
ISABEL DOS SANTOS	45,000	-	45,000
JOAQUIM OLIVEIRA	45,000	-	45,000
LORENA FERNANDES	45,000	-	45,000
MARIA CLAUDIA AZEVEDO	45,000	-	45,000
MARIO LEITE DA SILVA	70,000	-	70,000
RODRIGO COSTA	36,250	-	36,250
	<b>2,391,250</b>	<b>946,000</b>	<b>3,337,250</b>

The amounts shown in the table above were calculated on an accruals basis.

Additionally and regarding the performance during the financial year of 2014, rights will be allocated under NOS 2015-2018 share plan, with a vesting period for the shares of three years, subject to the Company's future positive performance under the terms referred in item 71. The number of shares to be given to each Director is detailed below:

NAME	NO. OF SHARES
<b>EXECUTIVE DIRECTORS</b>	
MIGUEL ALMEIDA	41,451
ANA PAULA MARQUES	24,180
ANDRE ALMEIDA	24,180
JOSE PEDRO PEREIRA DA COSTA	34,542
MANUEL RAMALHO EANES	24,180
	<b>148,533</b>

During the financial ended on 31 December 2014, the Director Luis Lopes, who resigned on 31 December 2013, received remunerations in the global amount of 206,744 euros corresponding to the payment of the monthly remuneration of January and legal credits owed. The Director Miguel Veiga Martins, who resigned on 31 October 2014, received a global remuneration of 685,000 euros, which include 405,000 euros of fixed remuneration, 140,000 of variable short term remuneration and 140,000 euros of medium and long term remuneration, which will be paid out in shares.

## 78. Amounts paid by other companies in the “Group”

Executive directors of NOS that also hold positions in other NOS Group companies do not receive any additional remuneration or other amounts in any ground whatsoever.

## 79. Profit sharing or payment of bonuses

The variable components to be paid based on the 2014 performance, including the Company's profit sharing or the payment of other components of the variable remuneration, are described in Section IV, item 77.

## 80. Compensation to former Executive Directors

In 2014, no compensations were paid to former directors for the termination of their duties.

## 81. Remuneration received by members of the supervisory body

The remuneration of members of the Fiscal Board, during 2014, was as follows:

Name	Fixed Remuneration
Fiscal Board	
Paulo Mota Pinto	60 000
Eugenio Ferreira	30 000
Nuno Tiago Bandeira de Sousa Pereira	30 000
	120 000

The members of the Fiscal Board do not receive any variable component, nor benefit from NOS share plans.

## 82. Remuneration of the chairman of the General Meeting

The remuneration of members of the Board of General Meeting, during 2014, was as follows:

Name	Fixed Remuneration
Board of the company's General Meeting	
Pedro Maia	18 000
Tiago Lemos	5 000
	23 000

## V. Agreements with remuneration implications

### 83. Limits on compensation for unfair dismissal

The Directors of NOS in the case of unfair dismissal are entitled to compensation for damages suffered in accordance with the applicable law and/or contract.

### 84. Compensation in case of dismissal, unfair dismissal or termination due to change of control (directors and senior officers)

In the case of early termination of Directors' term of office, in general, there are no additional compensatory conditions to those legally established, except in the case of a management contract that stipulates specific conditions in this matter.

## VI. Share plans and stock options

### 85. Plans and targets

The objectives of the Share Allocation Plan in force in NOS group, submitted and approved at the General Meeting on 23 April 2014, mentioning all the details needed to be assessed (including the respective regulations) are:

- To ensure the loyalty of collaborators in the different companies of the Group;
- To stimulate their creative and productive capacity and foster business profits;
- To create favourable recruitment conditions for senior officers and high strategic value workers;
- To align the interests of the collaborators with the business objectives and the interests of NOS shareholders, rewarding their performance in relation to value creation for NOS shareholders, reflected in the value of its shares on the stock exchange.

This Plan, which applies to collaborators that belongs to some organizational groups (including Executive Directors), is one of the pillars that makes NOS a benchmark company in

personal and professional development matters and stimulates the development and mobilisation of employees around a common project.

NOS Share Allocation Plan regulations, which include all necessary elements for the correct evaluation of the plan, were approved at the general meeting on 23 April 2014, and can be found on the Company's website.

Through the Share Allocation Plan a maximum number of shares will be allocated. The number is approved each year by the Board of Directors and it is exclusively dependent on the compliance with the objectives established for NOS and on individual performance assessments.

This compensation philosophy, through share programmes that help to align the collaborators, in particular executive directors, with the creation of shareholder value, is an important loyalty mechanism, apart from bolstering the performance culture of NOS Group, since their allocation depends on compliance with the corresponding objectives.

To make NOS a benchmark in terms of international remuneration practices, adopting the best models of market-leader companies, is the main goal of these Plans, which have three main objectives: alignment with sustainable and winning strategies, collaborators' motivation and sharing of the created value.

Following the deferral of the delivery of shares, the plans prior to the merger are still in force: one called Senior Executive, another called "Standard" and the Optimus/ Mainroad plans.

## 86. Characterisation of plans

### NOS Plan

A Share Allocation Plan which was approved at the general meeting on 23 April 2014, for employees that belong to some organizational groups and are selected by the Executive Committee (or by the Remuneration Committee on proposal from the Chairman of the Board of Directors if the beneficiary is a member of NOS Executive Committee).

The share vesting period of this Plan is three years from the date they are allocated, in other words, shares are actually delivered and made available only three years after they are allocated, if the conditions the delivery is subject to are satisfied, notably the positive performance under the terms referred to in item 71.

In addition to NOS Plan, in force at the moment, after its approval at the general meeting on 23 April 2014, the delivery of shares may still take place under the following plans that transited from the companies that existed before the merge between Optimus and ZON Multimédia in 2013, and the Mainroad operation in 2014, considering the delivery may be subject to deferral:

### "Standard" Share Plan

A share plan for employees, regardless of their jobs, who are selected by the Executive Committee (or by the Remuneration Committee on proposal from the Chairman of the Board of Directors if the beneficiary is a member of NOS Executive Committee).

The vesting period for the shares in this plan is five years, the first vesting occurring twelve months after the period to which the allocation refers, at a rate of 20% a year.

### Senior Executive Share Plan

A share and/or options plan for employees classified as senior executives, who are selected by the Executive Committee (or by the Remuneration Committee on proposal from the Chairman of the Board of Directors if the beneficiary is a member of NOS Executive Committee).

In this Plan, the share vesting period is three years from the date they are allocated, i.e., in other words they are actually delivered and made available only three years after they are allocated.

The vesting of the shares allocated to NOS senior officers under this Plan, apart from being deferred for three years, is also dependent on the future positive performance of the Company under the terms referred to in item 71.

### Optimus/Mainroad Plan

The Optimus/Mainroad Plan is a benefits plan awarded on a discretionary basis, being deferred for a period of three years between the date of the award and the maturity date. Awards are made in March each year, in relation to the performance of the preceding year. The amounts awarded are calculated based on the application of the criteria described in the short-term variable component for the year in question. Historically, the amounts are awarded in March. The dates for exercising all the plans also are adjusted accordingly. Regarding members of the Executive Committee, the handover of the plan on the award date depends on the overall success of the Company during this period, estimated in accordance with the objectives defined by the Remuneration Committee for each three-year period.

## 87. Share plans and stock options for employees and collaborators

### Conditions and resolution on the number of shares to allocate to beneficiaries

Under the Share Allocation Plan approved at the general meeting on 23 April 2014, the Board of Directors approves the number of shares that can be allocated in each Plan provided for in their regulations on a case by case basis, having as criteria the annual performance assessment of NOS.

The Executive Committee shall select the beneficiaries of each Plan and decide on a case by case basis on the allocation of shares to the eligible collaborators. The Remuneration Committee has this responsibility for Executive Committee members.

The allocation of shares to the respective beneficiaries depends entirely on performance criteria, of both the Group and the individual.

The number of shares to be allocated is established using the amounts that are set with reference to the percentages of the remuneration earned by the beneficiaries, taking into account the assessment of NOS annual objectives as well as the assessment of individual performance and the specific number of shares to be given will be the result of the division of the value provided by the average closing price in the 15 trading sessions prior to the Executive Committee or Remuneration Committee's resolution, except if the Executive Committee or Remuneration Committee, in the case of Executive Committee's members,

considers at its discretion other criteria that are deemed to be more appropriate. Shares can be delivered for no consideration or through a right to buy with a discount up to 90%. These shares, or the equivalent value in cash, are delivered after a deferral period of 3 years. This delivery depends on the overall success of the Company during this period, estimated in accordance with the objectives set by the Remuneration Committee for each three-year period. However, should dividends be distributed or if the nominal value of the shares or share capital is changed during the deferral period, the initial number of shares under the Plan will be altered to reflect the effects of these changes, so that the plan is aligned with the total return achieved.

On 31 December 2014, the plans that allow the delivery of shares are the following:

	NUMBER OF SHARES
<b>SENIOR PLAN</b>	
Plan 2012	149,201
Plan 2013	160,591
<b>STANDARD PLAN</b>	
Plan 2009	14
Plan 2010	62,340
Plan 2011	129,464
Plan 2012	188,009
Plan 2013	252,419
<b>OPTIMUS PLAN</b>	
Plan 2011	4,435
Plan 2012	1,539,236
Plan 2013	1,190,469
<b>MAINROAD PLAN</b>	
Plan 2012	105,986
Plan 2013	86,382
Plan 2014	44,436
<b>NOS PLAN</b>	
Plan 2014	843,588

During the financial year ended on 31 December 2014, movements under the Plans are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>583.000</b>	<b>921.859</b>	<b>4.041.865</b>	<b>-</b>	<b>-</b>
<b>MOVEMENTS IN THE PERIOD:</b>					
Changes in scope	-	-	-	236.804	-
Awarded	-	-	-	-	843.588
Vested	(188.325)	(311.740)	(1.609.627)	-	-
Cancelled / elapsed / corrected	(84.883)	22.127	301.902	-	-
<b>BALANCE AS AT 31 DECEMBER 2014</b>	<b>309.792</b>	<b>632.246</b>	<b>2.734.140</b>	<b>236.804</b>	<b>843.588</b>



Share plan costs are recognised in the accounts over the period between the allocation and the vesting date of those shares. Total responsibility for the Plans is calculated taking into consideration the share price at the allocation date and for the Optimus Plans and the Mainroad Plans, the allocation date corresponds to the date of the merger (time of the conversion of the Sonaecom share plans into NOS shares). As at 31 December 2014, liabilities for these plans are 13,045 thousand euros and are recorded under Reserves.

## **88. Control of employees' participation in the capital**

### **Limits to the transfer of shares**

The rights to the shares allocated can only be disposed of after the respective vesting period, the length of which varies according to the share plan, being three years for NOS Plan, Senior Executive Plan and for the share plans of Optimus Companies, and five years for the Standard plan (with annual vesting of 20%), according to the conditions described above. In the case of directors (including executive directors) who are beneficiaries of Share Plans, the transfer of the shares also depends on an extra condition related to the existence of future positive Company profits, also described on item 71.

## **E. Transactions with related parties**

### **I. Mechanisms and control procedures**

## **89. Control mechanisms for related party transactions**

NOS has established control mechanisms and procedures for the Company's transactions with qualifying shareholders, or with entities with which they are in any relationship, pursuant to article 20 of the Portuguese Securities Code.

Pursuant to article 3.1(o) of the delegation of management powers by the Board of Directors to Executive Committee, the delegation did not cover the entering into of any transactions, between the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to them in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties), in excess of the individual amount of € 75,000 or the aggregate annual amount per supplier of € 150,000 (without prejudice to the transactions having been approved in general terms or in terms of framework by the Board of Directors).

In turn, article 2.9(g), also of the delegation of management powers by the Board of Directors to the Executive Committee, determines that the Chairman of the Executive Committee is responsible in particular for ensuring that the Board of Directors is informed, quarterly, of the transactions that, in connection with the delegation of powers of the Executive Committee, have been entered into by the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to that in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties), when in excess of the individual amount of € 10,000.

The AFC, as a specialised committee of the Board of Directors, scrutinises these matters. Article 4(h) of its regulations determines that, its powers include, in particular, the power to analyse transactions between the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to them in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties).

In addition, pursuant to recommendation V.2 of the CMVM Corporate Governance Code (2013), under the terms of article 3.1(s) of the Regulations of the Fiscal Board, this body is responsible, in particular, for issuing a prior opinion on relevant business activities with qualified shareholders, or entities with which they are in any relationship, according to article 20 of the Portuguese Securities Code;

It is to be noted that, in 2014, the Company approved, through its supervisory body – the Fiscal Board – Regulations for Transactions with Qualified Shareholders and related parties (we refer to entities with which they are in any of the relationships described in article 20 of the Portuguese Securities Code), which lay down, in particular, procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings – or with related parties –, and thus business of significant importance is dependent upon the prior opinion of that supervisory body.

NOS did not carry out any deals and transactions that are economically material to any of the parties involved with members of the management or supervisory bodies or controlled or group companies, except for those business deals or transactions conducted under normal market conditions for similar transactions and are part of the Company's current business.

## **90 and 91. Transactions subject to control and intervention of the supervisory body for prior assessment of these transactions**

The above-mentioned Regulations on Transactions with Shareholders and/or related parties lay down internal procedures for control of transactions with holders of qualified holdings, considered suited to the transparency of the decision-making process, defining the terms of intervention of the Fiscal Board in this process.

Thus, without prejudice to additional obligations, pursuant to these Regulations, by the end of the month following the end of each quarter, the Executive Committee shall inform the Fiscal Board of all the transactions made in the previous quarter with each qualifying shareholder and/or related party.

Transactions with qualifying shareholders and/or related parties require a prior opinion from the Fiscal Board in the following cases: (i) transactions which value per transaction exceeds a particular level set forth in the Regulations and described in the table below; (ii) transactions with a significant impact on the activities of NOS and/or its subsidiaries due to their nature or strategic importance, regardless of their value; (iii) transactions made, exceptionally, outside normal market conditions, regardless of their value.

Types and values of the transactions to be considered for the purposes of item (i) above:

Type	Value
Transactions – Sales, services, purchases and services obtained, except in case of renovation of pending contracts	More than EUR 1,000,000
Loans and other funding received and granted, except day-to-day management/ operations up to 180 days	More than EUR 10,000,000
Financial investments	More than EUR 10,000,000

The prior opinion of the Fiscal Board required for the transactions referred to in items (i) and (ii) above will not be necessary in the case of: (i) interest and/or exchange rate hedging transactions through trading rooms or auctions and (ii) financial investments through trading rooms or auctions.

Without prejudice to other transactions subject to the approval of the Board of Directors by law and under the Company's Articles of Association, this body is responsible for authorising transactions with qualifying shareholders and/or related parties when the opinion of the Fiscal Board referred to in the preceding paragraph is not favourable.

For the Fiscal Board to appraise the transaction in question and issue an opinion, the Executive Committee must provide that body with all necessary information and a reasoned justification.

The assessment to authorise and issue a prior opinion applicable to transactions with qualifying shareholders and/or related parties should take into account, among other relevant aspects, the principle of equal treatment of shareholders and other stakeholders, the interest of the Company and the impact, materiality, nature and justification for each transaction.

## II. Elements relating to the business

### 92. Location for the provision of information on related party transactions

The accounting documents where information is available on business with related parties are available at the Company headquarters and on its website.  
(<http://www.nos.pt/institucional/PT/investidores/informacao-financeira/Paginas/default.aspx>)

## PART II – Evaluation of corporate governance

### 1. Identification of the Corporate Governance Code adopted

Pursuant to article 2.1 of CMVM Regulation No. 4/2013, on corporate governance, NOS adopts the Recommendations set out in the CMVM Corporate Governance Code, in the version published in July 2013 (available at:

<http://www.cmvm.pt/CMVM/Recomendacoes/Documents/Código%20de%20Governo%20das%20Sociedades%202013.pdf>).

### 2. Analysis of compliance with the adopted Corporate Governance Code

This report aims to fulfil the obligation for annual publication of a detailed report on corporate governance structure and practices, pursuant to article 245-A of the Portuguese Securities Code, applicable to the issuers of shares admitted to trading on a regulated market situated or operating in Portugal.

In addition, this report describes the corporate governance structure and practices adopted by the Company in compliance with the CMVM Recommendations on corporate governance, in the version published on July 2013, as well as with best international corporate governance practices, having been drawn up in accordance with the provisions of article 7 of the Portuguese Securities Code and article 1 of CMVM Regulation No. 4/2013.

The following table presents: i) a summary of CMVM Recommendations on Corporate Governance, in the version published in 2013; ii) the corresponding level of observance by NOS, at 31 December 2014; and, also iii) the Chapters of this Corporate Governance Report that describe the measures taken by the Company to comply with the aforementioned CMVM Recommendations.

Portuguese Securities Market Commission Recommendation	Details of the adoption of the recommendation	Notes	Report
I - General Meeting			
I. Voting and Control of the Company			
I.1. Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Adopted		Number 12
I.2. Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.	Adopted		Number 14
I.3. Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	Adopted		Number 12
I.4. The company's articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the general assembly (five year intervals), on whether that provision of the articles of association is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	N/A		N/A
I.5. Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Adopted		Numbers 2, 4

II. Supervision, Management and Oversight		
II.1. Supervision and Management		
II.1.1. Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	Adopted	Numbers 21, 28
II.1.2. The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: i) define the strategy and general policies of the company; ii) define business structure of the group; iii) resolutions considered strategic due to the amount, risk and particular characteristics involved.	Adopted	Numbers 21, 22
II.1.3. The General and Audit Committee in addition to its supervisory duties supervision, shall take full responsibility at corporate governance level, whereby through the provision of the articles of association or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	N/A	N/A
II.1.4. Except for small-sized companies, the Board of Directors and the General and Audit Committee, depending on the model adopted, shall create the necessary committees in order to:	Adopted	Number 24
a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees;	Adopted	Numbers 24, 27, 29
b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Adopted	Numbers 27, 29
II.1.5. The Board of Directors or the General and Audit Committee, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Adopted	Numbers 50, 55
II.1.6. The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Adopted	Number 18

<p>II.1.7. Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to:</p> <p>a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years;</p> <p>b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person;</p> <p>c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member;</p> <p>d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings;</p> <p>e. Being a qualifying shareholder or representative of a qualifying shareholder.</p>	Adopted	Number 18
<p>II.1.8. When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.</p>	Adopted	Number 18
<p>II.1.9. The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.</p>	Adopted	Numbers 18, 28
<p>II.1.10. If the chair of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so that these members can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.</p>	N/A	N/A

II.2. Supervision		
II.2.1. Depending on the applicable model, the Chair of the Supervisory Board, the Audit Committee or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Adopted	Numbers 18,31, 32
II.2.2. The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Adopted	Number 34
II.2.3. The Audit Committee shall evaluate the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of their services when there is a valid basis for said dismissal.	Adopted	Number 34, 45
II.2.4. The Audit Committee shall evaluate the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	Adopted	Number 34
II.2.5. The Audit Committee, the General and Supervisory Board and the Audit Committee decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when it concerns matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties.	Adopted	Number 34
II.3. Remuneration setting		
II.3.1. All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Adopted	Number 67
II.3.2. Any natural or legal person that provides or has provided services in the past three years, to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of their duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Adopted	Number 67
II.3.3. A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law No. 28/2009 of 19 June, shall also contain the following:	Adopted	Number 69
a) Identification and details of the criteria for determining the remuneration paid to the members of the governing bodies;		



b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable;		
c) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.		
II.3.4. Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly evaluate said plan.	Adopted	Number 69
II.3.5. Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly evaluate said system.	NA	
III. Remuneration		
III.1. The remuneration of the executive members of the board shall be based on actual performance and shall discourage taking on excessive risk-taking.	Adopted	Number 69 et seq.
III.2. The remuneration of non-executive board members and the remuneration of the members of the Audit Committee shall not include any component which value depends on the performance of the company or of its value.	Adopted	Number 69 et seq.
III.3. The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	Adopted	Number 69 et seq.
III.4. A significant part of the variable remuneration should be deferred for a period not less than three years, and the right of way payment shall depend on the continued positive performance of the company during that period.	Adopted	Number 69 et seq.
III.5. Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Adopted	Number 69 et seq.
III.6. Executive board members shall maintain the company's shares that were allotted by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their mandate.	Adopted	Number 69 et seq.
III.7. When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Adopted	Number 69 et seq.

III.8. When the removal of board member is not due to serious breach of their duties nor to their unfitness for the normal exercise of their functions but is yet due on inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Adopted	Number 84
IV. Auditing		
IV.1. The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.	Adopted	Number 42
IV.2. The company or any entity with which it maintains a control relationship shall not engage the external auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the Audit Committee and explained in its Annual Report on Corporate Governance - said should not exceed more than 30% of the total value of services rendered to the company.	Adopted	Numbers 37, 47
IV.3. Companies shall support auditor rotation after two or three terms whether four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the Audit Committee that explicitly considers the conditions of auditor's independence and the benefits and costs of its replacement.	Adopted	Number 47
V. Conflicts of interest and related party transactions		
V.1. The company's business with holders of qualifying holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code, shall be conducted during normal market conditions.	Adopted	Numbers 10, 89, 90, 91
V.2. The supervisory or oversight board shall lay down procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings - or entities with which they are in any of the relationships described in article 20(1) of the Portuguese Securities Code – thus significant relevant business is dependent upon prior opinion of that body.	Adopted	Numbers 89, 90, 91

VI. Information		
VI.1. Companies shall provide, via their websites in both the Portuguese and English languages, access to information on their progress as regards the economic, financial and governance state of play.	Adopted	Number 27, 59, 60 to 65
VI.2. Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion and a record of the submitted requests and their processing, shall be kept.	Adopted	Number 50, 56, 57, 58

Global assessment of the level of adoption of Recommendations from the Corporate Governance Code

NOS adopts all the applicable recommendations set out in the Corporate Governance Code, with the exception of Recommendations 1.4; 11.1.3; 11.1.10; 11.3.5 of the aforementioned code, which it deems not to be applicable.

